JANUARY 2018

BEST'S CREDIT RATING METHODOLOGY (BCRM)

AN OVERVIEW

This overview document provides a quick look at the components of Best's Credit Rating Methodology (BCRM) and rating process. For more information related to the complete BCRM, including various comprehensive criteria procedures applicable to aspects of the insurance and reinsurance industry globally, please visit the Best's Credit Rating Methodology section of our website at http://www3.ambest.com/ambv/ratingmethodology/

Best's Credit Rating Methodology – Rating Process Overview

About A.M. Best

Founded in 1899, A.M. Best is valued by the financial industry as the only global credit rating organization with a uniquely dedicated focus on the insurance industry and insurance-linked capital markets transactions.

- Best's Credit Ratings are an essential benchmark to assess an insurer's financial strength, creditworthiness, and the ability to honor obligations to policyholders worldwide
- Best's perspectives are powered by rigorous analytical expertise, research, and insight to help insurers, financial professionals, and consumers make more confident decisions
- Over 3,500 ratings in more than 90 countries

Best's Credit Ratings (BCRs)

A BCR serves as a valuable, forward-looking benchmark for consumers, insurance agents, financial advisors, banks and other financial institutions to support prudent decision-making. The ratings help the financial industry and consumers understand the financial strength and creditworthiness of insurance companies worldwide.

Best's Credit Rating Scale

Translation of Issuer Credit Ratings to Financial Strength Ratings

Long-Term ICR	FSR
aaa, aa+	A++
aa, aa-	A+
a+, a	A
a-	A-
bbb+, bbb	B++
bbb-	B+
bb+, bb	B
bb-	B-
b+, b	C++
b-	C+
ccc+, ccc	C
ccc-, cc	C-
c	D

BCRs Include

- **Issuer Credit Rating (ICR):** An independent opinion of an entity's ability to meet its ongoing financial obligations that can be issued on either a long- or short-term basis.
- **Financial Strength Rating (FSR):** An independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations.
- **Issue Credit Rating (IR):** An independent opinion of credit quality assigned to issues that gauges the ability to meet the terms of the obligation and can be issued on a long- or short-term basis. When assigned to a specific issue, an IR is an opinion of the ability of the issuer/obligor to meet the ongoing financial obligations to security holders when due.

A.M. Best assigns various types of BCRs to a wide variety of insurance organizations, from single legal entity insurers to complex, multinational enterprises with diversified operations.

The Value of a Best's Credit Rating

- A.M. Best is a Nationally Recognized Statistical Rating Organization (NRSRO)
- A.M. Best provides an independent, third party assessment of enterprise risk management, operating performance, business profile, and balance sheet strength
- A.M. Best's analysis offers valuable insight into an organization, its management and track record
- A.M. Best has unmatched access to insurance data and market intelligence, covering thousands of companies worldwide through analytical resources and news coverage that provide a critical perspective
- Best's Credit Ratings are used extensively as a benchmark for assessing the acceptability and credibility of insurance providers
- Best's Credit Rating Methodology (BCRM) is publicly shared and transparent
- Best's Credit Ratings are produced by more experienced, insurance-focused analysts in comparison to other credit rating agencies
- Best's Credit Ratings are registered by regulatory authorities in Australia, Brazil, Dubai, European Union (EU), Hong Kong, International, Mexico, New Zealand, Singapore, and the United States
- The interactive rating process serves as a roadmap for practicing sound risk management and effective business strategy
- The rating process promotes credibility, transparency and acceptance for new market/business penetration

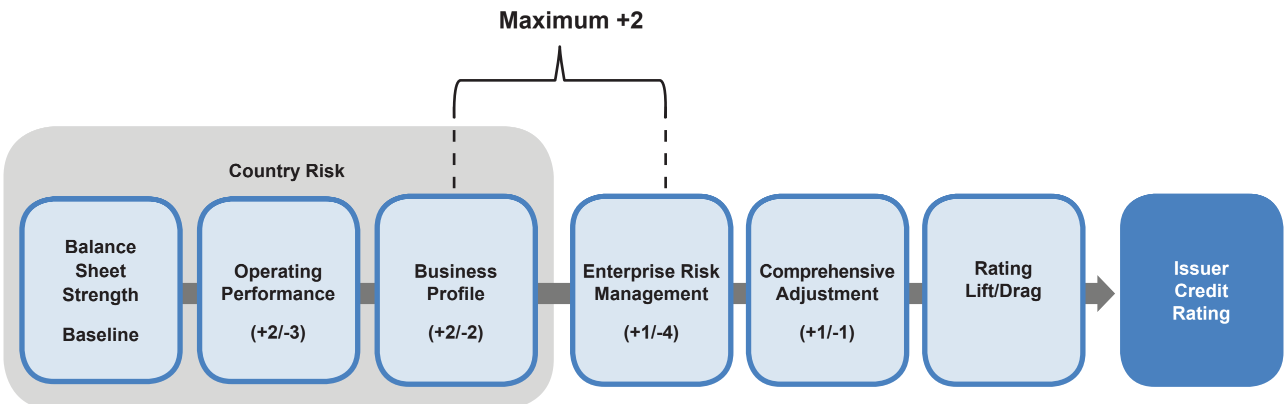
Best's Credit Rating Methodology (BCRM)

Best's Credit Rating Methodology (BCRM) provides a comprehensive explanation of A.M. Best's rating process. Key rating factors — including an insurer's balance sheet strength, operating performance, business profile, and enterprise risk management (ERM) — are qualitatively and quantitatively evaluated during the rating process. The foundational building blocks of A.M. Best's rating approach are outlined below.

A.M. Best's Rating Process

Balance Sheet Strength

A.M. Best's rating analysis is an interactive process that begins with an evaluation of the company's balance sheet strength. This evaluation includes a three-part analysis focusing on the following areas:



1. The insurance rating unit (the insurer)
2. The financial flexibility and risks associated with the insurer's holding company and/or ownership structure
3. The impact of country risk on the insurer's balance sheet strength

Baseline Balance Sheet Strength Assessment

The assessments of the insurance company (Part 1) and its holding company (Part 2) result in the company's "Combined Balance Sheet Strength Assessment". A.M. Best arrives at a company's baseline balance sheet strength assessment by incorporating country risk (Part 3). The baseline is selected for the company from the various options in the Overall Balance Sheet Assessment chart and is determined through analytical judgment and rating committee review.

Balance Sheet Strength Assessment Factors	
• BCAR	• Liquidity
• Quality and appropriateness of reinsurance programs	• Quality of capital
• Quality and diversification of assets	• Internal economic capital models
• Financial and operating leverage	

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Best's Capital Adequacy Ratio (BCAR)

The measurement of the insurer's capital adequacy is key to the balance sheet assessment. A.M. Best uses its Best's Capital Adequacy Ratio (BCAR) to differentiate an insurer's balance sheet strength and determine whether its capitalization is appropriate for its risk profile. The BCAR evaluates many of the insurer's balance sheet risks simultaneously, generates an estimate of the capital needed to support those risks at different confidence intervals, and compares it with the insurer's available capital.

BCAR Assessment

VaR Confidence Level (%)	BCAR	BCAR Assessment
99.6	> 25 at 99.6	Strongest
99.6	> 10 at 99.6 & ≤ 25 at 99.6	Very Strong
99.5	> 0 at 99.5 & ≤ 10 at 99.6	Strong
99	> 0 at 99 & ≤ 0 at 99.5	Adequate
95	> 0 at 95 & ≤ 0 at 99	Weak
95	≤ 0 at 95	Very Weak

Country Risk

Country risk and its assessment is incorporated into the analysis of balance sheet strength, operating performance, and business profile. A.M. Best defines country risk as the risk that country-specific factors will adversely affect an insurer's ability to meet its financial obligations.

Overall Balance Sheet Strength Assessment

	Country Risk Tier				
Combined Balance Sheet Assessment (Rating Unit/Holding Company)	**CRT-1**	**CRT-2**	**CRT-3**	**CRT-4**	**CRT-5**
Strongest	a+/a	a+/a	a/a-	a-/bbb+	bbb+/bbb
Very Strong	a/a-	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-
Strong	a-/bbb+	a-/bbb+	bbb+/bbb/bbb-	bbb/bbb-/bb+	bbb-/bb+/bb
Adequate	bbb+/bbb/bbb-	bbb+/bbb/bbb-	bbb-/bb+/bb	bb+/bb/bb-	bb/bb-/b+
Weak	bb+/bb/bb-	bb+/bb/bb-	bb-/b+/b	b+/b/b-	b/b-/ccc+
Very Weak	b+ and below	b+ and below	b- and below	ccc+ and below	ccc and below

Operating Performance

The second building block of A.M. Best's rating process is operating performance. This analysis can result in an increase, decrease, or no change to the baseline assessment. Possible adjustments range from +2 notches to -3 notches.

A.M. Best views operating performance as a leading indicator of future balance sheet strength and long-term financial stability. A company's profitability affects its ability to generate earnings, and profitable insurance operations are essential for a company to operate as a going concern. In general, more diversity in earnings streams leads to greater stability in operating performance. A.M. Best's analysis of operating performance focuses on the stability, diversity, and sustainability of the company's earnings sources and the interplay between earnings and liabilities.

Best's Credit Rating Methodology – Rating Process Overview

Business Profile

Business profile is the third building block in A.M. Best's rating process and is a highly qualitative component of A.M. Best's rating evaluation. Business profile may ultimately affect an insurer's current and future operating performance and, in turn, its long-term financial strength and ability to meet its obligations to policyholders. Possible adjustments for business profile range from +2 notches to -2 notches.

The business profile review includes evaluation of the following factors:

- Market position
- Degree of competition
- Distribution channels
- Pricing sophistication and data quality
- Management quality
- Product/Geographic concentration
- Product risk
- Regulatory, event, market, and country risks

Enterprise Risk Management (ERM)

ERM is the fourth building block in the rating process. The impact of ERM on an insurer's rating is based on understanding the development and implementation of an insurer's risk management framework as well as the insurer's risk management capability relative to its risk profile. The framework and the risk evaluations include the following sub-assessments:

Framework Evaluation	Risk Evaluation
• Risk identification and reporting • Risk appetite and tolerance • Stress testing • Risk management and controls • Governance and risk culture	• Product & Underwriting • Reserving • Concentration • Reinsurance • Liquidity & Capital management • Investments • Legislative/Regulatory/Judicial/Economic • Operational

If a rating unit is practicing sound risk management and executing its strategy effectively, the results will be evident in successful performance over the long term. Possible adjustments for ERM range from +1 notch to -4 notches.

Companies with complex global business profiles have a need for a robust and comprehensive ERM program. In many cases, the complexities and demands of these companies' "Very Favorable" business profiles require an equally "Very Strong" ERM. Acknowledging this interaction, and the limited impact that these two highly qualitative building blocks may have on credit strength, the combined impact between business profile and ERM will be restricted to a maximum of "+2" notches. This calculation would only affect those companies that have both a "Very Favorable" business profile assessment and a "Very Strong" ERM assessment.

Comprehensive Adjustment

A comprehensive adjustment may be applied in the rating process when the company being reviewed has an uncommon strength or weakness that exceeds (or is less than) what has been captured through the rating process up to this point. A comprehensive adjustment can increase or decrease the assessment by a maximum of 1 notch. The vast majority of ratings will not require a comprehensive adjustment.

Rating Lift/Drag

In this step, the company may be afforded lift (or drag) based on factors such as integration, strategic importance, and contribution to the overall enterprise. The amount of lift or drag assigned depends on the specific circumstances of the insurer. Only companies designated "non-lead rating units" are eligible for lift/drag. For further details on lead and non-lead rating units, please visit http://www3.ambest.com/ambv/ratingmethodology/

Best's Credit Rating Methodology – Rating Process Overview

The Credit Rating Process

The typical duration from signed contract to ratings announcement is generally about three to four months. Each interactively-rated entity is assigned to a rating analyst, who manages the ongoing interaction with company management and conducts the fundamental credit analysis as described in A.M. Best's rating criteria.

BCRs are initially determined and periodically updated through a defined rating committee process. The rating committee itself consists of analytical staff and is generally chaired by senior rating officers. The committee approach ensures rating consistency across different business segments and maintains the integrity of the rating process (described briefly below).

1. **Compile Information**
   The assigned analyst collects public and proprietary financial information and data to develop a tailored meeting agenda.
2. **Perform Analysis**
   A.M. Best incorporates a host of qualitative and quantitative measures to evaluate the organization's financial health.
3. **Determine Best's Credit Rating**
   The A.M. Best Rating Committee ensures rating consistency and maintains the integrity of the rating process and methodology.
4. **Disseminate Best's Credit Rating**
   If the initial Best's Credit Rating is accepted, it is distributed via the A.M. Best website, press releases, and a number of print and digital publications.
5. **Monitor Best's Credit Rating**
   A.M. Best regularly monitors the rating by continually analyzing the organization's creditworthiness.

Sample Information Inputs

Private		Public
• Capital structure • Investment and credit guidelines • Reinsurance guidelines • Exposure to catastrophes • Enterprise risk management (ERM) • Internal capital models	• Meeting with key executives • Business plans and projections • Supplemental rating questionnaire (SRQ) • Actuarial memorandum • Loss provision reports • Cash-flow stress testing	• Financial statements • Reports to shareholders • Public records • Regulatory reports and disclosure notes • Audit reports • Compliance and ethical conduct reports

Characteristics of Highly Rated Insurers

- Superior and stable risk-adjusted capitalization
- Strong, predictable, and sustainable operating profitability
- Competitive advantage in branding, customer experience, investments, and/or underwriting
- Competitive market position leading to pricing power in core business lines
- Strong and stable operating cash flows, with books of business demonstrating favorable retention trends
- Diversified earnings and revenue streams
- Effective use of technology/data analytics

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