AM BEST

The Role of Credit Ratings in Reinsurance

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Agenda

- About Credit Rating
- Credit Rating in Counterparty Selection
- Credit Risk Differentiation & Management
- Credit Rating Triggers in Reinsurance Contracts
- Credit Rating in Collateralization Arrangements
- Credit Rating's Impact on Regulatory Capital

Best’s Credit Rating Scale and Definitions

Best’s Credit Rating Scales

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

AM Best Credit Rating Definitions

- **Best’s Issuer Credit Rating (ICR):** An independent opinion of an entity’s ability to meet its ongoing financial obligations, issued on either a long- or short-term basis
- **Best’s Financial Strength Rating (FSR):** An independent opinion of an insurer’s financial strength and ability to meet its ongoing insurance policy and contract obligations
- **Best’s Issue Credit Rating (IR):** An independent opinion of credit quality assigned to issues that gauges the ability to meet the terms of the obligation, issued on a long- or short-term basis
- **Best’s National Scale Rating (NSR):** A relative measure of creditworthiness in a specific local jurisdiction that is issued on a long-term basis and derived exclusively by mapping the NSR from a corresponding global Issuer Credit Rating (ICR) using a transition chart

Credit Rating Reports

BEST'S CREDIT REPORT

Best's Credit Rating Effective Date
January 3, 2025

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Information

Best's Credit Rating Methodology

Guide to Best's Credit Ratings

Market Segment Outlooks

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: Best's Financial Report.

Sample PC Insurance Group

AMB #: 079600

Best's Credit Ratings – for the Rating Unit Members

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
A+	**aa**
Superior	**Superior**
Outlook: **Stable**	Outlook: **Stable**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

Balance Sheet Strength	**Strongest**
Operating Performance	**Strong**
Business Profile	**Favorable**
Enterprise Risk Management	**Very Strong**

Rating Unit - Members

Rating Unit: Sample PC Insurance Group | AMB #: 079600

AMB #	Rating Unit Members	AMB #	Rating Unit Members
111111	Sample PC Ins Company 1	333333	Sample PC Ins Company 3
222222	Sample PC Ins Company 2	444444	Sample PC Ins Company 4

Rating Rationale

Balance Sheet Strength: Strongest

- The risk-adjusted capitalization of the group, as measured by Best's Capital Adequacy Ratio (BCAR), is within the strongest category, at the 99.6% VaR level. Comprehensive catastrophe reinsurance program that targets less than annual aggregate catastrophe losses, net of reinsurance, not to exceed 5.0% of surplus. Financial flexibility, efficient management of capital within the organization and diversified invested asset base provide supportive liquidity levels. Over the past five-year period, the group has recorded surplus growth despite continued dividend payments to the parent company.

Operating Performance: Strong

- The group's favorable underwriting results continue to demonstrate its ability to manage its market position in a very competitive U.S. auto and homeowners market. Returns on revenue and equity measures have historically outpaced the industry composite metrics, although the group continues to be impacted by the continued exposure to natural catastrophes, e.g., floods and earthquakes. Favorable investment income continues at a sizeable pace, augmenting underwriting profitability, which the group continues to develop with new and profitable business.

Business Profile: Favorable

- Established position of a market leader in multiple property and casualty markets including private passenger auto, homeowners, and small to mid-size commercial book of business surplus lines. The group maintains extensive geographic diversity and market position, which helps to mitigate impact from continued weather-related events, potential regulatory issues, and/or competitive market pressures. Engagement of current and potential customers is established through multiple distribution channels and through multiple legal entity platforms. National brand recognition across the group's multiple lines of business, and it is distinguished as a leader in pricing sophistication.

Enterprise Risk Management: Very Strong

- Extensive risk management capabilities continue to demonstrate an adherence to established risk tolerance levels, capital management and corporate governance frameworks. The group focuses on maintaining a strong foundation, building value, and optimizing risk-adjusted returns, with robust internal structures measuring and monitoring the alignment of risk exposures. The group performs comprehensive capital stress testing associated with numerous weather, economic, operational, liquidity and solvency scenarios to ensure proper risk selection and establish return profiles. Continuous development and implementation of risk management tools that are used to analyze weather and wildfire exposures, complemented by prudent reinsurance programs.

Outlook

- The stable outlooks reflect the expectation that the group will continue to maintain the strongest level of risk-adjusted capitalization, as measured by BCAR, supplemented by its consistently profitable operating performance, which continues to benefit from its position as a market leader in its segment.

Rating Drivers

- While the expectation of the current rating level is not anticipated to change in the near term, as indicated by the group's stable outlooks, negative rating action could occur if there is a material decline in the group's risk-adjusted capitalization and overall balance sheet strength. Potential rating impact: Minor

Key Financial Indicators

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	71.3	57.8	44.4	37.4

Source: Best's Capital Adequacy Ratio Model - P/C, US

BEST'S CREDIT REPORT

AMB #: 079600 - Sample PC Insurance Group

Key Financial Indicators USD (000)	Year End - December 31 2024	2023	2022	2021	2020
Premiums Written:					
Direct	65,045,332	62,089,151	62,768,004	60,776,813	59,098,277
Assumed	996,825	634,769	450,264	465,801	427,394
Ceded	4,540,724	4,380,673	4,513,400	4,587,515	4,872,113
Net	61,501,433	58,343,246	58,704,868	56,655,099	54,653,558
Net Operating Income	4,614,248	4,343,056	4,319,666	2,931,713	2,218,530
Net Income	6,354,436	5,672,833	4,574,385	2,663,411	2,644,556
Total Admitted Assets	135,919,539	127,789,642	123,713,970	117,964,567	117,911,551
Policyholders' Surplus	43,643,645	43,973,351	41,728,543	37,763,165	38,368,249

Source: BestLink® - Best's Financial Suite

Key Financial Ratios (%)	Year End - December 31 2024	2023	2022	2021	2020	Average
Profitability:						
Combined Ratio	100.0	96.4	97.5	99.8	102.4	99.2
Reserve Development Combined Ratio Impact	...	0.3	0.3	-0.1	-0.4	...
Net Investment Yield	4.5	2.6	3.1	3.2	3.5	3.4
Pre-Tax Operating Return on Net Earned Premiums	7.6	9.0	8.4	6.3	4.8	7.3
Net Income Return on Policyholders' Surplus	14.5	13.2	11.5	7.0	7.0	10.8
Total Return on Policyholders' Surplus	15.7	13.3	17.8	5.9	12.1	13.1
Leverage:						
Net	3.5	3.2	3.4	3.6	3.5	...
Gross	4.1	3.7	3.9	4.2	4.0	...
Non-affiliated Investment	81.0	53.8	59.7	51.2	54.9	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Capitalization

The group continues to maintain the strongest level of overall risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), with a significant level of capital that supports its ratings. The capital position is reflective of its consistently favorable operating performance, combined with a high-quality and well-diversified investment portfolio. The capital position is further enhanced by financial flexibility through its holding company. In addition, the group's historical reported strong liquidity measures, favorable cash flows and solid reinsurance programs protect the overall capital position. Partially offsetting these positive factors is the group's moderately above-average underwriting leverage, as well as exposure to both frequent and severe catastrophe losses in multiple exposed states. In addition, the group has been affected by annual stockholder dividend payments to its parent and a modest financial leverage level, which continues to place a certain amount of pressure regarding interest coverage. The capital position is also being impacted by increased loss costs tied to inflationary pressures and continued weather-related events, although these are mitigated by its comprehensive reinsurance program.

Excerpted from Sample Report. Best's Credit Reports. https://web.ambest.com/information-services/sales-information/analytical-products/best%27s-credit-reports

NSR: Philippines, Vietnam, India & Indonesia National Scale Mapping

Global ICR Scale	Philippines National Scale
bbb+	aaa.PH
bbb	aa+.PH
bbb-	aa.PH
bb+	aa-.PH to a+.PH
bb	a.PH to a-.PH
bb-	bbb+.PH
b+	bbb.PH to bbb-.PH
b	bb+.PH to bb.PH
b-	bb-.PH
ccc+	b+.PH to b.PH
ccc	b-.PH
ccc-	ccc+.PH to ccc.PH
cc	ccc-.PH to cc.PH
c	c.PH

Global ICR Scale	Vietnam National Scale
bbb-	aaa.VN
bb+	aa+.VN
bb	aa.VN to aa-.VN
bb-	a+.VN to a.VN
b+	a-.VN to bbb+.VN
b	bbb.VN to bbb-.VN
b-	bb+.VN to bb.VN
ccc+	bb-.VN to b+.VN
ccc	b.VN to b-.VN
ccc-	ccc+.VN to ccc.VN
cc	ccc-.VN to cc.VN
c	c.VN
cc	ccc-.VN to cc.VN
c	c.VN

Global ICR Scale	India National Scale
bbb	aaa.IN
bbb-	aa+.IN
bb+	aa.IN
bb	aa-.IN to a+.IN
bb-	a.IN to a-.IN
b+	bbb+.IN to bbb.IN
b	bbb-.IN to bb+.IN
b-	bb.IN to bb-.IN
ccc+	b+.IN
ccc	b.IN to b-.IN
ccc-	ccc+.IN to ccc.IN
cc	ccc-.IN to cc.IN
c	c.IN

Global ICR Scale	Indonesia National Scale
bbb+	aaa.ID
bbb	aa+.ID
bbb-	aa.ID
bb+	aa-.ID to a+.ID
bb	a.ID to a-.ID
bb-	bbb+.ID
b+	bbb.ID to bbb-.ID
b	bb+.ID to bb.ID
b-	bb-.ID
ccc+	b+.ID to b.ID
ccc	b-.ID
ccc-	ccc+.ID to ccc.ID
cc	ccc-.ID to cc.ID
c	c.ID

Rating Scale Comparison Table

信用评级	标准普尔	穆迪	贝氏	惠誉
AAA	AAA	Aaa	A++ / aaa	AAA
AA+	AA+	Aa1	A++ / aa+	AA+
AA	AA	Aa2	A+ / aa	AA
AA-	AA-	Aa3	A+ / aa-	AA-
A+	A+	A1	A / a+	A+
A	A	A2	A / a	A
A-	A-	A3	A- / a-	A-
BBB+	BBB+	Baa1	B++ / bbb+	BBB+
BBB	BBB	Baa2	B++ / bbb	BBB
BBB-	BBB-	Baa3	B+ / bbb-	BBB-
BB+、BB、BB-	BB+	Ba1	B/bb+	BB+
	BB	Ba2	B/bb	BB
	BB-	Ba3	B-/bb-	BB-
B+、B、B-	B+	B1	C++/b+	B+

Excerpted from: CROSS II-Rule No.9 Minimum capital for credit risk P.15

Rating Scale Comparison Table

信用评级	标准普尔	穆迪	贝氏	惠誉
	B	B2	C++/b	B
	B-	B3	C+/b-	B-
CCC+以下	CCC+	Caa1	C/ccc+	CCC+
	CCC	Caa2	C/ccc	CCC
	CCC-	Caa3	C-/ccc-	CCC-
	CC	Ca	C-/cc	CC
	C	C	D/c	C

Excerpted from: CROSS II-Rule No.9 Minimum capital for credit risk P.16

The Nature of Best's Credit Ratings

- Our credit ratings provide an **independent**, third-party opinion of an insurer's ability to meet ongoing insurance and senior financial obligations.

- The rating opinions are **indicative** of an insurance company's ability to pay claims, debts and other financial obligations in a timely manner.

- The **interactive** rating process serves as a roadmap for practicing sound risk management and effective business strategy.

- AM Best is the only global credit rating agency **focused** exclusively on insurance. Our analysts' diverse financial, operational, claims, underwriting and actuarial backgrounds equip them to deliver rating insights and research that help insurers, financial professionals and consumers make informed decisions.

What Markets Do Best's Credit Ratings Cover?

Major Lines of Business:

- Property/Casualty (Non-Life)
- Life and Annuity
- Health
- Reinsurance

Formation Type:

- Startups/New Company Formations
- Mutual Insurers
- Protection & Indemnity (P&I) Clubs
- Stock Companies
- Fraternal Benefit Societies, Reciprocals, Not-for-Profit Insurers, Catastrophe Bond Issuers and Other Insurance-Linked Securitizations

Specialty Lines:

- Alternative Risk Transfer (ART) Vehicles—Captives, Pools and Risk Retention Groups
- Debt—Corporate Debt, Preferred Stock and Hybrid Securities, Commercial Paper, Insurance-Based Liability or Asset-Backed Securitizations, Closed-Block Monetizations
- Title Insurance
- Fronting Companies
- Surety Companies
- Takaful, Retakaful and Cooperative Insurers
- Lloyd's and Its Syndicates

Ratings for Specific Insurance Formations

I. **Best's Credit Rating Methodology (BCRM)** August 29, 2024

II. Insurance Criteria Procedures

A. Capital Models & Related Criteria Procedures

- Understanding BCAR for US Property/Casualty Insurers Oct. 09, 2025
- Understanding BCAR for Canadian Property/Casualty Insurers Aug. 14, 2025
- Understanding BCAR for US and Canadian Life/Health Insurers Oct. 09, 2025
- Understanding Global BCAR Sep. 18, 2025
- Available Capital and Insurance Holding Company Analysis Sep. 18, 2025
- Catastrophe Analysis in Best´s Credit Ratings Feb. 27, 2026
- Evaluating US Surplus Notes Jun. 13, 2024
- The Treatment of Terrorism Risk in the Rating Evaluation May 22, 2025

B. Specialty Criteria Procedures

- Rating Captives and Other Alternative Risk Transfer Entities Aug. 28, 2025
- Best's National Scale Ratings Jul. 31, 2025
- AM Best's Stress Liquidity Ratio for US Life Insurers May 09, 2024
- Analyzing Perpetual Insurers Apr. 11, 2024
- Evaluating Country Risk Jun. 06, 2024
- Evaluating Mortgage Insurance Mar. 14, 2024
- Measuring Transfer and Convertibility Risk Jul. 11, 2024
- Rating Funding Agreement-Backed Securities Programs Mar. 08, 2024
- Rating Lloyd's Operations Mar. 21, 2024
- Rating Monoline Financial Guarantors in the Public Finance Sector Aug. 01, 2024
- Rating New Company Formations Sep. 05, 2024
- Rating Reinsurance Pools Feb. 22, 2024
- Rating Run-Off Insurers and Specialists Sep. 05, 2024
- Rating Surety Companies Apr. 25, 2024
- Rating Takaful (Shari'a Compliant) Companies May 24, 2024
- Rating Title Insurance Companies Sep. 25, 2025
- Scoring and Assessing Innovation Feb. 20, 2025

https://www3.ambest.com/ambv/ratingmethodology/

AM Best's rating criteria recognizes the distinctive characteristics of all segments of the market, including reinsurers, alternative risk transfer, mutuals and reciprocals, members of groups and new company formations.

Alternative Risk Transfer, Single-Parent Captives, Group Captives, Risk Retention Groups and Protected Cells

- AM Best currently rates approximately 400 single-parent and group captives, risk retention groups (RRGs) and protected cell captives in over 20 global jurisdictions, and in more than 30 US states.
- Our analysis offers insight into a captive's organization, management, governance and performance metrics.

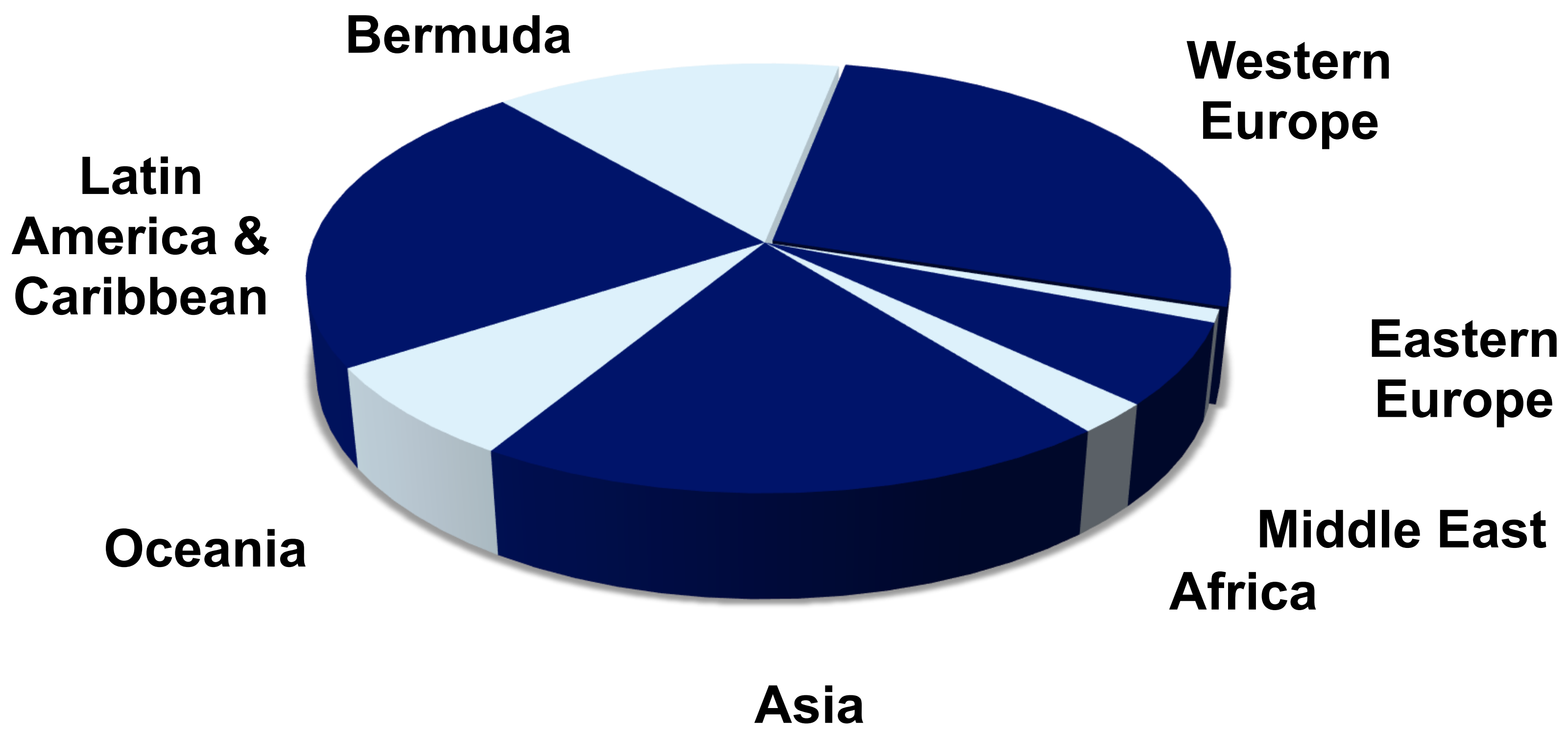
Mutuals

- AM Best currently rates more than 450 mutual insurers, with a team dedicated to focusing on this sector.
- We publish specialty research focused on the mutuals, highlighting their unique challenges and opportunities.

Who Uses Best's Credit Ratings?

- Insurance Carriers
- Agents
- Brokers
- Policyholders
- Financial Institutions
- Investors & Investment Professionals
- Employee Benefits Managers
- Debt & Equity Research Analysts
- Corporate Risk Managers
- Consultants
- Reinsurers
- Captive/Alternative Risk Managers
- Boards of Directors
- Consumers
- Government Agencies (Fannie/Freddie/HUD/FHFA)
- Regulators
- Academics

Best's global Ratings Coverage
Excl. USA/Canada



Interactive rating relationships with insurers/reinsurers in over 100 countries worldwide

Credit Rating in Counterparty Selection

Credit Rating in Counterparty Selection

- **Minimum rating threshold**
  Business critical requirement (often "A-" minimum) for credit sensitive market segments e.g. reinsurance, large commercial business. It may also be required by regulators.

- **Approved Reinsurer Panels**
  Quite often, only reinsurers meeting the minimum rating criteria (e.g. A-) for certain product lines can be included in the approved panel and participate in placements.

- **Integrated Due Diligence**
  Combine external credit ratings with internal risk assessments, such as capital adequacy, business stability, and historical cooperation records.

- **Ongoing Monitoring**
  Continuously track rating changes and adjust the approved panel dynamically to manage evolving counterparty risk.

- **Cross-boarder activities**
  (Re) insurers rely on ratings to decide whether a foreign partner is financially strong enough to honor obligations.
  Ratings also provides flexibility for fronting arrangements and enhanced access to reinsurance.

Credit Rating Requirement for Reinsurers in Mainland China

中国保险监督管理委员会文件

保监发〔2015〕28 号

中国保监会关于实施
再保险登记管理有关事项的通知

四、审核标准

（一）再保险接受人应符合以下要求：

1. 合约再保险业务的首席接受人或合约再保险业务的最大份额接受人最新财务实力评级至少应符合下列标准之一：

（1）标准普尔（Standard & Poor's）评级应不低于 A-；

（2）A.M. Best 评级应不低于 A-；

（3）穆迪（Moody's）评级应不低于 A3；

（4）惠誉（Fitch）评级应不低于 A-。

合约再保险业务的其他再保险接受人最新财务实力评级至少应符合下列标准之一：

（1）标准普尔（Standard & Poor's）评级应不低于 BBB；

（2）A.M. Best 评级应不低于 B++；

（3）穆迪（Moody's）评级应不低于 Baa；

（4）惠誉（Fitch）评级应不低于 BBB。

Excerpted from: 中国保监会关于实施再保险登记管理有关事项的通知保监发〔2015〕28 号
Notice Regarding the Implementation of Reinsurance Registration Management China Insurance Regulatory Commission Document Insurance Regulatory Commission [2015] No. 28

Credit Rating Requirement for Reinsurers in Latin America

Minimum Rating requirements to be registered as a foreign reinsurer in the local Superintendency

Country	AM Best	S&P	Fitch	Moody´s	Others/Local	Notes
Argentina	B+	BBB	BBB	BBB	NA	
Brasil	B+	BBB-	BBB-	Baa3	NA	
Bolivia	B+	BBB	BBB	Baa	NA	Insurers and Reinsurer need to have 2 ratings
Chile	BBB	BBB	BBB	BBB	BBB	Reinsurer need to have 2 ratings
Colombia	B+	BBB-	BBB-	Baa3	NA	
Costa Rica	B+	BBB	BBB	NA	NA	
Ecuador	A-	A-	A-	A3	NA	
El Salvador	BBB	BBB	BBB	BBB	BBB	
Guatemala	BBB-/A	BBB-/A	BBB-/A	BBB-/A	BBB-/A	BBB- for Central American companies / A on an NSR for locals
Guyana	A- from Best or equivalent from the rest					
Honduras	B+	BBB-	BBB-	NA	NA	
México	A-	AA-	AA-	Aa3	AA-	
Nicaragua	B++	BBB	BBB	Baa2	NA	
Panamá	No minimum as long as it is rated by a CRA with international recognition					Investment grade rating required
Perú	B+	BBB	BBB	Baa2	NA	
República Dominicana	B+	BBB	BBB	Baa	NA	
Venezuela	B+	BBB	BBB	Baa	NA	
Uruguay	B+	BBB	BBB	Baa	NA	CRA needs to be registered locally - AM Best is not

Note: Please check each country's official superintendency´s requirements for the most up to date, official information.

Credit Rating Requirement for Reinsurers in Africa

Requirement on Cross-boarder Reinsurance in African countries		
Country	Permission	Note
ALGERIA	YES	Cross-border reinsurers must have a credit rating of least “BBB”.
EGYPT	YES	Approved reinsurers must be awarded a minimum credit rating from one of the leading credit rating agencies, i.e. A M Best (B+), Standard & Poor's (BBB), Fitch (BBB) and Moody's (Baa), and subject to minimum capital requirements.
ETHIOPIA	YES	Lead reinsurers must carry at least an A- and followers a BB rating from international rating bureaus
GABON	YES	All foreign reinsurance cessions involving more than 50% of a risk domiciled in Gabon, to be submitted to the insurance supervisor for approval.
KENYA	YES	
NAMIBIA	YES	
NIGERIA	NO	Foreign reinsurers must come through a local insurance broker. Permission to reinsure abroad can be sought from regulator.
SENEGAL	YES	Foreign insurance cessions exceeding 50% of Senegal domiciled risks require regulatory approval from the local Insurance supervisor.
SOUTH AFRICA	YES	Foreign reinsurers may not actively seek business in South Africa, except through a local subsidiary or branch.
SUDAN	YES	Overseas reinsurers and reinsurance brokers must be accredited by the Tanzanian regulator (TIRA) and pay annual accreditation levies (USD 10,000 for reinsurers and USD 5,000 for brokers).
TANZANIA	YES	Overseas reinsurers and reinsurance brokers must be accredited by the Tanzanian regulator (TIRA) and pay annual accreditation levies (USD 10,000 for reinsurers and USD 5,000 for brokers).
UGANDA	YES	Reinsurance can only be arranged with licensed or accredited reinsurers and reinsurance brokers, or with foreign reinsurers in which the government of Uganda has a stake.
ZAMBIA	YES	Reinsurance business can only be placed with locally registered reinsurance companies.
ZIMBABWE	YES	

- Mandated rating minimums are not common.
- Trend from flat minimum capital requirements towards risk-based (RBC) frameworks.

Note: The info above is excerpted from the report issued by GLOBAL REINSURANCE FORUM in Sep 2025 with the title “Reinsurance Trade Barriers and Market Access Issues Worldwide”: https://www.grf.info/images/Publications/TradeBarriers/GRF_Trade_Barriers_Table_-_2024_Review_-_Final.pdf

Reinsurance Trade Barriers & Market Access-Worldwide

Table of Contents

Excerpted from the report issued by GLOBAL REINSURANCE FORUM in Sep 2025 with the title "Reinsurance Trade Barriers and Market Access Issues Worldwide": https://www.grf.info/images/Publications/TradeBarriers/GRF_Trade_Barriers_Table_-_2024_Review_-_Final.pdf

Credit Risk Differentiation & Management

Credit Risk Differentiation

- **Pricing Power Differentials**

  Command higher premiums and secure favorable terms to reinsurers with higher credit ratings.

- **Collateral & Guarantee Requirements**

  Apply more relaxed margin or collateral requirements for highly rated reinsurers, and stricter terms for those with lower ratings.

- **Contractual Protections**

  Use rating-based clauses such a shorter payment periods, or additional guarantees for weaker counterparties.

- **Portfolio Optimization**

  Prioritize partnering with highly rated reinsurers, moderately diversify the risk with lower-rated reinsurers, optimize capital efficiency and returns by adjusting the portfolio structure

Credit Rating Triggers in Reinsurance Contracts

Credit Rating Triggers in Reinsurance Contracts

- **Collateral Triggers**

  Require the reinsurer to post collateral or additional security once its credit rating falls below a specified threshold.

- **Early /Special Termination Rights**

  Allow the cedent to terminate or recapture the contract if the reinsurer's rating drops to a non-investment-grade level. E.g. cut-off, run-off, Recapture/ Commutation.

- **Step-Up Clauses**

  Adjust terms automatically — e.g. margin requirements, collateral levels — following a downgrade.

- **Notice and Cure Periods**

  Provide a grace period for the downgraded reinsurer to restore its rating or take remedial actions before termination rights are exercised.

Credit Rating Triggers in Reinsurance Contracts

had occurred prior to the expiration of this Contract, provided that no part of such Loss Occurrence is claimed against any renewal or replacement of this Contract.

ARTICLE III

SPECIAL TERMINATION

A. The Company may terminate a subscribing reinsurer's share in this Contract by giving written notice to the subscribing reinsurer upon the happening of any one of the following circumstances:

1. A State Insurance Department or other legal authority orders the subscribing reinsurer to cease writing business, or
2. The subscribing reinsurer has become insolvent or has been placed into liquidation or receivership (whether voluntary or involuntary), or there has been instituted against it proceedings for the appointment of a receiver, liquidator, rehabilitator, conservator, or trustee in bankruptcy, or other agent known by whatever name, to take possession of its assets or control of its operations, or
3. For any period not exceeding 12 months which commences no earlier than 12 months prior to the inception of this Contract, the subscribing reinsurer's policyholders' surplus, as reported in the financial statements of the subscribing reinsurer, has been reduced by 20.0% or more, or
4. The subscribing reinsurer has become merged with, acquired or controlled by any company, corporation, or individual(s) not controlling the subscribing reinsurer's operations previously, or
5. The subscribing reinsurer has reinsured its entire liability under this Contract without the Company's prior written consent, or
6. The subscribing reinsurer receives an A. M. Best rating of lower than A-, or an S&P financial strength rating of lower than A-, or

2

7. The subscribing reinsurer has ceased writing new and renewal reinsurance for the lines of business covered hereunder.

Excerpted from the "CASUALTY CATASTROPHE EXCESS OF LOSS REINSURANCE CONTRACT" from website of U.S. Securities and Exchange Commissions: https://www.sec.gov/Archives/edgar/data/1018979/000119312508032633/dex103.htm

Credit Rating in Collateralization Arrangements

Credit Rating in Collateralization Arrangements

- **Letters of Credit (LOC)**
  A guarantee from a bank LOC to pay the ceding company if the reinsurer fails to meet its obligations.

- **Funds-Withheld (Cash-Deposits)**
  The primary insurer simply keeps a portion of the premiums they owe the reinsurer, holding them as a reserve against future losses.

- **Trust Funds**
  The reinsurer deposits cash or high-quality securities (like government bonds) into a dedicated account that only the primary insurer can access to pay claims.

- **Dynamic Adjustments**
  Collateral levels may be adjusted over time according to rating changes or exposure growth.

Credit Rating in Collateralization Arrangements

Collateral Form	Risk Considerations	Recommended Credit Risk Approach
Cash in Trust	Cash is placed into a separate legally protected trust account. As such, the funds are reasonably well protected against financial failure of the credit institution managing the trust, however there is still a risk of contract dispute, regulatory action, and delayed payment / liquidity risk	Expected financial strength equivalence in 'A' to 'AAA' range.
Cash equivalents in Trust*	Can be to be considered 'equivalent' to cash if the assets can be immediately convertible to cash with little to no risk of devaluation in value	Expected financial strength equivalence in 'A' to 'AAA' range; lower if market/liquidity risk
Assets in Trust*	As above, but noting there is still a risk of contract dispute, regulatory action, delayed payment / liquidity risk, and devaluation / market risk on the individual assets which will vary significantly depending on the specific nature, investment ratings and diversity profiles of the underlying assets	Max financial strength equivalent to 'A'
Government financial instruments in Trust	Considerations similar to Assets in Trust	Max financial strength equivalent to credit ratings of applicable government / sovereign
Letters of Credit (LOCs)	A form of 'financial guarantee' rather than granting access to explicit assets, and so present different forms of non-payment risk than others forms of collateral. They will be directly affected by any financial failure of the credit institution providing the LOC. Additional considerations include the strength and/or domicile of the credit institution, whether LOC period matches the period of the reinsurers exposure and is clean and irrevocable, notice of cancellation provisions, law of jurisdiction.	Not to exceed financial strength of: credit institution / collateral provider; applicable government / sovereign; 'AA' equivalent

Excerpted from : Management of Collateralised Reinsurance – Market Themes & Best Practice, Lloyd's 2024, page 8
https://assets.lloyds.com/media/2db6c3c3-3b7a-48d9-b49f-f36bd8952246/Collateralised%20Reinsurance%20-%20Best%20Practice%20-%20August%202024%20FINAL.pdf

Credit Rating’s Impact on Regulatory Capital

Credit Rating's Impact on Regulatory Capital

- **Regulatory Framework**
  Many regulatory frameworks (such as RBC, Solvency II, and ICS) directly link the capital charge for reinsurance recoverables to credit ratings, and embedded within their insurance statutory regime and regulatory process.

- **Practical Implications**
  Credit rating clauses in reinsurance contracts can affect the cedent's regulatory capital calculation. Working with highly rated reinsurers can reduce capital requirements, whereas lower-rated reinsurers require higher risk capital to be held.

Credit Rating's Impact on Regulatory Capital by Regions

China

第二十三条 再保险公司的再保分出业务应收分保款项的交易对手违约风险暴露EX为Max（同一交易对手按照合同约定债权债务可自行抵消前提下抵消后的债权净额，0），再保分出业务应收分保准备金的EX为Max

11

（同一交易对手分出业务应收分保准备金的认可价值，0），RF_0赋值如下：

再保险分入人偿付能力水平或评级			基础因子
境内再保险分入人的综合偿付能力充足率	200%或以上		0.008
	[150%，200%)		0.013
	[100%，150%)		0.047
	[50%，100%)		0.261
	50%以下或无法获得再保险人偿付能力数据		0.745
境外再保险分入人的评级	最近一期偿付能力充足率满足当地偿付能力监管要求	AAA	0.030
		AA+	0.036
		AA	0.046
		AA-	0.056
		A+	0.069
		A	0.087
		A-	0.107
		BBB+	0.134
		BBB	0.167
		BBB-	0.209
		其他	0.494

Excerpted from: CROSS II-Rule No.9 Minimum capital for credit risk

Hong Kong

Table 19
Counterparty Default and Other Risk Factors

Column 1	Column 2
Credit rating band	Risk factors
1	0.4%
2	0.8%
3	1.6%
4	4.0%
5	8.4%
6	16.0%
7	38.8%
Unrated	6.2%

Credit rating band		Specified rating agency					
		S&P Global Ratings	Moody's Investors Service	Fitch Ratings	A.M. Best Company, Inc.	Japan Credit Rating Agency, Ltd.	Morningstar DBRS
Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8
Long-term rating	1	AAA	Aaa	AAA	aaa	AAA	AAA
	2	AA+ to AA-	Aa	AA	aa	AA	AA
	3	A+ to A-	A	A	a	A	A
	4	BBB+ to BBB-	Baa	BBB	bbb	BBB	BBB
	5	BB+ to BB-	Ba	BB	bb	BB	BB
	6	B+ to B-	B	B	b	B	B
	7	CCC and lower	Caa and lower	CCC and lower	ccc and lower	CCC and lower	CCC and lower
Short-term rating	1	N/A	N/A	N/A	N/A	N/A	N/A
	2	A-1	P-1	F1	AMB-1+	J-1	R-1
	3	A-2	P-2	F2	AMB-1-	J-2	R-2
	4	A-3	P-3	F3	AMB-2 to AMB-3	J-3	R-3
	5	N/A	N/A	N/A	AMB-4	N/A	N/A
	6	B	NP	B	N/A	NJ	R-4
	7	C and lower	N/A	C and lower	N/A	N/A	R-5 and lower
Financial strength rating	1	AAA	Aaa	AAA	N/A	N/A	N/A
	2	AA+ to AA-	Aa	AA	A++ to A+	N/A	N/A
	3	A+ to A-	A	A	A to A-	N/A	N/A
	4	BBB+ to BBB-	Baa	BBB	B++ to B+	N/A	N/A
	5	BB+ to BB-	Ba	BB	B to B-	N/A	N/A
	6	B+ to B-	B	B	C++ to C+	N/A	N/A
	7	CCC and lower	Caa and lower	CCC and lower	C and lower	N/A	N/A

Excerpted from: Cap. 41R Insurance (Valuation and Capital) Rules

Taiwan

保險股份有限公司(○○分公司) 年度(月、季、半年)報表

表30-4-1：再保險資產風險資本額計算表 單位：新台幣元

列號	發行機構信用評等 Moody's	應列入本表計算風險資本額之再保險資產(註)	風險係數	再保險資產風險資本額
	(1)	(2)	(3)	(4)
1	Aaa		0.0255	-
2	Aa		0.0266	-
3	A		0.0278	-
4	Baa		0.0341	-
5	Ba		0.0671	-
6	B		0.1422	-
7	Caa-C		0.3237	-
8	合 計	-		-

表 30-4-1：再保險資產風險資本額計算表

此表主要計算考再保險資產之信用風險，並將計算結果匯集至表 30-4 計算總信用風險資本額。

各欄位說明如下：

第 1 欄－發行機構信用評等

Taiwan Ratings(NSR)

計算財產保險業資本適足率，信用評等公司長期信用評等等級之比較

Class	S&P、Fitch、KBRA	Moody's	A.M. Best	中華信評
I	AAA	Aaa	A++	---
II	AA+, AA, AA-	Aa1, Aa2, Aa3	A+	tw AAA
III	A+, A, A-	A1, A2, A3	A, A-	tw AA+, tw AA, tw AA-
IV	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	B++, B+	tw A+, tw A, tw A-
V	BB+, BB, BB-	Ba1, Ba2, Ba3	B	tw BBB+, tw BBB, tw BBB-
VI	B+, B, B-	B1, B2, B3	B-	tw BB+, tw BB, tw BB-
VII	CCC+, CCC, CCC-, CC, C	Caa1, Caa2, Caa3, Ca, C	C++, C+, C, C-, D	tw B+, tw B, tw B-, tw CCC+, tw CCC

上表並非正式對照表，僅供參考。

Excerpted from: 檢查報表-財團法人保險事業發展中心

AM BEST SINCE 1899 ®

AM BEST

How Credit Ratings Are Assigned- An AM BEST Approach

Rob Curtis – CEO & Managing Director, AM Best Asia-Pacific
Judy Li- Market Development Manager (Greater China), AM Best Asia-Pacific

Seminar at Shanghai International Reinsurance Exchange-Session 2

22 April 2026

Agenda

- Introduction of BCR (Best's Credit Rating)
- Overview of AM Best's Rating Methodology
- Balance Sheet Strength
- Operating Performance
- Business Profile
- Enterprise Risk Management
- Recap

Introduction of BCR
(Best's Credit Rating)

What is a Best's Credit Rating?

- **BCR:**

A forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness.

- **FSR:**

An independent opinion of an insurer's financial strength and ability to meet its on-going insurance policy and contract obligations

- **ICR:**

An independent opinion of an entity's ability to meet its ongoing financial obligations

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

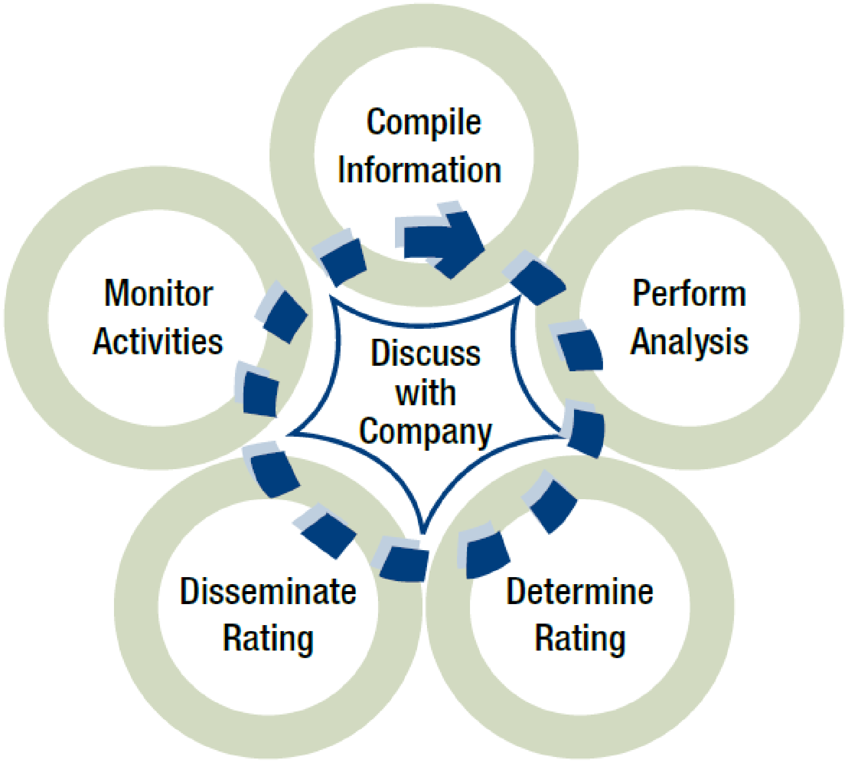
ICR = Issuer Credit Rating
FSR = Financial Strength Rating

Note: D is used for non-insurers and securities. Scales E to NR not shown.

The Interactive Rating Process

- The foundation of the rating process is an ongoing dialogue with the rated company's management

- Key rating drivers:
  - **Balance Sheet Strength**
  - **Operating Performance**
  - **Business Profile**
  - **Enterprise Risk Management**



Typical Rating Timeline (Full Rating)

[Rated Company]
Management Meeting & Requested Information Preparation
(2-4 weeks)

[Analytical Team]
Preview provided materials
（2 – 4 weeks）

[Rated Company & Analytical Team]
Management Meeting
（1 day）

[Analytical Team]
Post-MM analysis
（ 6-8 weeks）

[Analytical Team]
Rating Committee Meeting
（1 day）

[Rated Company]
Feedback on Press Release and Credit Report
（10 calendar days）

The Interactive Rating Process

AM Best (贝氏) 信用评级

AM Best (贝氏) 信用评级
非寿险指示性资料要求

待提供的样本资料

- 经审计的财务报表和独立审计报告（最近五年，之后每年提交一次）
- 填写完整的贝氏补充评级问卷 (SRQ)（在线填写）
- 管理层会议演示
- 综合集团结构图，详细说明所有主要股东和最终母公司
- 管理层组织结构图和高管简历
- 公司治理和委员会结构的详情（包括关键委员会的职权范围）
- 战略计划（每年），加上资产负债表和损益表预测，按业务线详细说明关键假设
- 按业务类别和分销渠道划分的损益表
- 产品和分销来源概述
- 投资、核保和准备金政策和指导方针
- 内部和外部精算审查（每年）
- 历史损失准备金进展（例如三角互证法）
- 再保险计划/示意图（每年）
- 风险文件，包括：风险管理框架示意图、风险偏好声明、风险承受能力和最新风险登记册
- 内部审计计划
- 合并母公司（每年）和重要子公司（按要求）的经审计的财务报表
- 保险公司认为与评级流程相关的任何其他信息
- 贝氏评级要求的任何其他合理信息

提供资料的持续性义务

贝氏信用评级一经评定，保险公司/再保险公司应须提供有待商定的类似及其他各种资料。其中部分资料项目应定期（至少按季度或按年，视情况而定）提供。

特定事件通知

贝氏信用评级一经评定，在评级维持有效的时间内，
保险公司/再保险公司应将以下任何事件通知贝氏：

- 可能对保险公司/再保险公司的财务状况或业务产生重大影响的事件；
- 可能对保险公司/再保险公司的贝氏信用评级产生重大影响的事件；
- 可能影响保险公司/再保险公司根据保险合同履行任何义务的能力的事件；
- 及与之前提供给贝氏的任何资料存在重大影响、差异或冲突的事件。

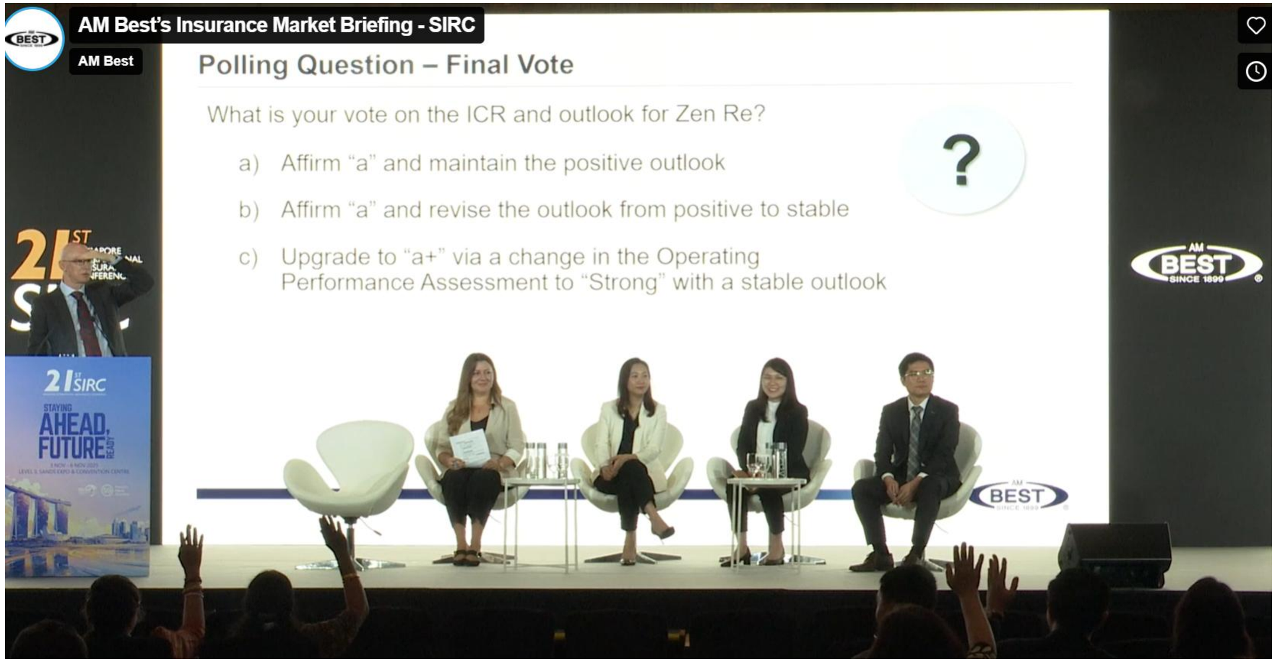
Miscellaneous

在收集评级资料时，贝氏评级将：

- 不时通过信函、电话或电子邮件要求澄清和/或补充资料。
- 通常情况下，每个日历年，在公司办公室、贝氏办公室或某些情况下在双方商定的其他地点与保险公司/再保险公司的高管和技术人员会面。会面也可能通过视频会议的方式进行。

The Interactive Rating Process

- Ratings are determined by a rating committee, by simple majority vote

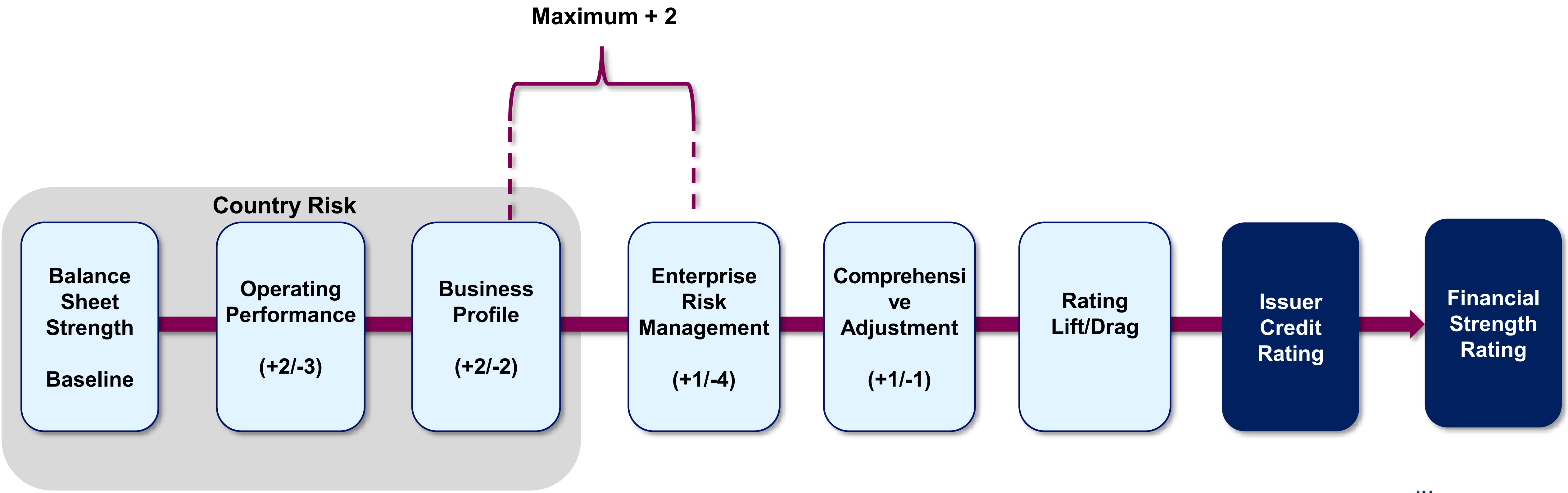


A Snap at Mock Rating Committee at AM BEST Market Briefing at
21st Singapore International Reinsurance Conference
https://player.vimeo.com/video/1134237608?h=5b79192208&badge=0&autopause=0&player_id=0&app_id=58479

Overview of AM Best's Rating Methodology

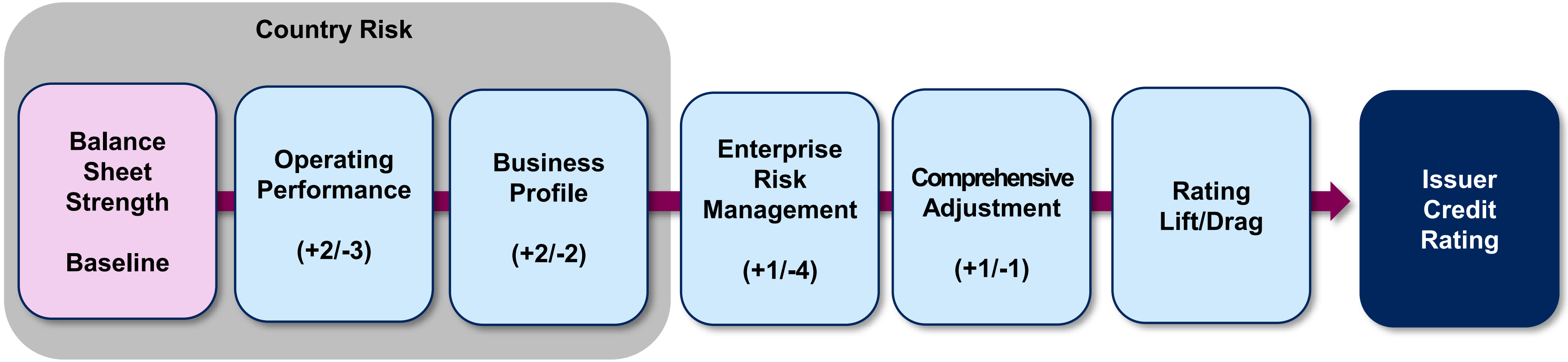
Best’s Credit Rating Methodology (BCRM)

- AM Best’s interactive rating process is intended to provide an opinion of a company’s ability to meet its ongoing obligations
- The building blocks of AM Best’s ratings process are outlined below



Balance Sheet Strength

BCRM Building Blocks: Balance Sheet Strength



Balance Sheet Strength Components	
• BCAR Assessment	• Quality of Capital
• Stress Tests	• Quality of Reinsurance
• Liquidity	• Reinsurance Dependence
• Asset-Liability Management	• Reinsurance Appropriateness
• Internal Capital Models	• Fungibility of Capital
• Financial Leverage	• Quality of Assets
• Operating Leverage	• Financial Flexibility
• Interest Coverage	• Strength of Reserves

Balance Sheet Strength Baseline Assessment
Strongest a+/a
Very Strong a/a-
Strong a-/bbb+
Adequate bbb+/bbb-
Weak bb+/bb-
Very Weak b+ and below

Best's Capital Adequacy Ratio (BCAR)

- Primary quantitative tool used to evaluate balance sheet strength is BCAR

$$\text{BCAR} = \frac{(\text{Available Capital} - \text{Net Required Capital})}{\text{Available Capital}} \times 100$$

VaR 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

国家风险

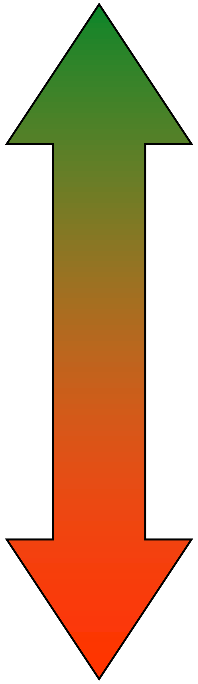
国家风险: 一个国家特有的风险，而该风险对保险公司偿付财务债务的能力可能造成不利影响

不同于:

主权违约风险: *一个主权政府无力及时和足额清偿其债务的概率*

Country Risk

Economic Risk		Macroeconomy
		Prospects
		Government Finance
Political Risk		Business Environment
		Government Stability
		Social Stability
		Legal System
Financial System Risk		Banking System
	Non-Insurance	Reporting Standards & Regulation
	Non-Insurance	Sovereign Debt
	Non-Insurance	Government & Legislation
	Insurance	Supervisory Authority
	Insurance	Insurer Accountability



CRT – 1

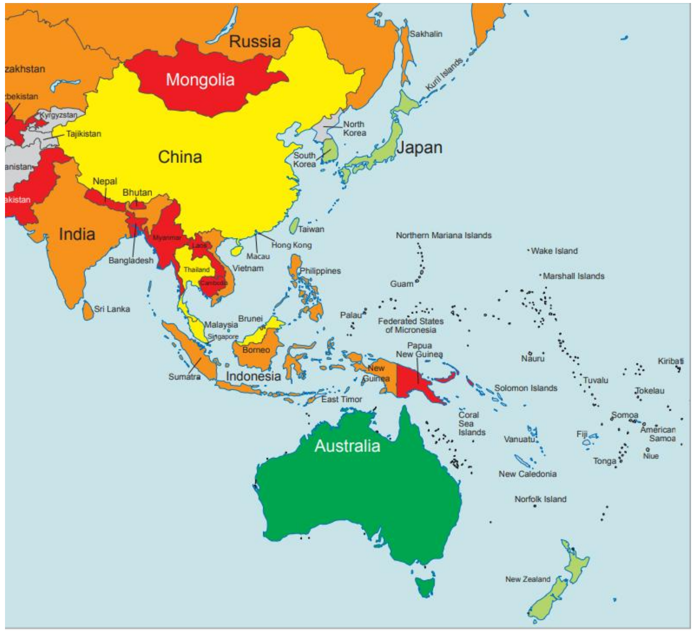
Lowest Risk

CRT-3

Moderate Risk

CRT-5

Highest Risk



Country Risk Tiers in Asia Pacific

CRT 1

- Australia
- Singapore

CRT 2

- Hong Kong
- Japan
- Macau
- New Zealand
- South Korea
- Taiwan

CRT 3

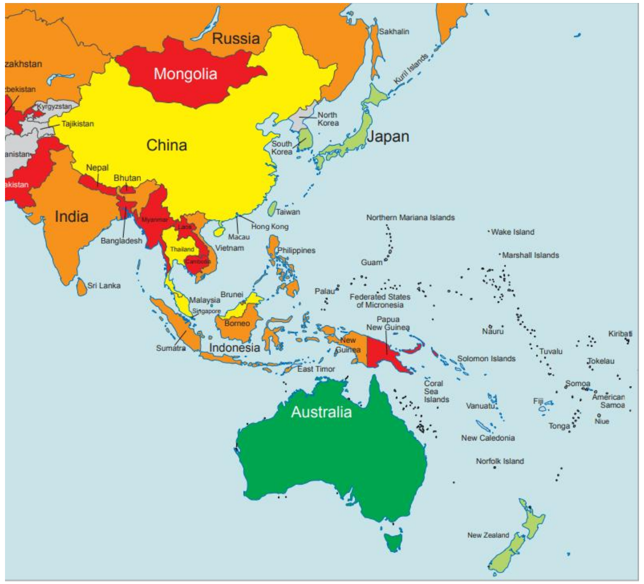
- China
- Malaysia
- Thailand
- Cook Islands

CRT 4

- India
- Indonesia
- Philippines
- Sri Lanka
- Vietnam

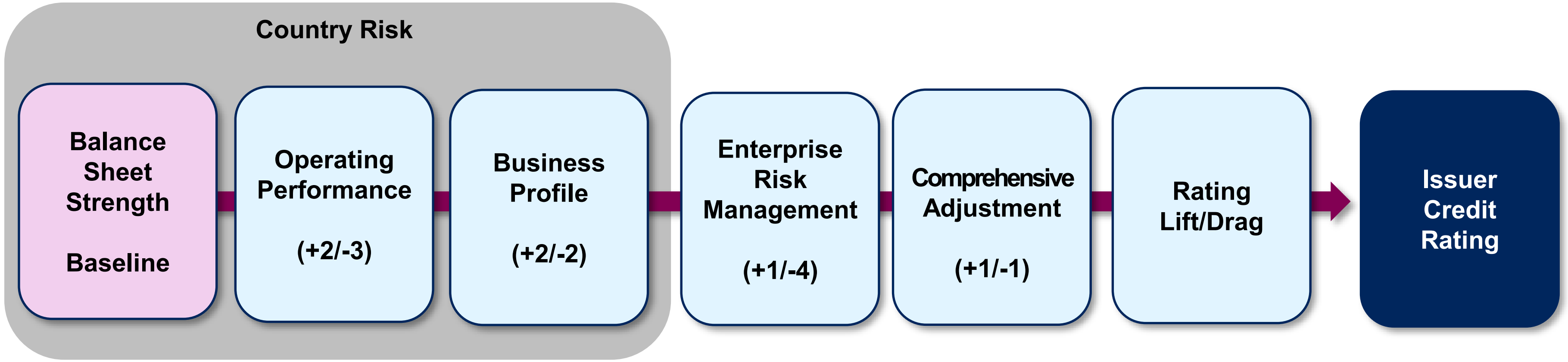
CRT 5

- Bhutan
- Cambodia
- Laos
- Micronesia
- Mongolia
- Myanmar
- Nepal
- Sri Lanka



As of 7 Apr 2026

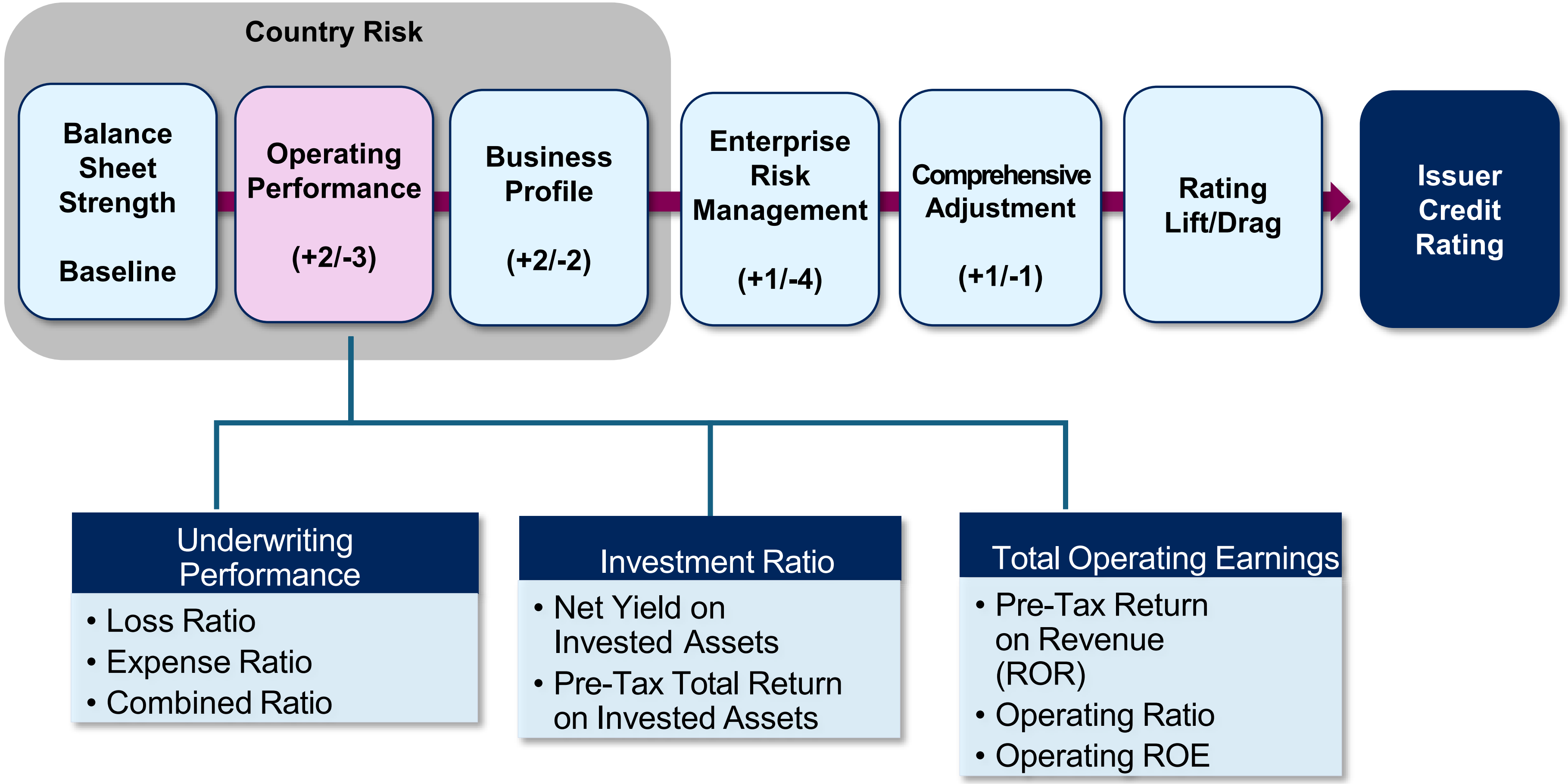
BCRM Building Blocks: Balance Sheet Strength



Rating Unit Balance Sheet Assessment (Rating Unit)	Country Risk Tier				
	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-/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

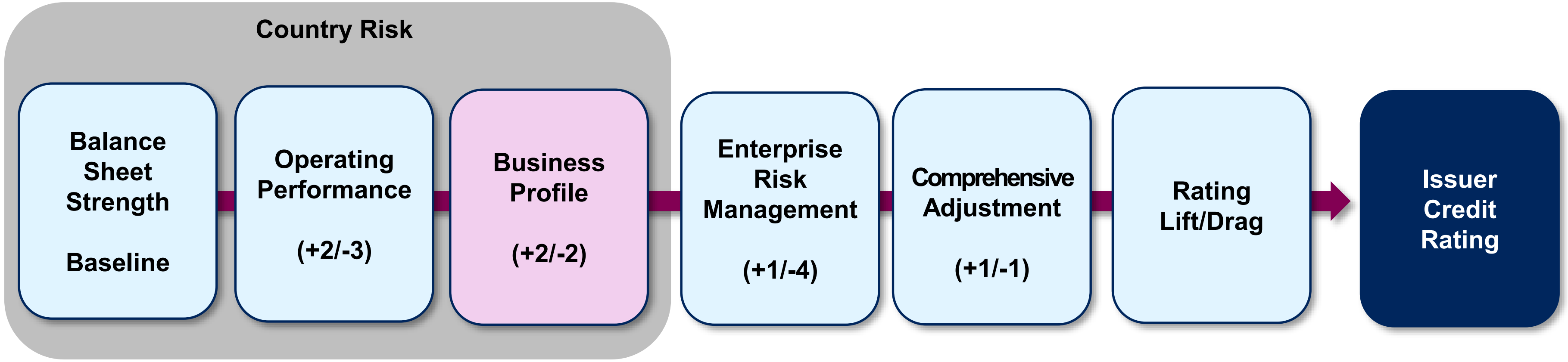
BCRM Building Blocks: Operating Performance



Operating Performance (+2/-3) Assessment
Very Strong +2
Strong +1
Adequate 0
Marginal -1
Weak -2
Very Weak -3

Business Profile

BCRM Building Blocks: Business Profile



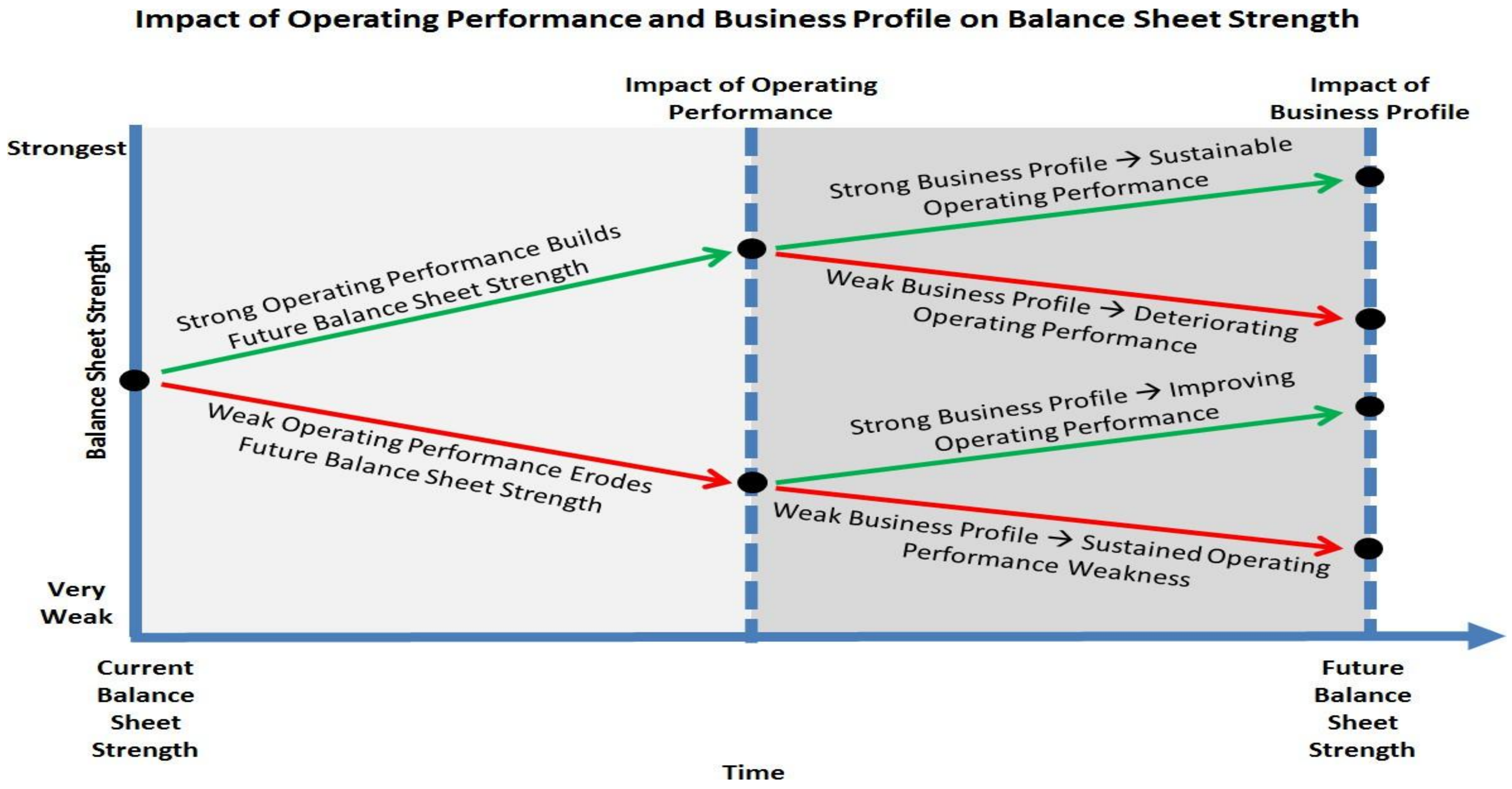
Business profile is a qualitative component that directly affects the quantitative measures.

Business Profile Review Components	
Market position	Management quality
Degree of competition	Regulatory, event, market and country risks
Product/Geographic Concentration	Product risk
Distribution channels	Innovation
Pricing sophistication & data quality	

Business Profile (+2/-2)

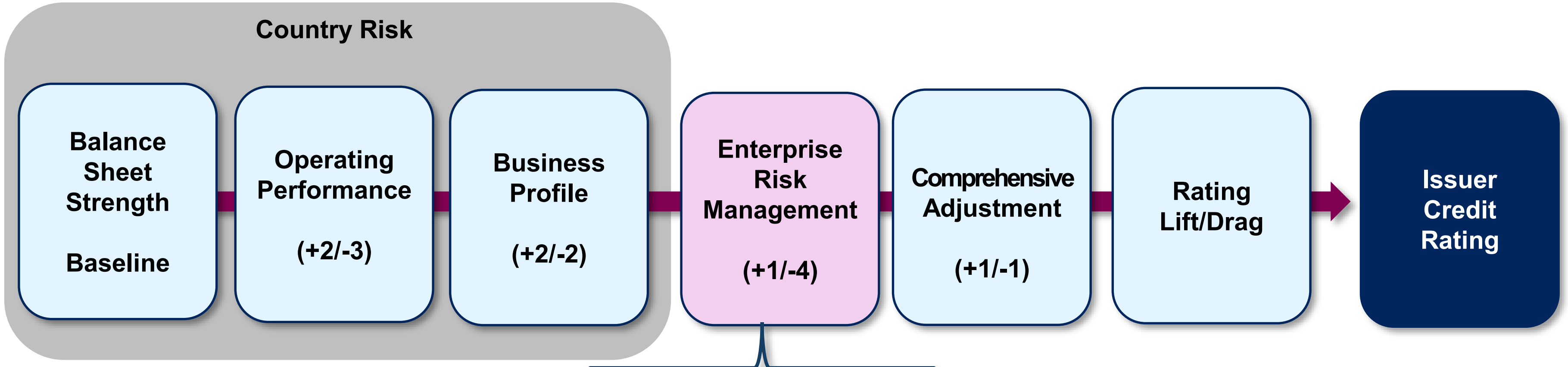
Assessment
Very Favorable +2
Favorable +1
Neutral 0
Limited -1
Very Limited -2

Impact of Operating Performance & Business Profile on Balance Sheet Strength



ERM

BCRM Building Blocks: Enterprise Risk Management

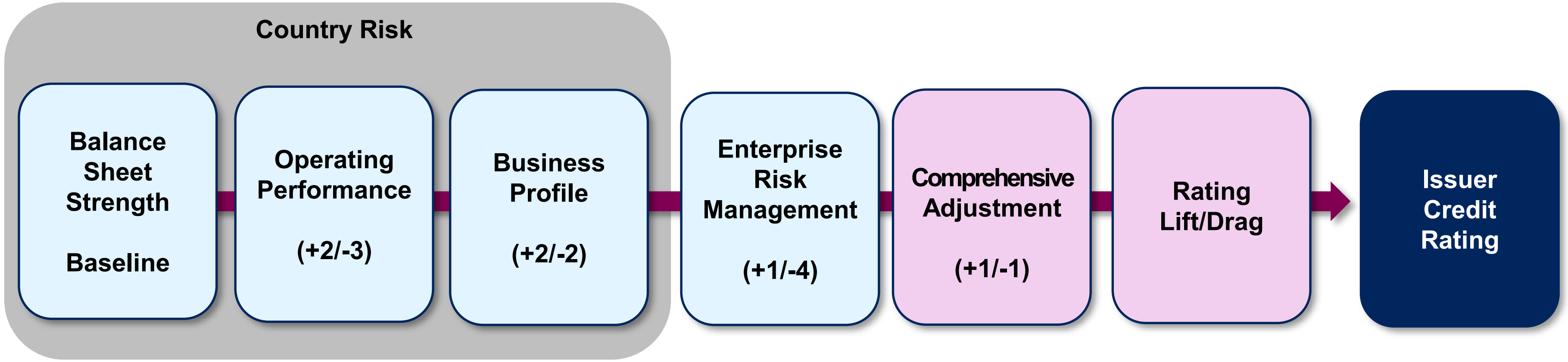


Framework Assessment Components
Risk identification and reporting
Risk appetite and tolerances
Stress testing and non-modelled risks
Risk management and controls
Governance and risk culture

Risk Evaluation Review Components	
Product & underwriting risk	Operational risk
Reinsurance risk	Concentration risk
Legislative/ regulatory/ judicial/economic risk	Investment risk
Reserving risk	Liquidity & capital management risk

Enterprise Risk Management (+1/-4) Assessment
Very Strong +1
Appropriate 0
Marginal -1
Weak -2
Very Weak -3/4

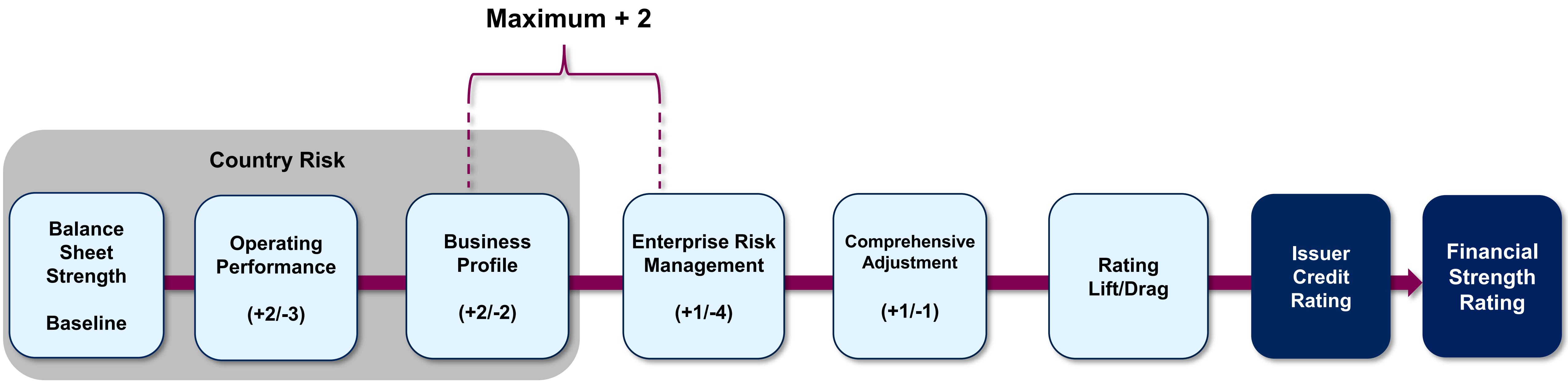
BCRM Building Blocks: Comprehensive Adjustment & Lift/Drag



Lift / Drag Considerations	
• Critical to the Group's Strategy	• Provides Source of Diversification
• Contribution to Group Earnings	• Integration into Group Earnings
• Brand / Reputation	• Necessary for Licensing
• Necessary for Rate Flexibility	• Regulatory Protection
• Guarantee / Maintenance Agreement	• Reinsurance Support

Recap on Building Blocks

Building Block Approach Recap



BCRM Building Blocks: Issuer Credit Rating vs. Financial Strength Rating

Issuer Credit Ratings

An independent opinion of an issuer/entity's ability to meet its ongoing senior financial obligations. This rating is assigned to insurance companies and related holding companies and other legal entities authorized to issue financial obligations.

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

Financial Strength Ratings

An independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. This rating is assigned to insurance companies.

What are the Characteristics of Highly-Rated AM Best (Re)insurers?

- Superior and stable risk-adjusted capitalisation across the various confidence levels
- Strong, predictable and sustainable operating profitability developed from a favourable lower-risk liability profile, with results exhibiting limited volatility
- Strong and stable operating cash flows, with books of business demonstrating favourable retention trends
- Diversified earnings and revenue streams
- Consistency of key metrics compared with peers

- Competitive advantage in branding, customer experience, investments, and/or underwriting
- Competitive market position leading to pricing power in core business lines
- Effective use of technology/data analytics which positively impacts performance
- Market-leading distribution system
- Comprehensive and proactive enterprise risk management
- Long-term, well-developed business strategy that has been tested over time
- Strong management team
- Key operations in stable regulatory environments

Q&A

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Email: judy.li@ambest.com

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