



A.M. BEST RATING SERVICES, INC.
RATING DIVISION INTERNAL PROCEDURE

Subject: Rating Process

Class: Credit Rating Determination & Dissemination

Number: CRPC Procedure 1

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Purpose: The purpose of this CRPC Procedure is to formalize the Rating Division's practices for the monitoring, review and update of public and private Credit Ratings. This CRPC Procedure applies to A.M. Best Rating Services, Inc. (AMBR) and its credit rating agency subsidiaries (collectively, AMB).

1. Monitoring:

Credit Ratings on an entity, issuer or security must be monitored (i.e., surveillance) on an on-going basis by the assigned Analytical Team following the dissemination of an initial Credit Rating or subsequent Rating Update (excludes entities/securities assigned non-rating designations, public/private assessments or evaluations or indicated Credit Ratings that do not require monitoring). The Reviewer will provide oversight and guidance on this process for the lead Rating Analyst.

- Monitoring for each Credit Rating will continue until the final Rating Update.

a. Scope:

The on-going monitoring of a Credit Rating, is dynamic and reflects, among other things, the timeliness and availability of regulatory and public information; transaction-specific performance reports; conversations/meetings with the entity; relevant market, industry, and company specific news and information; and other specific risk considerations depending on the rating sector, or individual transaction.

Depending on the availability of information, for each Credit Rating in the portfolio, the Analytical Team will:

- i. Regularly review the company's/issuer's creditworthiness by:
 1. completing a Rating Update on a timely basis; and,
 2. conducting a Rating Review generally within six months, but at least annually, following the most recent Rating Update.
- ii. Incorporate all cumulative experience obtained.
- iii. Take into consideration material changes in ratings methodology, models and assumptions relevant to any type (class) of rating issued.
- iv. Utilize available resources and analytical tools in order to facilitate monitoring activities.



- v. Consider any specific monitoring activities mandated by the rating committee established in conjunction with a rating committee determination as noted on the Vote Form.

b. Actions:

- i. If during monitoring activities a member of the Analytical Team believes there is: (1) a material financial or strategic event, (2) an emerging trend, or (3) any other cause that could impact an outstanding Credit Rating or (if applicable) an assessment assigned to an entity/security, then the Analytical Team should take the necessary steps to propose a Rating Update via the committee process.
- ii. In cases where a new or Material Change to an existing Best's Rating Methodology (BRM) Item (i.e., methodology, Criteria Procedure or model) is likely to result in a change to a Credit Rating, Rating Analysts, upon the release of the Materially Updated or new BRM Item, will:
 1. complete an Event Driven Rating Update of the affected Credit Ratings as soon as practicable by placing those ratings Under Review or by taking another Rating Action; and,
 2. not later than six months after the Under Review (if applicable) is applied, complete a scheduled Rating Update of the materially affected Credit Ratings that were based on the updated or new BRM Item.

2. Rating Review:

A review of an existing Credit Rating comprised of the analytical steps taken to conduct an assessment of the Credit Rating since the prior rating effective date, to ensure there is not a need for an immediate Rating Action by assessing the Credit Rating and providing an initial course of action for the Analytical Team to proceed with a Rating Update as outlined in Section 3 below.

- a. The Rating Analyst/Reviewer will ensure that a Rating Review has been completed at least annually.
- b. A Rating Review consists of at least the following activities:
 - reviewing the most up-to-date financial statements to:
 - assess the current capitalization;
 - assess recent operating performance;
 - evaluate the accumulation of surveillance since the last Rating Update; and,
 - review rating committee expectations of the company since the last Rating Update.
- c. If the lead Rating Analyst believes that there may be a need for immediate consideration of a Rating Action, the lead Rating Analyst will discuss the results of the Rating Review with their Reviewer and a decision is made as to whether to go to rating committee at that time or if the rating can follow a normal Rating Update process.
- d. In cases where the lead Rating Analyst/Reviewer conclude that a Credit Rating cannot move forward under normal conditions, an Event Driven Rating Update is undertaken, as soon as practicable.

- e. Rating Reviews are documented in the internal rating system (i.e., BCRS) and should be sufficient to permit an after-the-fact review or audit to analyze whether the Analytical Team adhered to BRM.

3. Rating Update:

A Rating Update is comprised of the analytical process as outlined below, including a Rating Review and subsequent dissemination of an updated rating opinion completed in accordance with CRPC Policy 2: Committee Determination and Update Policy and CRPC Policy 5: Dissemination.

- a. It is the lead Rating Analyst's responsibility to analyze the financial results and other significant information obtained through a rating meeting(s) and other communication(s) with company management for each rated entity in their portfolio for development of a rating proposal to be used in the Rating Update process.
- b. The Rating Update process includes the analysis of items such as:
 - i. Annual and quarterly financial statements;
 - ii. Prior year financials;
 - iii. Prior year meeting notes and rating notification letter discussion topics;
 - iv. Interim management reports provided by the rated entity;
 - v. Significant public announcements made by the rated entity;
 - vi. Best's Capital Adequacy Ratio (BCAR);
 - vii. Information requested by AMB;
 - viii. Publicly available information material to the rating; and/or,
 - ix. Any other information deemed pertinent by the Analytical Team.
- c. When methodology, models or key rating assumptions used in rating activities are changed, the lead Rating Analyst incorporates these changes into the Rating Update.
- d. The Reviewer provides oversight and guidance to lead Rating Analysts throughout the Rating Update process. This includes the utilization of AMB's analytical tools to monitor key financial trends for all rated entities within their team.

4. Rating Meetings:

- a. AMB Rating Analysts conduct regular meetings with the management of each rated entity/group, which will include a meeting completed in conjunction with a Rating Update (Rating Update Meeting). Structured Finance Product (SFP) Rating Updates may not require a meeting to gather/clarify information given the nature of the security in question and therefore may be completed on an ad-hoc basis.
- b. The Rating Update Meeting generally covers a broad spectrum of topics designed to provide a detailed understanding of the operation. The meeting is attended (in person or via conference call) by a minimum of two Rating Analysts. These are typically members of the Analytical Team who are directly responsible for the development of the rating proposal for the company they are meeting.
- c. A detailed agenda for the Rating Update Meeting is developed by the lead Rating Analyst and includes key quantitative and qualitative issues relevant to the rating.

- d. During the Rating Update Meeting, and any interim meetings held with company management, the lead Rating Analyst takes meeting notes and keeps track of any follow-up items that may arise. Meeting notes must:
- i. Summarize the key points of the meeting (e.g., strategy, market conditions and financial trends).
 - ii. Indicate the author, meeting attendees, meeting date, name of the rated entity/group and its AMB number. (Full Names)
 - iii. Be scanned into the Document Management System (DMS). (This includes any notes or information gathered by other AMB attendees that contain analytically relevant information not covered in the lead Rating Analyst's meeting notes.)

5. **Development of a Rating Proposal:**

- a. The lead Rating Analyst for a rating unit prepares a rating proposal in the internal rating system (i.e., BCRS) that summarizes all the analysis and a proposed Rating Action or outcome.

A rating proposal is required for all Rating Actions and for all other required determinations as outlined in CRPC Policy 2, regardless of the Rating Update type and should reflect information known and believed to be relevant to the analysis.

b. Rating Update Types:

- i. **Annual** – a Rating Action that follows the Rating Update Meeting or in the case of a structured finance transaction, a Rating Action that is completed in conjunction with the annual update process. This includes the update of all FSR, ICR and IRs associated with a rating unit.
- ii. **Event Driven** – a Rating Action that occurs outside the annual type reflecting an opinion of the impact of a material financial or strategic event (e.g., significant reserve charge, merger or acquisition), or emerging trend on the entity/issuer. This will typically include the update of all FSR, ICR and all IRs associated with the entity/issuer.

Note: In cases where an A.M. Best Europe Rating Services Ltd. (AMBERS)/A.M. Best Europe Rating Services (EU) Ltd. (AMB-EU) rating is updated due to an Event Driven action necessitated by circumstances related to an affiliated entity whose rating was not issued by AMBERS/AMB-EU, the EU 24 hour rule will apply to the notification and dissemination of the entire population of affected ratings to be disseminated with the Event Driven Rating Action (see CRPC Policy 4 and CRPC Policy 5).

- iii. **Issue Only** – a Rating Action outside the annual type on an Issue Credit Rating (IR). This occurs when a new security is issued or when a rating on an existing security is withdrawn (excludes administrative removal). In addition, the Issue Only update considers if the transaction has a material effect on a group's existing FSR and ICR, if applicable.

Note: The extension of a rating from the head office to a branch may be completed pursuant to an Annual or Event Driven Rating Update. Branches are not separate legal entities and are viewed as an extension of the head office. As a result, branches maintain

the rating of the head office. No press release is required for the extension of a previously disseminated head office rating to a branch.

c. The rating proposal is submitted to a Reviewer who is responsible for:

- i. Assessing the rating proposal (i.e., rating committee package), including the RC Checklist for completeness per the documentation requirements outlined in Section 7 below.
- ii. The review for the consistent application of rating symbols for the type of rating(s) or other opinion that is the subject of the committee deliberations.

Note: Rating symbols include: rating scale levels (categories/notches), outlooks, modifiers, affiliation codes or other defined identifiers or symbols.

- iii. Ensuring all relevant and current CRPC Policies, CRPC Procedures and BRM are followed and applied consistently.
- iv. Ensuring appropriate documentation and analysis are included in the rating committee package to support the rating proposal presented to a rating committee. This must include commentary in the rating proposal discussing how each applicable BRM Item are used in the development of the proposed Rating Action.

Note: a rating proposal should not be developed for a new class of obligors, securities, or money market instruments (including exotic/“bespoke” made to order custom scenarios) in which a BRM methodology/Criteria Procedure is not published.

d. Prior to presenting a rating proposal to a rating committee, the lead Rating Analyst (and Reviewer, if necessary) should summarize for the company any potential rating issues or concerns that may be raised at committee. This can be done as part of the closing of the Rating Update Meeting, or as part of a subsequent follow-up discussion.

- i. Company management should be given an opportunity to provide additional information regarding the specific areas of concern.
- ii. The Reviewer should ensure that any additional information provided is incorporated into the final rating proposal that is presented to a rating committee.

6. Comments on Published Credit Ratings:

a. If an Analytical Team believes that a public comment is warranted pertaining to a previously published Credit Rating, the Analytical Team must present the proposed comment to their direct MD and the committee Chair of the most recent Rating Update. The Chief Rating Officer (CRO) may be substituted in the absence of the Chair.

b. The decision to release a comment must be documented in the internal rating system (i.e., BCRS) and must include the following information:

- i. Date of the meeting held to discuss the proposed comment
- ii. Meeting participants
- iii. Summary of the event(s) that necessitated the comment.

7. Submission to Rating Committee:

- a.** All rating proposals are voted on and approved by committee, either Rating Committee (RC) or Corporate Rating Committee (CRC) in accordance with CRPC Policy 2.
- b.** The lead Rating Analyst or Reviewer of the rating unit should submit the rating proposal to RC/CRC whenever possible.
- c.** The RC/CRC Secretary will summarize the committee actions and record the committee determination.
 - i.** All rating committee documentation is scanned into and retained in the DMS.
 - ii.** Prior to commencement of discussions regarding the submitted rating proposal, the Chair is responsible for asking each member of the rating committee “Do you have any conflicts of interest (as defined in the “Code of Conduct” or Policy C-5) with respect to any company / issuer that is the subject of this Rating Action?” The response must be noted on the Vote Form.
 - 1.** If any conflict is disclosed, the subject member will be dismissed from the rating committee and the Chair will notify the Compliance Department of the reported conflict.
 - iii.** Rating committee documentation must include the rating committee determination, the name of all Rating Analysts voting in the order the votes were cast, the date of the committee, and a summary of the vote.
 - 1.** The Rating Update type (Annual, Event Driven, Issue Only) and type of committee (CRC or RC, and Original or Accepted Appeal) are noted on the Vote Form.
 - 2.** The name of the Chair, and the Chair’s verification of the committee meeting quorum requirements per CRPC Policy 2 are also noted on the Vote Form.
 - 3.** The final rating outcome and summary of the vote is noted in the Rating Committee Decision section of the Vote Form. If the submitting Rating Analyst’s vote changed from the proposal and/or the Reviewer’s vote differs from the proposal, the reason(s) for the change is documented in the Rating Committee Decision section of the Vote Form.
 - 4.** Any key positive and/or negative factors cited, or issues raised by RC/CRC members that are outside the information in the RC/CRC package, are noted in the Rating Committee Notes section of the Vote Form.
 - a.** In addition, if there are any “Rating Support Requirements”, these should also be documented in the Rating Committee Notes section of the Vote Form.
 - 5.** The Vote Form is signed by the Chair.
 - a.** The Chair is responsible for ensuring that the deliberation and vote were conducted in accordance with CRPC Policy 2, and that a valid quorum was present.

- b. The Chair is also responsible for ensuring that there is sufficient information for the rating committee to come to a decision.
 - i. If there is insufficient information, the Chair must defer the vote until all requirements are met.
 - ii. In cases where the Chair defers a vote due to insufficient information, the corresponding request for additional information will include an expected timeframe for the company response. The request will also state that if the information is not provided in a timely manner, the rating will be taken back to committee.
- c. The Analytical Team is responsible for ensuring that all applicable BRM, CRPC Policies and Procedures were followed.
- d. The effective date of the rating release is noted on the Vote Form.
6. If the Rating Action is appealed by the rated entity, the appeal and Chair's decision whether or not to accept the appeal is noted on the Vote Form.
7. For accepted appeals, a second Vote Form must be used in order to document the re-convened committee, and whether or not the rating determination is changed from the original committee determination.
8. The Vote Form must be scanned and retained in the DMS as part of the analytical record supporting the Rating Action.
- iv. Rating Committee Checklists establish rating committee package documentation requirements for proposed Rating Actions falling under CRPC Policy 2 and are required to be included in rating committee packages for all Annual and Issue Only Rating Update types. As previously noted, the Chair of each committee ensures that there is sufficient information for the rating committee to come to a decision. If there is insufficient information, the Chair must defer the vote until all requirements are met.

Note: Pursuant to Policy C-5, the Analytical Team will review the organizational structure associated with the rating and the Restricted List (RL) to ensure, as needed, the RL is updated (i.e., advise the Compliance Department of entities that need to be included or removed from the RL).

The Analytical Team review must add any rated insurance company that is listed on a stock exchange and any other company that is required to be added pursuant to the RL criteria. The RL review is a requirement on all Rating Committee Checklists.

In addition, Rating Analysts must promptly inform the Compliance Officer of any company or insurance sector mutual or electronically traded fund that should be added to or deleted from the RL as soon as it has been identified.

- v. For any "Event Driven" Rating Update submitted to a rating committee, an updated rating proposal highlighting the basis for the Rating Action (i.e., an emerging trend, including its elimination, or the impact of a material financial or strategic event) is the only required documentation.

1. In these cases, the prior approved rating committee package must be available to rating committee members for review.
 2. The lead Rating Analyst or Reviewer reviews the most recent Rating Action on the company, and discusses any interim financial results to provide background for the committee's consideration of the impact of the rating event.
- vi. For "Issue Only" Rating Updates submitted to a rating committee, a rating proposal highlighting the proposed Rating Actions applicable to the IR, and a checklist with the applicable items listed under the Holding Company section are required documentation.
1. In these cases, the prior approved rating committee package must be available to rating committee members for review.
 2. The lead Rating Analyst or Reviewer reviews the most recent Rating Action on the company, and discusses any interim financial results to provide background for the committee's consideration of the impact of the rating event.
- vii. For proposed Rating Actions submitted to CRC, the rating committee package documentation requirements for proposed Rating Actions falling under CRPC Policy 2 include the following:
1. The rating committee package submitted to the corresponding RC must be made available to CRC.
 2. The Vote Form from the corresponding RC must be made available to CRC.
 3. Any supplemental information noted in the vote summary from the corresponding RC that is required for CRC deliberation.

8. Credit Report:

- a.** Credit reports are produced in association with Credit Ratings. A credit report is not produced on public or private assessments or evaluations.
- b.** For Annual Rating Updates, the lead Rating Analyst completes a draft of the company report, and the Reviewer reviews it, prior to the rating being presented at a rating committee.
 - i. After the rating committee presentation, the lead Rating Analyst must incorporate any changes required to reflect the committee's decision and feedback on specific issues/trends related to the company's operations, financial results, and AMB's opinion.
 - ii. The Reviewer reviewed company report should be distributed to the company for comment within five business days of the rating release to provide the rated entity an opportunity to identify any misrepresentations, errors or the presence of MNPI.

- c. For Event Driven Rating Updates, the lead Rating Analyst must update the relevant sections (related or impacted by the event) of the company report, incorporate committee feedback and submit it to the Reviewer.
 - i. The Reviewer will review the report and distribute it to the company for comment normally within ten business days of the rating release to provide the rated entity an opportunity to identify any misrepresentations, errors or the presence of MNPI.
- d. In all cases, the company report must be published (revised version available on-line) within 20 days of the rating release.

Note: The credit report should reflect the completed analysis and committee determination associated with the Rating Update.

Note: A credit report is not required for SFP rating opinions; however, they may be completed on an ad-hoc basis. Rating disclosure requirements are identified in the Dissemination Policy.

9. **Dissemination of Ratings:**

- a. The Reviewer will release the rating committee determination in accordance with the dissemination policy.

Note: For Rating Actions that require a press release, the Reviewer will assure that the press release has been processed and is ready for publication in conjunction with the rating dissemination.

- b. In cases where the Reviewer is unavailable to release the Rating Action, the Rating Action may be released by any Senior Director or higher.

10. **Administrative Removal of a Credit Rating:**

- a. The administrative process outlined below may be utilized in the following scenarios:

- i. When an entity, issuer or security on which an outstanding Credit Rating is based ceases to exist, such as the dissolution of an entity/issuer (which may include the merger of an entity/issuer into another entity/issuer), or the maturity/expiration/retiring/calling of a security.

Note: The administrative removal process may also be used in cases where branches no longer exist. Branches are not separate legal entities and are viewed as an extension of the head office. As a result, branches maintain the rating of the head office.

- ii. Following the completion of an Event Driven Rating Update (which must include a press release if the Credit Rating is public) using standard processes to determine the final rating opinion as part of **a rating withdrawal request made by the entity/issuer.**
- iii. Following the completion of an Event Driven Rating Update (which must include a press release if the Credit Rating is public) using standard processes to determine the final rating opinion as part of **a rating withdrawal decision made by a rating**

committee to no longer produce rating coverage on an entity, issuer or security.

Note: An indication that the committee voted to withdraw the rating opinion must be documented with the final rating opinion (i.e., this provides permission for the Analytical Team to administratively remove the rating from public view using the internal rating system (i.e., BCRS) following the dissemination of the final Rating Update).

- iv. The removal of a public PCA.
- b. This administrative process is not a Rating Action as defined and therefore does not require the completion of the rating committee process to remove the Credit Rating or PCA. The process to approve the administrative removal of a Credit Rating or PCA is completed by the assigned Analytical Team and requires the following:
 - i. The Rating Analyst will submit through the internal rating system (i.e., BCRS) a request to administratively remove the outstanding Credit Rating or PCA by changing the outstanding Credit Rating or PCA to “NR”/”nr” – Not Rated and document the supporting information justifying the request.
 - ii. The Reviewer will review the submitted information and may either approve the administrative removal or return the submission to the Rating Analyst for clarification (no additional documentation is needed as the two-person approval is captured in the internal rating system).
 - iii. Following the Reviewer’s approval, the Analytical Team must forward the supporting documentation to the internal quality control team who will, following their review, upload the documentation in the DMS.

11. Rating Withdrawal Process: Company Request or AMB Business Decision:

- a. A rating on an entity, issuer or security may be withdrawn at the request of the company or as a result of a rating committee decision to no longer produce rating coverage.
 - i. Examples of a decision, as determined by a rating committee, to withdraw a Credit Rating may include:
 - 1. Lack of reliable information available to AMB for the production of a rating opinion.
 - 2. Non-participation by company management with AMB that hinders the interactive rating process.
 - ii. In these types of instances, the Analytical Team will prepare and submit an Event Driven Rating Update to a rating committee using standard processes to determine the final rating opinion.
 - 1. If the company’s rating withdrawal request is made in conjunction with the AMB notification of an associated Rating Update outcome, then this Rating Update will serve as the final rating opinion.

2. If the AMB decision to withdrawal the rating is made by a committee in conjunction with a Rating Update (i.e., during the committee discussion of the Rating Update), then this Rating Update will serve as the final rating opinion.
 - b. For public Credit Ratings, the final Rating Update dissemination must include a press release issued in accordance with the dissemination policy.
 - c. If a final Rating Update cannot be completed as determined by a rating committee, then the reason it cannot be completed should be documented in the rating committee package and, for public Credit Ratings, summarized in the press release.
 - i. The inability to complete a final Rating Update is considered a deviation of this CRPC Procedure and must be processed in accordance with the deviation procedure.

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