Article Title: Guidance | Criteria | Insurance | General: Insurers Rating Methodology Data: (EDITOR'S NOTE: —On March 1, 2023, we republished this guidance document. See the "Revisions And Updates" section for details.) OVERVIEW AND SCOPE 1. This document provides additional information and guidance related to the application of S&P; Global Ratings' "Insurers Rating Methodology," published July 1, 2019. It is intended to be read in conjunction with those criteria. For further explanation on guidance documents, please see the description at the end of this article. GUIDANCE General 2. When applying sections of the criteria or guidance that reference dollar-based values, we may consider how foreign-exchange translations affect an insurer's financial statements and information, and normalize these movements to the extent we deem analytically relevant. Key Publication Information Original publication date: July 1, 2019 This article is related to "Insurers Rating Methodology," published July 1, 2019. We may revise our guidance from time to time when market dynamics warrant reevaluating the variables and assumptions we generally use in our analysis. Determining The Rating: Key Steps 3. Where table 1 of the criteria indicates two possible anchor outcomes, examples of how we may choose the anchor are: The combination of a strong business risk profile and strong financial risk profile could result in an anchor of 'a' if we deem both of the assessments are in the upper end of the strong category. Conversely, we could choose an anchor of 'a-' if we deem both of the assessments to be closer to satisfactory. The combination of a strong business risk profile and fair financial risk profile could result in an anchor of 'bbb+' if, in aggregate, the assessment of the financial risk profile is closer to satisfactory. Business Risk Profile Competitive position 4. Competitive advantage.We assess the following sources of competitive advantage when analyzing an insurer's overall competitive position: Market or niche position if leading to an effective barrier to entry for other competitors or pricing power; Scale or efficiency of operations, allowing for lower overall expense ratios and either a pricing advantage or higher profitability for the insurer; Brand name recognition or reputation where the insurer is differentiated from the perspective of its current or potential policyholders or, where applicable, its intermediaries; and Strength of distribution, leading to improved control over the insurer's cost structure and either greater ability to execute on strategic initiatives or more stable revenues. 5. We consider these factors holistically when determining an insurer's overall competitive position. Any one of these factors, if a significant strength or weakness, could have a material impact on our overall view of the insurer's competitive positon. 6. We typically view an insurer as lacking competitive advantage when it is limited in scale and does not operate in an identifiable niche. For example, for an insurer that does not operate in an identifiable niche and is unable to sustain premiums (typically for non-life insurers) or assets (typically for life insurers) consistently above approximately $50 million, we'd typically view it as lacking competitive advantage. 7. Business diversity.When assessing an insurer's diversity, we typically consider the number of material lines of business or business segments, both insurance and non-insurance; geographic footprint; and the potential correlation between the lines of business or segments. Examples of business lines or segments are defined under life insurance and non-life insurance in the Glossary of the criteria. 8. For example, we are likely to consider an insurer with three or more business segments, each contributing more than 20% to earnings, operating in multiple geographic regions, with earnings patterns that are not highly correlated, to have business diversity. 9. Profitability.We typically assess profitability using one or more of the following metrics, depending on the sector(s) in which the insurer operates: Return on equity (all insurers); Return on assets (typically life insurers); Prebonus, pretax earnings divided by total assets (typically life insurers); Return on revenue (typically non-life insurers); and Combined ratio, net of ceded reinsurance (typically non-life insurers). 10. We may supplement these with other ratios when we deem them relevant for a particular sector. 11. Profitability, over time, is a likely consequence of a healthy competitive position. We generally expect an insurer that has a stronger overall competitive position to exhibit consistently higher and more stable profitability metrics than its competitors. We typically determine an insurer's competitors based on whether they compete within similar lines of business or similar markets. 12. When considering the level, sustainability, and volatility of an insurer's profitability, we may also consider the riskiness of the insurer's products relative to peers with the same IICRA. For example, an insurer with low-risk products, leading to more stable profitability, may be viewed more favorably than a peer with a similar level of profitability that has higher-risk products that lead to more volatile profitability. 13. Our assessment of an insurer's profitability is informed by our view

of the insurer's approach, underlying rationale, and methods for risk-return optimization, and we may consider the prevailing inflation and interest rates. Risk-return optimization is the process by which insurers are able to form a view on prospective profitability when taking into account the required risk capital. 14. We typically assess an insurer's approach to risk-return optimization, and its effective and consistent execution in key areas, such as: The company's strategic planning, Product pricing and repricing, Strategic asset allocation, Reinsurance strategy and net retained risk profile, New risk-bearing initiatives (including mergers and acquisitions, and entry into new markets), and Capital and economic capital budgeting. 15. We view favorably a well-defined process for allocating capital among different products, lines of business, and risk factors we believe will lead to sustainable profitability. Our analysis focuses not only on the choice and outcome of the strategic decisions, but, more importantly, on the risk/reward rationale underlying the insurer's chosen strategy and consistency with its risk appetite, and the potential evolution of that strategy and competitive position. For example, we view favorably a company that demonstrates evidence of allocating capital to optimize its risk-returns within its risk appetite and tolerances. We could also view favorably a mutual company that demonstrates a track record of allocating capital such that it supports its defined business goals, such as maximizing value to policyholders. Insurance Industry And Country Risk Assessment 16. For an insurer operating in more than one market, we combine the IICRAs, reflecting the exposure to the markets in which the insurer operates. Typically, we measure these exposures using gross premiums written, insurance liabilities, or insured exposure in those markets. We combine the IICRAs from the insurer's main markets to generally cover at least 80% of its exposures, including all countries representing a material exposure, typically more than 10%. 17. For a country or sector with no IICRA, we use the IICRA of the country-sector combination whose country and industry characteristics we consider most similar to those of the country or sector where the insurer operates. 18. Global industries.Insurers operating in the property and casualty (P/C) reinsurance, life reinsurance, trade credit insurance, and marine protection and indemnity (P&I;) sectors are assigned the sector's global score for the relevant proportion of their business. This is because they typically write this type of business in multiple countries around the world. 19. However, if an insurer or reinsurer in these four sectors focuses on a single country or region, we apply IICRAs at a country level. 20. Profitability.We use relevant metrics that reflect the return prospects of the industry, consistent with the profitability metrics applied in our competitive position assessment. 21. When considering profitability, we determine whether there is excessive risk taking within the sector, and we may consider this in the context of prevailing inflation and interest rates. We may determine excessive risk taking is occurring where we perceive that any of the following characteristics exists: The industry has significantly relaxed its underwriting standards, New and unproven products have been introduced and are growing rapidly, Mis-selling risk is heightened, Commissions to intermediaries have significantly increased, or Premiums are insufficient to achieve long-term profitability. 22. Product risk.We assess sources of product risk stemming from business written, liabilities, and matching assets, if relevant. For example, exposure to significant "tail" risks, natural catastrophes, or asset-liability mismatch risks across the industry may materially affect results. When material sectorwide risk exposures are comprehensively and effectively reinsured or otherwise mitigated, we recognize this in our consideration of product risk. High product risk is typically a negative factor in our industry risk analysis. 23. Barriers to entry.Barriers to entry are usually regulatory and operational. Low barriers to entry are typically a negative factor in our industry risk analysis. 24. Market growth prospects.Market growth prospects are an indicator of the levels of maturity and competition within the market and, consequently, the sustainability of profitability. We base the assessment on the growth of (or contraction in) the market, generally based on premiums or assets. We view a market that we expect to contract in real terms as a negative factor. 25. Institutional framework.We base our assessment of the strength of an institutional framework on our views of the regulatory framework, its application, and on the standards of governance and transparency. If we determine that regulation is not effective or that there is a clear deficiency in the standards of either governance or transparency for the industry, it will be a negative factor for industry risk. 26. Our assessment is informed by the depth and frequency of monitoring of insurers and the regulator's track record of intervention to reduce or mitigate the effects of insurer failures. A regulatory framework that is comprehensive and effective for the authorization and ongoing supervision of insurers with incentives

for good risk management is a supportive factor. 27. We assess governance standards by evaluating the balance of stakeholder interests among owners, managers, lenders, and policyholders. We consider corporate governance that is transparent, prudent, and independent of undue external influences as supportive of lower risk for an insurance industry. Conversely, opaque or imprudent governance that does not materially constrain those external influences increases that risk. We assess transparency by evaluating the frequency and timeliness of reporting, the quality and standardization of financial reports, and the quality of accounting and disclosure standards. Financial Risk Profile Capital and earnings 28. Capital and earnings assessment.The specific application of table 8 in the criteria is detailed in table 1 here, which applies to all insurers other than bond insurers and mortgage insurers. We typically apply our capital model criteria (see Related Criteria) to compare currently available capital resources with capital requirements. We then apply our projections for: changes in the capital base, such as our forecast of retained earnings (to determine prospective total adjusted capital, or TAC), and business growth or contraction and changes in risk profile (to determine prospective risk-based capital, or RBC, requirements). Table 1 Capital And Earnings Assessment ASSESSMENT DESCRIPTION Excellent Prospective TAC is at or above the prospective RBC requirement at the 'AAA' confidence level. Very strong Prospective TAC is below the prospective RBC requirement at the 'AAA' confidence level but at or above the prospective RBC requirement at the 'AA' confidence level. Strong Prospective TAC is below the prospective RBC requirement at the 'AA' confidence level but at or above the prospective RBC requirement at the 'A' confidence level. Satisfactory Prospective TAC is below the prospective RBC requirement at the 'A' confidence level but at or above the prospective RBC requirement at the 'BBB' confidence level. Fair Prospective TAC is no more than 30% below the prospective RBC requirement at the 'BBB' confidence level. Marginal Prospective TAC is more than 30% below but no more than 60% below the prospective RBC requirement at the 'BBB' confidence level. Weak Prospective TAC is more than 60% below the prospective RBC requirement at the 'BBB' confidence level and there is no significant risk of breaching the minimum regulatory capital requirements. Vulnerable Significant risk of breaching the minimum regulatory capital requirements. TAC--Total adjusted capital. RBC—Risk-based capital. 29. When determining whether to adjust the capital and earnings assessment, we consider the net impact of all relevant factors and the magnitude of the understatement or overstatement of the capital and earnings assessment from applying table 1. We also consider the relative strength or weakness within the capital and earnings assessment category. 30. We typically consider the following, as well as other information, when determining whether capital and earnings is understated or overstated: If the assumptions in our capital and earnings analysis materially under- or overstate the insurer's risks; If the assumption of capital fungibility and risk diversity in our consolidated capital analysis overstates capital and earnings owing to legal, contractual, or regulatory restrictions; If the insurer has a propensity for acquisitions or uncertain shareholder distributions that we are unable to reliably quantify; Excessive growth in insured exposures if we assess that management does not have the capacity to manage increases in risk exposures; If the insurer is more vulnerable to losses than those assumed under the capital model--for example, where capital is consistently under approximately $1 billion or equivalent; or If the composition of capital relies primarily on weaker forms of capital to support the C&E; assessment. We typically consider value of in-force, discount on P/C reserves, and hybrid/debt instruments as weaker forms of capital. 31. For purposes of considering limits to the C&E; assessment, we base our assessment of capital on TAC as defined in the relevant capital model criteria. Risk exposure 32. Risk controls.We typically consider an insurer's risk control program is effective when it: Identifies, measures, monitors, and manages the risk exposures; Has a track record of effectively managing risk exposures to remain within its defined risk appetite and limits, even during stressful periods; Has an established risk-specific risk management structure that comprehensively identifies risk exposures from all sources; Employs risk monitoring and risk reporting in a timeframe appropriate for the risk profile; Has a formal and clearly communicated risk limit system that is linked to its risk appetite; Uses effective risk mitigation strategies to proactively contain exposures to be within risk limits; and Has clearly defined risk limit enforcement policies that address risk limit breaches in an effective and timely manner. 33. We consider the efficacy of the risk controls in managing and mitigating risk exposures to a level that is consistent with a company's risk appetite and limits. 34. We may give greater consideration to risk controls that we determine are of

greater importance based on an insurer's exposures. For example, we give greater weight to market risk controls for an insurer with a large variable annuity business with living benefit guarantees or a large life with-profits business, than for a P/C insurer with only short-term liabilities and limited equities and real estate in its investment portfolio. 35. An example of how risk controls affect risk exposure is: An insurer has exposures that we would otherwise consider high risk. But, we determine that the insurer's risk controls are effective at limiting the potential volatility in capital and earnings to levels consistent with a moderately high assessment for risk exposure. 36. Risks not captured in our capital and earnings analysis.When assessing the impact of risks not captured in our capital and earnings assessment, and whether they may have a material impact, we consider any risk mitigants. For example, an insurer may have an employee benefit plan, with liabilities that are material relative to capital. If such a plan is underfunded, it may give rise to considerable volatility in capital and earnings. We may consider this risk to be limited where there is a track record of strong and sustainable overfunding. 37. Risk concentrations or risk diversification.Risk concentrations can cause an insurer's capital and earnings to be more volatile. We typically assess concentrations net of risk mitigation (e.g., hedging, reinsurance, or collateral) when we determine the mitigants are effective. The source of concentrated risk exposures can include credit exposures relating to assets, reinsurance, hedge, or other counterparties; market risks relating to foreign exchange, interest rates, or equities; geographic mortality or morbidity concentrations; geographic P/C catastrophe event concentrations; and risk correlations between investments and insured exposures. Examples include: A concentrated credit exposure to a small number of reinsurers or hedge counterparties or to investments in a small number of obligors or single sector or industry; A material exposure to high-risk assets (see Glossary) in the investment portfolio or through reinsurance or other counterparties; Material potential aggregations in casualty claims (sometimes referred to as casualty clash); and Material potential geographic aggregations in property risk. 38. Complexity of products and risks.Complex products and risks can cause an insurer's capital and earnings to be more volatile. Examples include: For life insurers that issue variable annuities with guaranteed living benefits, unhedged market exposures that have significant potential to cause volatility; Material exposure to terrorism, cyber, or emerging risks; Material deficiencies in reinsurance protection relative to the risk profile; Large discrete portfolios of legacy liabilities with significant potential for volatility; and Material exposure to certain long-tail businesses such as workers' compensation and long-term care. Funding structure 39. A company's ability and willingness to change its capital structure--such as the demonstrated ability to raise equity through public markets in times of stress--is a potential mitigant to the risk from leverage identified in the funding structure assessment. We may weaken our assessment of funding structure if we consider the use of operational leverage significantly increases an insurer's risk. 40. Our assessment of funding structure is informed by the following metrics and is dependent on our analysis of a company's capital structure and individual characteristics. 41. Financial leverage.We typically assess funding structure as moderately negative when we expect leverage to exceed 40%, and negative when we expect it to exceed 50%. 42. We may weaken our assessment of funding structure when we consider an insurer with leverage close to these thresholds that also has significant intangibles relative to its equity. 43. We may weaken our assessment of funding structure when we consider an insurer's financial leverage is understated due to material distortions in reported balances. Consider the following examples: When there is an accounting mismatch between the valuation of assets and liabilities, we may determine reported equity is overstated by the inclusion of unrealized gains on bonds backing life insurance liabilities. When we believe significant deficiencies exist in reported liabilities, we may determine reported equity is overstated, and therefore the financial leverage ratio is understated. 44. If we determine that reported equity is materially understated, we may consider it a mitigant to the risk from leverage identified in the funding structure assessment when financial leverage is overstated due to material distortions in reported balances. For example, we may determine reported equity is understated, and therefore the financial leverage ratio is overstated, when we believe significant redundancies exist in reported liabilities (for example, the value of in-force life business, contingency or other equity-like reserves not otherwise included in reported equity). 45. Fixed-charge coverage.We may weaken our assessment of funding structure by one or more categories when we expect coverage to remain less than 4x. If an insurer's fixed-charge coverage ratio raises concerns about the

sustainability of financial leverage, even when greater than 4x, we may weaken our assessment of funding structure by one or more categories. 46. Financial obligations to EBITDA.We may weaken our assessment of funding structure by one or more categories when we expect the financial obligations-to-EBITDA ratio to remain greater than 4x. If this ratio raises concerns about the sustainability of financial leverage, even when less than 4x, we may weaken our assessment of funding structure by one or more categories. Modifiers Governance 47. We will typically assess governance as moderately negative if an insurer displays material shortcomings in any of the following areas: The board's independence from management to provide effective oversight of it; The board's control as the final decision-making authority with respect to key enterprise risks, compensation, or conflicts of interest; Presence of a professional and independent board of directors that is engaged in risk oversight on behalf of all stakeholders, including noncontrolling interests; Suitability and transparency of accounting policy choices; Regulatory, tax, or legal infractions; or Consistent and effective communication to stakeholders, including controls around financial reporting. 48. If any of these pose a severe risk to an insurer, we typically assess governance as negative. 49. Risk management culture.Our view of an insurer's risk management culture informs our assessment of governance. In particular, we focus on the following key areas: Risk governance. We typically consider the extent to which the risk management culture is embedded in the organization and characterized by a well-defined and independent enterprise risk management (ERM) governance structure that supports effective risk management at an enterprise level. We view negatively a lack of support by the board of directors and senior management for ERM, and insufficient active involvement in the ERM process. Risk appetite framework. We consider the process by which desired risks are identified, the risk appetite is developed, how overall risk limits are established, and how the ERM framework supports the effective selection, mitigation, and management of risks to meet business goals. We view unfavorably an insurer that maintains aggressive or poorly defined risk limits, or has risk limits that are inconsistent with its risk appetite framework. Risk reporting and communication. We view unfavorably a failure to disclose, or limited internal communications of, risk exposures to the board of directors. We also view unfavorably internal risk reporting that is not frequently updated, not granular enough to reflect significant risk exposures, or not communicated consistently. Incentive compensation structures. We view negatively compensation structures that are inconsistent with the insurer's strategic long-term goals and objectives, or that are not based on an analysis of risk-return tradeoffs. Liquidity 50. We typically assess the liquidity ratio as favorable when it exceeds 2.2x, adequate when between 1x and 2.2x, and unfavorable when less than 1x. 51. We define the liquidity ratio as: 52. We typically include as liquid assets most publicly traded common stocks and bonds, money market instruments, deposits, and cash. We subject the values of liquid assets to the following haircuts for the liquidity analysis to determine stressed liquid assets: Listed equities: 50% Rated bonds: 35% unless they are rated 'BBB-' or higher (10%), or we determine the bonds are vulnerable to nonpayment (e.g., rated in the 'CCC' category or lower) (100%) Deposits at rated banks: 5% unless the deposits are at a bank rated 'BBB-' or higher (1%), or at a bank where we determine the deposits are vulnerable to nonpayment (e.g. the bank is rated in the 'CCC' category or lower) (100%) For the purposes of determining the liquidity haircuts for bonds and bank deposits, references to ratings include public, private, confidential or mapped ratings, or credit estimates, assessments, or other measures of creditworthiness that are broadly equivalent to either 'BBB-' or higher or 'CCC' category or lower. Other asset classes, including investment in affiliates; hedge fund investments; private placements with a mandatory minimum holding period of one year or greater; unrated bonds, except if demonstrably of a creditworthiness equivalent to the above ratings; private equities; loans and mortgages; property; posted collateral or collateral that is otherwise encumbered or pledged (other than those related to insurance policyholder obligations); and any other assets that don't fit any of the above categories, as well as assets held in certain ownership situations or assets that we believe would only be transferred at a significantly discounted price: 100% charge We may include (or adjust for) certain entity- or sector-specific assets when material, provided that an insurer can demonstrate that it is possible to convert them promptly into cash. The applicable charge would be one of the above, based on a review of its specific liquidity characteristics. 53. Backup facilities include only committed credit facilities for general financing or for backing up debt obligations (up to the issued amount)--in both cases with a maturity sufficient to cover liquidity needs (e.g., for

liquidity requirements arising in the next 12 months, the credit facilities do not mature within 12 months) and only those provided by banks of a credit quality equivalent to 'BBB-' or higher. The analysis typically includes amounts drawn as a liquidity requirement and the entire size of the facility as a resource. Alternatively, the analysis can ignore the amounts drawn, but then consider as a liquidity resource only the facility's undrawn amount. If credit facilities are provided by banks of a credit quality equivalent to 'BB+' or lower, we may consider including the backup facility when the bank providing the backup facility is rated higher than the insurer. 54. To determine stressed insurance liability outflows, we typically consider (where applicable for the respective insurer) the following: Stressed insurance liability outflows are typically defined as: {(net non-life claim reserves + net non-life reserve charge)/non-life claims reserve duration} + net property catastrophe charge + net non-life premium charge + net trade credit exposure charge + 35% (life liabilities that are subject to withdrawal, surrender, or lapse risk); The non-life claims reserves duration reflects an insurer's mean term of claims reserves and is subject to a floor of one year; The net non-life reserve charge, net non-life premium charge, net property catastrophe charge, and net trade credit exposure charge are typically equal to the respective 'A' confidence level charges from the capital model; and Determining stressed insurance liability outflows using values gross of reinsurance if we expect significant delays in reinsurance claim recoveries or reinsurance reinstatement premiums. 55. We typically include in short-term debt hybrid securities with simultaneous call and step-ups over the next 12 months, since we assume for the purposes of the liquidity assessment that the issuer will call the instruments. 56. We typically consider whether an insurer's liquidity resources are sufficient to cover the following exposures, when material, under moderate stress: Rating triggers, Collateral posting requirements, Covenant requirements, and Confidence sensitive liabilities. 57. Examples of where we may weaken our liquidity assessment include: We believe a large proportion of a company's life liabilities are highly likely to be paid out (e.g., through surrenders or lapses) in the near term due to an event (e.g., mergers and acquisitions or negative reputational developments). We determine regulatory or other provisions may significantly restrict the flow of cash and liquid assets among legal entities within a rated group. Sector-Specific Applications 58. The sector-specific applications provide additional details on applying the criteria to specific subsectors or situations (such as start-ups and run-offs). Bond insurance 59. Competitive position.For bond insurers, operating return on equity is the primary metric that informs our view of a sector's and insurer's profitability. When operating return on equity is not available, we use the typical metrics for the P/C insurance sector. 60. Capital and earnings.The specific application of table 8 (in the criteria) for bond insurers is detailed in table 2 here. We typically apply a separate capital model for bond insurers, as detailed in the bond insurance capital adequacy criteria (see Related Criteria) to assess capital and earnings. We typically do not apply additional projections beyond those outlined in the bond insurance capital adequacy criteria. Table 2 Capital And Earnings Assessment--Bond Insurers ASSESSMENT DESCRIPTION Excellent Capital adequacy ratio at or greater than 1.0x Very strong Capital adequacy ratio at or greater than 0.9x and less than 1.0x Strong Capital adequacy ratio at or greater than 0.8x and less than 0.9x Satisfactory Capital adequacy ratio at or greater than 0.6x and less than 0.8x Fair Capital adequacy ratio at or greater than 0.45x and less than 0.6x Marginal Capital adequacy ratio at or greater than 0.25x and less than 0.45x Weak Capital adequacy ratio less than 0.25x and there is no significant risk of breaching the minimum regulatory capital requirements Vulnerable Significant risk of breaching the minimum regulatory capital requirements 61. Risk exposure.For bond insurers, we also consider exposure to self-insured bonds, the largest obligor test, and growth in exposures. 62. We typically view self-insured bonds in the investment portfolio of greater than approximately 10% of total investments as a risk concentration that could cause an insurer's capital and earnings to be more volatile. 63. The largest obligor test is calculated as the greater of the stressed losses resulting from a default scenario of: The two largest exposures rated 'AAA' or lower The three largest exposures rated lower than 'AAA' The four largest exposures rated lower than 'AA-' The six largest exposures rated lower than 'A-' The eight largest exposures rated lower than 'BBB-' The 10 largest exposures rated lower than 'BB-' The 12 largest exposures rated lower than 'B-' 64. This test excludes exposures already in default because the financial impact of these defaults is already incorporated in the capital and earnings assessment. 65. We calculate stressed losses by multiplying the par value of the obligation by 100% minus the recovery parameter. Recovery parameters by risk

category for U.S. municipal and non-U.S. local and regional governments (LRGs) are in table 3. For corporate and non-LRG public-sector issuers, the recovery parameter is 5%. Stressed loss potentials for structured finance exposures are determined on an individual transaction basis using the same credit-gap concept employed to determine capital charges. Table 3 U.S. Municipal And Non-U.S. Local And Regional Government Recovery Parameters For Largest Obligors Test RISK CATEGORY RECOVERY (%) 1 and 2 60 3 and 4 30 See the BI capital adequacy criteria article listed in the Related Criteria section for details on the applicable category for a given issuer. 66. The greatest of the stressed loss totals, calculated as defined above, is expressed as a percent of a bond insurer's capital. Typically, if the result is 25% or greater, the outcome of the test would be viewed as a risk concentration that could cause an insurer's capital and earnings to be more volatile. 67. Liquidity.For bond insurers, stressed insurance liability outflows typically include our view of loss and loss adjustment expenses reserves payable in the next 12 months, and may incorporate our prospective view of additional loss events. Mortgage insurance 68. Capital and earnings.The specific application of table 8 (in the criteria) for mortgage insurers is detailed in table 4 here. We typically apply a separate capital model for monoline primary mortgage insurers, as described in the mortgage insurer capital adequacy criteria (see Related Criteria), to assess capital and earnings. Table 4 Capital And Earnings Assessment--Mortgage Insurers ASSESSMENT DESCRIPTION Excellent Prospective sources of capital are at or above prospective uses at the 'AAA' stress level. Very strong Prospective sources of capital are below the prospective uses at the 'AAA' stress level but at or above the prospective uses at the 'AA' stress level. Strong Prospective sources of capital are below the prospective uses at the 'AA' stress level but at or above the prospective uses at the 'A' stress level. Satisfactory Prospective sources of capital are below the prospective uses at the 'A' stress level but at or above the prospective uses at the 'BBB' stress level. Fair Prospective sources of capital are below the prospective uses at the 'BBB' stress level but at or above the prospective uses at the 'BB' stress level. Marginal Prospective sources of capital are below the prospective uses at the 'BB' stress level but at or above the prospective uses at the 'B' stress level. Weak Prospective TAC sources of capital are below the prospective uses at the 'B' stress level and there is no significant risk of breaching the minimum regulatory capital requirements. Vulnerable Significant risk of breaching the minimum regulatory capital requirements. 69. Liquidity.For mortgage insurers, the net non-life reserve charge and the net non-life premium charge are typically equal to the respective 'A' confidence level charges from the insurance capital model. In cases where net premiums written do not essentially reflect the off-balance-sheet mortgage risk exposure, we may use net premiums earned or incorporate a prospective view of additional losses. Title insurance 70. Capital and earnings.We view claim reserves and statutory premium reserves as capital available to absorb losses that are therefore added to TAC. Most title-specific assets, such as title plants and agent balances, are written off. To calculate liability risks, we incorporate 7.5% as our base case for likely losses on the insured portfolio. The base case is based on our analysis of the relationship (from Schedule P of the U.S. statutory statements) of reserves to premiums for the industry. To stress the base case, we apply the multiples shown in table 5. Table 5 Liability Risk Calculation RATING-BASED STRESS MULTIPLE RESULTING GROSS CHARGE (% OF PREMIUMS) AAA 5.0 37.50 AA 3.1 23.25 A 2.1 15.75 BBB 1.5 11.25 BB 1.2 9.00 Base 1.0 7.50 71. To determine interest rate risk, we apply the interest rate risk methodology described in our capital model criteria. 72. In view of the revenue volatility inherent in the title industry, the operating risk charge reflects a scenario in which revenue falls while expense reductions lag. In our experience, the largest year-to-year increases in statutory expense ratios are about 5%. We extrapolate charges for other stress levels as shown in table 6. Table 6 Operating Risk Calculations RATING-BASED STRESS MULTIPLE C-4 (% OF OPERATING INCOME) AAA (5.0/2.1) = 2.38 11.9 AA (3.1/2.1) = 1.48 7.4 A (2.1/2.1) = 1.00 5.0 BBB (1.5/2.1) = 0.71 3.6 73. Liquidity.For title insurers, we typically incorporate the liability risk charge and insurance operating risk charge in lieu of premium and reserve risk charges (as defined above) equal to the respective 'A' confidence level in our consideration of stressed insurance liability outflows. Start-up insurers 74. An insurer that lacks a track record of past performance is typically considered a start-up. We typically assess competitive position no higher than fair for a start-up insurer given its lack of a track record of sustainable profitability by which it could demonstrate its competitive advantage. We typically assess capital and earnings no higher than strong, and may

weaken our capital and earnings assessment from applying table 8 (in the criteria) by one category to reflect the inherent uncertainties in projecting capital and earnings for an insurer during its start-up phase. For a start-up, we do not assess risk exposure as low. Insurers in run-off 75. We would typically consider an insurer (or group) that fully or substantially closes to new business to be in run-off. We typically assess competitive position no higher than fair for a run-off insurer given the lack of competitive advantage. An insurer that is active in acquiring closed life blocks (sometimes referred to as a closed-fund consolidator) is not considered an insurer in run-off. Glossary 76. We typically define the ratios and terms as referenced in the Glossary, and may reflect analytical adjustments for nonrecurring items or to otherwise take into consideration issuer-specific reporting conventions. 77. Combined ratio.The ratio of the sum of loss expense, loss adjustment expense, and operating expenses divided by premiums earned. All elements are net of ceded reinsurance. We may use net premiums written (NPW) in the denominator where net premiums earned is not available or where expenses are not deferred in the accounting system the insurer uses (e.g., U.S. statutory accounting). 78. EBIT.Earnings before interest (other than interest on nonrecourse or operational leverage) and taxes. We may apply analytical adjustments for items such as nonrecurring events; realized investment gains/losses; or impairments to goodwill. 79. EBITDA.Earnings before interest (other than interest on nonrecourse or operational leverage), taxes, depreciation, and amortization. We may apply analytical adjustments for items such as nonrecurring events, realized investment gains/losses, impairments to goodwill, or other non-cash items. Where we believe depreciation and amortization is immaterial, we may use EBIT in the relevant ratios. 80. Financial leverage.Financial obligations/(reported equity + financial obligations). We deduct from reported equity any off-balance-sheet pension deficit, net of tax, and any financial obligations included in reported equity, such as preferred stock. We typically include noncontrolling interests as part of reported equity. We may use net assets rather than reported equity, for example in the case of mutual insurers. 81. Financial obligations.Includes total debt as reported plus leases (whether on or off-balance sheet), pension deficit (net of tax), any financial obligations reported as equity such as preferred stock, debt reported in other liabilities, and other financial obligations adjustments, minus any debt that we consider to be either nonrecourse or operational leverage. Lease commitments are typically reflected at a net present value using the disclosed rate or a 7% discount rate (unless we determine that a higher rate would be appropriate). 82. Financial obligations/EBITDA.Determines the number of years of normalized earnings required to pay back debt and is another measure of the sustainability of the level of debt taken on by an insurer. 83. Fixed-charge coverage.EBITDA/fixed charges. Fixed-charge coverage represents an insurer's ability to service interest on financial obligations out of EBITDA. Fixed charges include total interest expense including interest expense reported as investment expense, lease expense, and preferred stock dividends (tax-adjusted), minus any interest expense on debt that we consider to be nonrecourse or operational leverage. 84. High-risk assets.We typically include the following in our definition of high-risk assets: Fixed-income investments or deposits in institutions that are rated 'BB+' or lower; Unrated bonds and loans, except if demonstrably of a credit quality equivalent to 'BBB-' or higher; Unaffiliated equity investments in common stocks and preferred stocks (unless rated investment grade); and Investments in equity real estate assets (except for own use), investments in partnerships, joint ventures, and other alternative investments. 85. For the purposes of this assessment, and where material, we may consider assessing the credit quality of unrated assets using alternative measures, such as a credit estimate. 86. Operating return on equity (operating ROE, for bond insurers).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. 87. Operational leverage.We define operational leverage as debt issues or programs that are generally limited to funding financial assets, for financial intermediation, providing capital relief, creating risk mitigation, or similar purposes. However, we only consider such programs as operational leverage where we determine the resources allocated to the program are largely sufficient to meet debt service and other financial obligations relating to the

program under stressed credit conditions, without reliance on the company's other financial resources. We do not consider debt raised for general corporate purposes as operational leverage. 88. Prebonus, pretax earnings divided by total assets.Prebonus pretax earnings are the sum of EBITDA and policyholder dividends. Total assets are the average of opening and closing total assets (less reinsurance assets) for the year. 89. Return on assets (ROA).EBIT divided by the average of opening and closing total assets (less reinsurance assets) for the year. 90. Return on equity (ROE).Reported net income divided by the average of opening and closing reported equity for the year. Reported net income is before remuneration of preferred stock and noncontrolling interests. Reported equity includes noncontrolling interests and preferred stock. 91. Return on revenue (ROR).EBIT divided by total revenue. Total revenue is the sum of net premiums earned (or net written premium if net earned premium is not available), net investment income, and other income. We remove the effects of realized and unrealized gains or losses from investments and derivatives to provide a more complete picture of an insurer's revenue-generating abilities. 92. Single sector or industry.Sectors may be aggregated as follows: Nondomestic government obligations: Aggregated by jurisdiction. Non-U.S. obligations of local and regional governments: Aggregated on a national basis. U.S. municipal bonds: Tax-backed and appropriation-backed government obligations, municipal water sewer obligations, and public university obligations are aggregated by state, and each state is viewed as a sector. In addition, the following types of municipal bonds are viewed as individual sectors on a national basis: private education, health care, housing revenue, transportation, public power and other utilities, and other not-for-profit obligations. Structured finance: By country, each of the following is defined as a sector: residential mortgage-backed securities; commercial receivables; autos; credit cards; student loans; commercial real estate, including commercial real estate collateralized debt obligations (CDOs); CDOs of asset-backed securities; all else, including corporate CDOs. Corporate securities: Sectors as defined under S&P; Global's Global Industry Classification Standard (GICS). Revisions And Updates On March 1, 2023, we republished this guidance document to update paragraph 16 to capture direct exposures for the IICRA assessment for countries/sectors exceeding a 10%, as opposed to 5%, threshold. We also updated paragraphs 43 and 44 to highlight that we may make adjustments to funding structure assessments when financial leverage is above (or below) our thresholds but overstated (or understated) due to material distortions in reported balances. In addition, we updated the contact list. RELATED PUBLICATIONS Related Criteria Insurers Rating Methodology, July 1, 2019 Methodology And Assumptions For Analyzing Bond Insurance Capital Adequacy, July 1, 2019 Methodology: Mortgage Insurer Capital Adequacy, March 2, 2015 Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010 Related Research Criteria And Guidance: Understanding The Difference, Dec. 15, 2017