Best’s Credit Rating Methodology Update Briefing

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A.M. Best
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Rating Methodology 2017

• Impetus for Change
• Timeline
• Building Block Approach
• Rating Implications
• Questions
Impetus for Change

• Transparency & consistency

• A move towards best practices

• A way to integrate new tools
  – Application of BCAR
Tentative Timeline

03/10/16
- Draft BCRM & PC BCAR criteria is released for comment

Comment period will include public updates as specific issues raised

12/31/16
- Comment period will be extended to coincide with release of all BCAR models
- Comment period ends

Comments incorporated as necessary into BCRM and all BCAR criteria

BCRM and BCAR criteria is published and becomes effective

Remainder of 2016

1Q 2017
An Updated BCRM

The BCRM will be the key source document for deriving ratings

- Issuer Credit Ratings
- Financial Strength Ratings
- Issue Ratings
An Updated BCRM

Not a fundamental change to rating analysis
An Updated BCRM

*The BCRM is being updated but the fundamental rating drivers will remain the same*

- Balance sheet strength
- Operating performance
- Business profile
- Enterprise risk management
A.M. Best’s Rating Process

Country Risk

- **Balance Sheet Strength**
  - Baseline (e.g., bbb+/-)

- **Operating Performance**
  - (+2/-3)

- **Business Profile**
  - (+/-2)

- **Enterprise Risk Management**
  - (+1/-4)

- **Comprehensive Adjustment**
  - (+/-1)

- **Rating Enhancement**

**Published Issuer Credit Rating**
Rating Units

- Analysis is performed at rating unit level
  - Single legal entity OR
  - Several entities that collectively operate
- A lead rating unit is identified for organizations with multiple rating units within enterprise
  - Largest or most strategically important
- Holding company will only impact B/S assessment of the lead rating unit
- Through lead rating unit analysis, the highest possible rating from lift is determined for the group
- Additional non-lead rating units will be eligible to receive rating enhancement or drag from the lead rating unit
Organisational Structure

Thunderbird Holdings, Inc.

Holding Company

Virgil Insurance Company
N/L Insurance Co

Scott Indemnity
N/L Insurance Co

Alan Insurance
N/L Insurance Co

Parker Services
Non-Rated Affiliate

Penelope Life
Life Insurance Co
Rating Units

Lead Rating Unit?

Yes

- Assess Balance Sheet Strength of Rating Unit
- Determine Holding Company Assessment
- Include Country Risk and use combination tables to get Baseline Assessment. Adjust for Operating Performance, Business Profile, ERM, Comprehensive Adjustment
- Enhancement/Drag
  - Not eligible for rating enhancement or drag
- Published ICR

No

- Assess Balance Sheet Strength of Rating Unit
- No Holding Company Assessment (Factored into Enhancement/Drag)
- Include Country Risk and use combination tables to get Baseline Assessment. Adjust for Operating Performance, Business Profile, ERM, Comprehensive Adjustment
- Enhancement/Drag
  - Receives rating enhancement or drag from lead rating unit’s published ICR (if applicable)
- Published ICR
• **Balance sheet strength** is now broken down into several parts
  – **Rating unit balance sheet strength** assessment
    – BCAR
    – Other qualitative and quantitative factors
  – **Holding company impact assessment**
  – **Country risk impact**
Summary of Changes to BCAR

- New Calculation of BCAR
  - Formula change
  - Difference between Available Capital and Required Capital, as a ratio to Available Capital
  - Better alignment with risk appetite/tolerance statements
- 5 scores calculated and published – instead of 1
  - 95%, 99%, 99.5%, 99.8%, and 99.9% confidence levels
Application of BCAR

- Key for rating unit evaluation
- BCAR can be run at the rating unit and the holding company levels
- Confidence level results tie into initial balance sheet assessment

<table>
<thead>
<tr>
<th>Confidence Level (%)</th>
<th>BCAR</th>
<th>Implied Balance Sheet Strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>99.9</td>
<td>&gt; 0 at 99.9</td>
<td>Strongest</td>
</tr>
<tr>
<td>99.8</td>
<td>&gt; 0 at 99.8 &amp; ≤ 0 at 99.9</td>
<td>Very Strong</td>
</tr>
<tr>
<td>99.5</td>
<td>&gt; 0 at 99.5 &amp; ≤ 0 at 99.8</td>
<td>Strong</td>
</tr>
<tr>
<td>99</td>
<td>&gt; 0 at 99 &amp; ≤ 0 at 99.5</td>
<td>Adequate</td>
</tr>
<tr>
<td>95</td>
<td>&gt; 0 at 95 &amp; ≤ 0 at 99</td>
<td>Weak</td>
</tr>
<tr>
<td>95</td>
<td>≤ 0 at 95</td>
<td>Very Weak</td>
</tr>
</tbody>
</table>

The key characteristics described for each assessment category are ideal scenarios and are not intended to be prescriptive.
Example BCAR Scores

- The analyst will consider
  - Confidence level at which the drop-off occurs
  - Degree of the downward slope
  - Drivers of the downward slope
  - Volatility
  - Size of the drop-off

<table>
<thead>
<tr>
<th>Year</th>
<th>VaR 95</th>
<th>VaR 99</th>
<th>VaR 99.5</th>
<th>VaR 99.8</th>
<th>VaR 99.9</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>64</td>
<td>20</td>
<td>0.2</td>
<td>-47</td>
<td>-208</td>
</tr>
<tr>
<td>2015</td>
<td>72</td>
<td>24</td>
<td>2</td>
<td>-45</td>
<td>-175</td>
</tr>
</tbody>
</table>
### BCAR Impact on Balance Sheet View

Scores at confidence levels provide differentiation in initial assessment categories (prior to quality of capital/holding company adjustment)

<table>
<thead>
<tr>
<th>Initial Balance Sheet Strength Assessment (Rating Unit/BCAR)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strongest</strong></td>
<td>a+/a</td>
</tr>
<tr>
<td><strong>Very Strong</strong></td>
<td>a/a-</td>
</tr>
<tr>
<td><strong>Strong</strong></td>
<td>a-/bbb+</td>
</tr>
<tr>
<td><strong>Adequate</strong></td>
<td>bbb+/bbb/bbb-</td>
</tr>
<tr>
<td><strong>Weak</strong></td>
<td>bb+/bb/bb-</td>
</tr>
<tr>
<td><strong>Very Weak</strong></td>
<td>b+ and below</td>
</tr>
</tbody>
</table>
Additional Balance Sheet Factors

Country Risk

Rating Unit Balance Sheet Strength Assessment

Holding Company Impact Assessment

Balance Sheet Strength
Baseline (e.g., bbb+)

BCAR
Stress Tests
Liquidity
ALM
Quality of Capital
Quality of Reinsurance
Reinsurance Dependence
Appropriateness of Reinsurance Program
Fungibility of Capital
Internal Capital Models
## Balance Sheet Strength Assessment

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Key Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongest</td>
<td>The rating unit has the strongest BCAR score with a demonstrated pattern of stability. Its quality of capital and ALM are also the strongest. It has an appropriate and diverse reinsurance program. Any additional analytical factors are in line with an assessment of strongest.</td>
</tr>
<tr>
<td>Very Strong</td>
<td>The rating unit has a very strong BCAR score with a demonstrated pattern of stability. Its quality of capital and ALM are also very strong. It has an appropriate and diverse reinsurance program. Any additional analytical factors are in line with an assessment of very strong.</td>
</tr>
<tr>
<td>Strong</td>
<td>The rating unit has a strong BCAR score with a demonstrated pattern of stability. Its quality of capital and ALM are also strong. It has an appropriate and diverse reinsurance program. Any additional factors are in line with an assessment of strong.</td>
</tr>
<tr>
<td>Adequate</td>
<td>The rating unit has an adequate BCAR score that has been relatively stable. Its quality of capital and ALM are adequate. It has an appropriate reinsurance program. Any additional factors are in line with an assessment of adequate.</td>
</tr>
<tr>
<td>Weak</td>
<td>The rating unit has a weak BCAR score with a demonstrated pattern of volatility. Its quality of capital and ALM are weak. Its reinsurance program is weak. Any additional factors are in line with an assessment of weak.</td>
</tr>
<tr>
<td>Very Weak</td>
<td>The rating unit has a very weak BCAR score with a demonstrated pattern of volatility. Its quality of capital and ALM are very weak. Its reinsurance program is very weak. Any additional factors are in line with an assessment of very weak.</td>
</tr>
</tbody>
</table>

*The key characteristics described for each assessment category are ideal scenarios and are not intended to be prescriptive.*
Holding Company Impact Assessment

Country Risk

Rating Unit Balance Sheet Strength Assessment

Holding Company Impact Assessment

Balance Sheet Strength
Baseline (e.g., bbb+)

Consolidated BCAR
Financial Leverage
Operating Leverage
Coverage
Financial Flexibility/Liquidity
Intangible Assets
<table>
<thead>
<tr>
<th>Financial Leverage</th>
<th>Financial Flexibility / Liquidity</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Unadjusted / Adjusted</td>
<td>- Analysis of Sources and Uses</td>
</tr>
<tr>
<td></td>
<td>- Access to Capital</td>
</tr>
<tr>
<td></td>
<td>- Asset Allocation/Investment Risk</td>
</tr>
<tr>
<td>Operating Leverage</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Coverage</td>
<td>Intangible Assets</td>
</tr>
<tr>
<td>- Interest &amp; Fixed-Charge Coverage</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-Rated and/or Non-Regulated Affiliates</td>
</tr>
</tbody>
</table>
## Combined Balance Sheet Strength Assessment (Lead Rating Unit & Holding Company)

<table>
<thead>
<tr>
<th>Lead Rating Unit</th>
<th>Holding Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive</td>
<td>Negative</td>
</tr>
<tr>
<td>Strongest</td>
<td>Strongest</td>
</tr>
<tr>
<td>Very Strong</td>
<td>Strongest</td>
</tr>
<tr>
<td>Strong</td>
<td>Very Strong</td>
</tr>
<tr>
<td>Adequate</td>
<td>Strong</td>
</tr>
<tr>
<td>Weak</td>
<td>Adequate</td>
</tr>
<tr>
<td>Very Weak</td>
<td>Weak</td>
</tr>
</tbody>
</table>
## Overall Balance Sheet Strength Assessment

<table>
<thead>
<tr>
<th>Combined Balance Sheet Assessment (Rating Unit/Holding Company)</th>
<th>CRT-1</th>
<th>CRT-2</th>
<th>CRT-3</th>
<th>CRT-4</th>
<th>CRT-5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strongest</strong></td>
<td>a+/a</td>
<td>a+/a</td>
<td>a/a-</td>
<td>a-/bbb+</td>
<td>bbb+/bbb</td>
</tr>
<tr>
<td><strong>Very Strong</strong></td>
<td>a/a-</td>
<td>a/a-</td>
<td>a-/bbb+</td>
<td>bbb+/bbb</td>
<td>bbb/bbb-</td>
</tr>
<tr>
<td><strong>Strong</strong></td>
<td>a-/bbb+</td>
<td>a-/bbb+</td>
<td>bbb+/bbb/bbb-</td>
<td>bbb/bbb-/bb+</td>
<td>bbb-/bb+/bb</td>
</tr>
<tr>
<td><strong>Adequate</strong></td>
<td>bbb+/bbb/bbb-</td>
<td>bbb+/bbb/bbb-</td>
<td>bbb-/bb+/bb</td>
<td>bb+/bb/bb-</td>
<td>bb-/b+/b</td>
</tr>
<tr>
<td><strong>Weak</strong></td>
<td>bb+/bb/bb-</td>
<td>bb+/bb/bb-</td>
<td>bb-/b+/b</td>
<td>b+/b/b-</td>
<td>b/b-/ccc+</td>
</tr>
<tr>
<td><strong>Very Weak</strong></td>
<td>b+ and below</td>
<td>b+ and below</td>
<td>b- and below</td>
<td>ccc+ and below</td>
<td>ccc and below</td>
</tr>
</tbody>
</table>
A.M. Best’s Rating Process

Country Risk

- Balance Sheet Strength
  - Baseline: bbb+
  - (+2/-3)

- Operating Performance
  - (+/-2)

- Business Profile
  - (+/-2)

- Enterprise Risk Management
  - (+1/-4)

- Comprehensive Adjustment
  - (+/-1)

- Rating Enhancement

Published Issuer Credit Rating
Balance Sheet Only Goes So Far

Impact of Operating Performance and Business Profile on Balance Sheet Strength

- Strongest Balance Sheet Strength:
  - Strong Operating Performance Builds Future Balance Sheet Strength
  - Weak Operating Performance Erodes Future Balance Sheet Strength

- Very Weak Balance Sheet Strength:
  - Weak Business Profile → Sustained Operating Performance Weakness
  - Weak Business Profile → Deteriorating Operating Performance
  - Strong Business Profile → Improving Operating Performance
  - Strong Business Profile → Sustainable Operating Performance

Time

Current Balance Sheet Strength

Future Balance Sheet Strength

Best’s Credit Rating Methodology Update Briefing

March 2016

26
The BCRM is being updated but the fundamental rating drivers will remain the same

• Underwriting Performance
• Investment Performance
• Total Operating Earnings
• Prospective Financial Forecasts
• Other Considerations
  – Unique to LOB, region of operation, structure
Operating Performance
Benchmarks

• Benchmarks ensure operating performance metrics for each insurer are being evaluated in proper framework

• Can be created using:
  – Industry composites/sub-composites
  – ICR composites
  – Other customized parameters

• May be appropriate to compare a rating against >1 benchmark

• Rating Committee has flexibility in determining the appropriate benchmark(s) for each rating unit

• Various insurance organizational types will have differing benchmarking metrics
• Depending on a company’s operating performance, the baseline can be adjusted up or down
  – Using appropriate benchmark
  – Looking at level, trend and volatility

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Adjustment (Notches)</th>
<th>Key Operating Performance Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Strong</td>
<td>+2</td>
<td>Historical operating performance is exceptionally strong and consistent. Trends are positive and prospective operating performance is expected to be exceptionally strong. Volatility of key metrics is low.</td>
</tr>
<tr>
<td>Strong</td>
<td>+1</td>
<td>Historical operating performance is strong and consistent. Trends are neutral/slightly positive and prospective operating performance is expected to be strong. Volatility of key metrics is low to moderate.</td>
</tr>
<tr>
<td>Adequate</td>
<td>0</td>
<td>Historical operating performance and trends are neutral. Prospective operating performance is expected to be neutral. Volatility of key metrics is moderate.</td>
</tr>
<tr>
<td>Weak</td>
<td>-1</td>
<td>Historical operating performance is poor. Trends are neutral/slightly negative and prospective operating performance is expected to be poor. Volatility of key metrics is high.</td>
</tr>
<tr>
<td>Very Weak</td>
<td>-2/3</td>
<td>Historical operating performance is very poor. Trends are negative and prospective operating performance is expected to be very poor. Volatility of key metrics is high.</td>
</tr>
</tbody>
</table>

The key characteristics described for each assessment category are ideal scenarios and are not intended to be prescriptive.
A.M. Best’s Rating Process

- **Country Risk**
  - Balance Sheet Strength: Baseline *bbb+* "Strong" (+1) *a-
  - Operating Performance: (+/-2)
  - Business Profile: (+/-2)
  - Enterprise Risk Management: (+1/-4)
  - Comprehensive Adjustment: (+/-1)

- **Published Issuer Credit Rating**
The BCRM is being updated but the fundamental rating drivers will remain the same.

<table>
<thead>
<tr>
<th>Sub-Assessment</th>
<th>Positive</th>
<th>Neutral</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product/Geographic Concentration</td>
<td>Significant diversification of product line /geographies</td>
<td>Moderate diversification of product lines / geographies</td>
<td>Insufficient diversification of product lines / geographies</td>
</tr>
<tr>
<td>Market Position</td>
<td>Increase profitable market share at a sustainable rate</td>
<td>Sustain profitable market share</td>
<td>Unable to sustain profitable market share</td>
</tr>
<tr>
<td>Pricing Sophistication &amp; Data Quality</td>
<td>Provides Competitive Advantage</td>
<td>No Competitive Advantage/Disadvantage</td>
<td>Lack of sophistication creates disadvantage</td>
</tr>
<tr>
<td>Product Risk</td>
<td>Low Risk Offerings</td>
<td>Average Risk Offerings</td>
<td>High Risk Offerings</td>
</tr>
<tr>
<td>Degree of Competition</td>
<td>Low Competition</td>
<td>Average Competition</td>
<td>High Competition</td>
</tr>
<tr>
<td>Management Quality</td>
<td>Consistently achieves forecasts &amp; targets</td>
<td>Occasionally falls short of forecasts &amp; targets</td>
<td>Provides unreliable forecasts &amp; targets</td>
</tr>
<tr>
<td>Regulatory, Event &amp; Market Risks</td>
<td>Very Low or Significantly Reduced</td>
<td>Moderate and Stable</td>
<td>Very High or Significantly Increased</td>
</tr>
<tr>
<td>Distribution Channels</td>
<td>Created a significant competitive advantage thru distribution channels</td>
<td>Has not created a significant competitive advantage thru distribution channels</td>
<td>Faces a significant competitive disadvantage with regards to distribution</td>
</tr>
</tbody>
</table>
Baseline Adjusted for Profile

• Sub-assessments are qualitatively combined by analyst into a single business profile assessment
• Ultimate “weights” of each sub-assessment will vary depending on which metrics will have biggest impact on future financial strength

<table>
<thead>
<tr>
<th>Business Profile Assessment</th>
<th>Adjustment (Notches)</th>
<th>Key Characteristics of Business Profile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Favorable</td>
<td>+2</td>
<td>The company’s market leadership position is unquestionable, demonstrated and defensible with high brand recognition. Distribution is seen as a competitive advantage; business lines are non-correlated and generally lower risk. Its management capabilities and data management are very strong.</td>
</tr>
<tr>
<td>Favorable</td>
<td>+1</td>
<td>The company is a market leader with strong business trends and good control over distribution. It has diversified operations in key markets that have high to moderate barriers to entry with low competition. It has a strong management team that is able to meet projections and utilize data effectively.</td>
</tr>
<tr>
<td>Neutral</td>
<td>0</td>
<td>The company is not a market leader, but is viewed as competitive in chosen markets. It has some concentration and/or limited control of distribution. It has moderate product risk but limited severity and frequency of loss. Its use of technology is evolving and its business spread of risk is adequate.</td>
</tr>
<tr>
<td>Limited</td>
<td>-1</td>
<td>The company has a lack of diversification in geographic and/or product lines; its control over distribution is limited and undifferentiated. It faces high/increasing competition with low barriers to entry and elevated product risk. Management is unable to utilize data effectively or consistently in business decisions.</td>
</tr>
<tr>
<td>Very Limited</td>
<td>-2</td>
<td>The company faces high competition and low barriers to entry. It has a high concentration in commodity or higher risk products with very limited geographic diversity. It has weak data management. Country risk may factor into its elevated business profile risks.</td>
</tr>
</tbody>
</table>

The key characteristics described for each assessment category are ideal scenarios and are not intended to be prescriptive.
A.M. Best’s Rating Process

Country Risk

- **Balance Sheet Strength**: Baseline **bbb+**
- **Operating Performance**: “Strong” (+1) **a-**
- **Business Profile**: “Favorable” (+1) **a**
- **Enterprise Risk Management**: (+1/-4)
- **Comprehensive Adjustment**: (+/-1)
- **Rating Enhancement**

**Published Issuer Credit Rating**
ERM

The BCRM is being updated but the fundamental rating drivers will remain the same

- Product & Underwriting Risk
- Reserving Risk
- Concentration Risk
- Reinsurance Risk
- Financial Flexibility Risk
- Investment Risk
- Legislative/Regulatory/Judicial/Economic Risk
- Management Risk
- Operational Risk
- Risk Appetite/Stress Testing
• Very strong risk management capability with a matching profile or strong risk management with a lower profile earns positive adjustment
• Risk management capability lower than the risk profile earns negative adjustment
• Downside spread reflects A.M. Best’s concern that truly weak ERM can disproportionately impact financial strength

<table>
<thead>
<tr>
<th>ERM Assessment</th>
<th>Adjustment (Notches)</th>
<th>Key Characteristics of ERM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Strong</td>
<td>+1</td>
<td>Risk management capabilities are excellent and are more than adequate for the risk profile of the company.</td>
</tr>
<tr>
<td>Adequate</td>
<td>0</td>
<td>Risk management capabilities are good and are adequate for the risk profile of the company.</td>
</tr>
<tr>
<td>Weak</td>
<td>-1/2</td>
<td>Risk management capabilities are insufficient given the risk profile of the company.</td>
</tr>
<tr>
<td>Very Weak</td>
<td>-3/4</td>
<td>Risk management capabilities contain severe deficiencies relative to the risk profile of the company.</td>
</tr>
</tbody>
</table>

The key characteristics described for each assessment category are ideal scenarios and are not intended to be prescriptive.
A.M. Best’s Rating Process
Comprehensive Adjustment

- Evaluation of key rating factors includes parameters which place limits on any one factor
- Recognizes a truly uncommon strength/weakness that is not captured through the rating process

<table>
<thead>
<tr>
<th>Comprehensive Assessment</th>
<th>Adjustment (Notches)</th>
<th>Key Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive</td>
<td>+1</td>
<td>The company has uncommon strengths that exceed what has been captured throughout the rating process.</td>
</tr>
<tr>
<td>None</td>
<td>0</td>
<td>The company’s strengths and weaknesses have been accurately captured throughout the rating process.</td>
</tr>
<tr>
<td>Negative</td>
<td>-1</td>
<td>The company has uncommon weaknesses that exceed what has been captured throughout the rating process.</td>
</tr>
</tbody>
</table>
A.M. Best’s Rating Process

Country Risk

- **Balance Sheet Strength**
  - Baseline: bbb+

- **Operating Performance**
  - “Strong” (+1)
    - a-

- **Business Profile**
  - “Favorable” (+1)
    - a

- **Enterprise Risk Management**
  - “Adequate” (+0)
    - a

- **Comprehensive Adjustment**
  - “None” (+0)
    - a

- **Rating Enhancement**

Published Issuer Credit Rating
Rating Enhancement

- Non-lead rating units may be eligible for partial rating enhancement based on benefits it receives from being affiliated with the lead rating unit.
- Rating drag can also occur from negative impact of the lead rating unit on the non-lead unit.

<table>
<thead>
<tr>
<th>Rating Enhancement/Drag</th>
<th>Adjustment (Notches)</th>
<th>Key Characteristics of Rating Enhancement/Drag</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical Lift</td>
<td>+1 to +4</td>
<td>The non-lead rating unit either receives explicit support from the broader organization or is deemed materially important within the broader organization as demonstrated by its level of integration.</td>
</tr>
<tr>
<td>Neutral</td>
<td>0</td>
<td>The non-lead rating unit does not have explicit support from the broader organization and is not considered materially important within the organization.</td>
</tr>
<tr>
<td>Typical Drag</td>
<td>-1 to -4</td>
<td>The non-lead rating unit is negatively impacted by its association with the weaker affiliates of the broader organization.</td>
</tr>
</tbody>
</table>
Organisational Structure

Thunderbird Holdings, Inc.
Holding Company

Virgil Insurance Company
N/L Insurance Co

Scott Indemnity
N/L Insurance Co

Alan Insurance
N/L Insurance Co

Parker Services
Non-Rated Affiliate

Penelope Life
Life Insurance Co
Rating enhancement may be distributed in one of the other assessments if the analyst deems this appropriate.

**Example:** Subsidiary A is currently receiving 2 notches of lift. Analyst determines it should get 1 notch of lift for sharing the same name and systems under Business Profile. Sub A also is fully integrated into ERM so the analyst determines it should also get 1 notch under ERM. If nothing has changed, then the previous “lift” has been distributed already in Business Profile and ERM.
The Building Block Approach

A.M. Best’s Rating Process

Country Risk

- **Basel Sheet Strength**
  - Balance Sheet Strength: **Baseline bbb+**
  - Operating Performance: “Strong” (+1) **a-**

- **Business Profile**
  - “Favorable” (+1) **a**

- **Enterprise Risk Management**
  - “Adequate” (+0) **a**

- **Comprehensive Adjustment**
  - “None” (+0) **a**

- **Rating Enhancement**
  - “N/A” (+0) **a**

Published Issuer Credit Rating

Rating recommendation of “a”
Rating Implications

• BCRM is NOT a means to change ratings although some ratings may change

• Analyst will communicate any potential rating issues as they become apparent during comment period

• Ratings impacted will be placed under review at end of comment period
  – Need to be resolved within 6 months after under review
Questions