

A.M. Best Asia-Pacific (Singapore) Pte. Ltd.

Singapore Annual Public Disclosure Report

October 2019



A.M. Best Asia-Pacific (Singapore) Pte. Ltd. (“AMBAPS”) is established in Singapore and is a holder of a Capital Markets Services Licence to provide credit rating services. Licensing was completed in accordance with the Securities and Futures Act (Chapter 289) and it is supervised by the Monetary Authority of Singapore (“MAS”).

This report is published in accordance with the requirements of Section D of the Code of Conduct for Credit Rating Agencies (“the MAS Code”) which was published by the MAS.

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1. Introduction

A.M. Best Company, Inc. (“AMB”) and its subsidiaries (collectively “AM Best” or the Group) have been producing credit ratings and opinions on the insurance market for over 100 years. In recent years, AM Best has expanded its geographical coverage from its principal market in the United States to cover the Americas, Europe, Middle East, Africa and the Asia-Pacific region. As at 31 December 2018, AM Best had credit rating operations based in Oldwick (New Jersey), London, Hong Kong, Singapore, Mexico City and Amsterdam.

AM Best currently has regulatory registrations in:

- The USA (A.M. Best Rating Services, Inc. – “AMBR”)
- Brazil (AMBR)
- The European Union (A.M. Best Europe - Rating Services Limited – “AMBERS” and A.M. Best (EU) Rating Services B.V.)
- Dubai (AMBERS) - Representative Office only
- Hong Kong (A.M. Best Asia-Pacific Limited – “AMBAP”)
- New Zealand (AMBAP)
- Australia (AMBAP)
- Singapore (AMBAPS)
- Mexico (A.M. Best América Latina, S.A. de C.V – “AMBAL”)
- Panama (AMBAL)

AM Best is renowned for its experience and knowledge of the insurance sector and currently provides ratings to circa 3,500 entities across the sector.

The credit ratings issued by AM Best are independent opinions regarding the creditworthiness of an obligor, issuer or a debt obligation; the ratings are based on a quantitative and qualitative evaluation of a company’s balance sheet strength, operating performance and business profile, or, where appropriate, the specific nature and details of a debt security. In common with most other rating agencies, AM Best operates on an issuer pays model which allows the public to gain free access to the published rating opinions.

The credit rating opinions are forward-looking rather than a backwards verification of the facts. AM Best’s credit ratings are assigned using a number of simple, straight-forward scales, with each scale representing a rank ordering of our opinion of the relative creditworthiness of an insurer, issuer or financial obligator. For example, insurers that are assigned higher credit ratings are deemed to be less likely, in our opinion, to become financially impaired than insurers that are assigned lower credit ratings. While ratings reflect our opinions of relative creditworthiness at the time they are assigned, they are not indicators or predictors of defined impairment or default probabilities with respect to any specific insurer, issuer or financial obligation. The ratings themselves are opinions of relative credit risk. Therefore, users of ratings should consider the rating assigned to an entity alongside other information in order to reach an informed opinion.

AMBAPS currently assigns two types of ratings:

- Financial Strength Ratings (“FSRs”) – These are an independent opinion of an insurer’s financial strength and ability to meet its ongoing insurance obligations. This type of rating is assigned to insurance companies.

- Issuer Credit Ratings (“ICRs”) – These are an independent opinion of an entity’s ability to meet its ongoing financial obligations. This rating is assigned to the insurance companies and their related holding companies as well as other legal entities authorised to issue financial obligations. This rating can be issued on either a long- or short-term basis.

AM Best’s credit ratings are not a warranty, nor are they a recommendation to buy, sell, hold or trade any securities or insurance related products. They do not address the suitability of any particular financial obligation for specific purposes or for potential purchasers.

2. Code of Conduct

The MAS first published the MAS Code in January 2012 and last updated it in October 2018. The MAS Code is based on the International Organisation of Securities Commissions' Code of Conduct Fundamentals for Credit Rating Agencies ("IOSCO CRA Code").

The Group maintains a single group-wide Code of Conduct ("the AMBRS Code of Conduct"), which encompasses the provisions of the IOSCO CRA Code. The AMBRS Code of Conduct sets forth fundamental business practices that should be followed by the Group and its employees globally. The AMBRS Code of Conduct is publicly disclosed on the Group's website:

<http://www.ambest.com/nrsro/code.pdf>

The AMBRS Code of Conduct should be read in conjunction with its global policies and procedures which, when taken together, implement the requirements of the MAS Code.

The AMBRS Code of Conduct is viewed as the high level standards and principles against which AMBAPS operates. AM Best also has a range of other policies and procedures which provide detailed interpretations of the laws, rules and regulations which govern the ways in which the business operates.

A summary of the policies and procedures used to determine credit ratings can be found at exhibit 2 within the attached link:

http://www.ambest.com/nrsro/FormNRSRO_Exhibit1-9.pdf

More information on rating methodology / criteria for the types of ratings issued by AM Best is available on our web site at:

<http://www.ambest.com/ratings/methodology.asp>

Employees are provided with training and testing on compliance and ratings policies including the management of conflicts of interest. All policies are made available to employees through AM Best's intranet pages and training is provided regarding new or amended requirements.

3. Legal Structure and Ownership

3.1 Legal Structure

AMBAPS is incorporated in Singapore and is a holder of a Capital Markets Services Licence to provide credit rating services. Licensing was completed in accordance with the Securities and Futures Act (Chapter 289) and it is supervised by the MAS. As at 31 August 2019, AMBAPS has the following amount of share capital:

Class of Shares:	Ordinary
Currency:	Singapore Dollars (S\$)
Amount of issued Share Capital:	2,100,000
Amount of Paid-Up Share Capital:	2,100,000

3.2 Ownership

AMBAPS is a wholly owned subsidiary of AMBAP, a company incorporated in Hong Kong and regulated by the Hong Kong Securities and Futures Commission. AMBAP is, in turn, a subsidiary of AMBRS, a company incorporated in Delaware, USA and with its Head Office in New Jersey, USA. AMBRS is registered with the USA Securities and Exchange Commission. AMBRS is a wholly owned subsidiary of AMB, which is a privately owned company incorporated in New Jersey, USA.

Name & Address of Shareholder	Percentage Shareholding	of	No. and class of shares held
A.M. Best Asia-Pacific Limited Unit 4004 Central plaza 18 Harbour Road Wanchai Hong Kong	100%		2,100,000

3.3 Board of Directors

The AMBAPS Board consists solely of Executive Directors and is chaired by an Executive Board Director of AMBRS. The membership of the Board also includes the co-CEOs of AMBAPS.

As at 31 August 2019, the Directors are:

- Chairman, Mr Larry Mayewski;
- Director and co-CEO, Mr Matthew Mosher;
- Director and co-CEO, Mr Scott Ryrie;
- Director, Mr Bernard Pecoock; and
- Director, Ms Suzanne Pool;

The Board of Directors currently meets on an approximately quarterly basis, although ad hoc meetings are scheduled as required.

4. Financial Information on Revenue and Compensation Disclosures

AM Best's credit rating businesses (including AMBAPS) operate using the "issuer pays" model which means that it receives credit rating service fees from the organisations / issuers that it rates and, in certain instances, receives such fees from organisations / issuers that do not result in the issuance of a publicly disclosed AM Best credit rating. AM Best may offer non-rating related services or products to rated entities and receive compensation from them. There are other entities in the Group which provide a range of insurance-information products and reports to the insurance sector. However, these revenue streams do not form part of the accounting figures for AMBAPS.

In accordance with paragraphs 6.3 to 6.5 of the MAS Code, a credit rating agency should publicly disclose the general nature of its compensation arrangements with rated entities, including annual revenue from a single issuer and its affiliates that constitutes more than 5% of its annual income. No single issuer or organisation's remuneration was over 5% of AMBAPS' total annual revenue for the year ended 31 December 2018.

Within AMBAPS' parent company, AMBAP, the total remuneration from China Taiping Insurance Group, exceeded 5% of total annual revenue for the year ended 31 December 2018. No other single issuer or organisation's remuneration was over 5% of AMBAP's total revenue for the year ended 31 December 2018.

5. Internal Control Mechanisms Ensuring Quality of Credit Rating Activities

The Group strives to ensure that credit ratings are free from conflicts of interest, are consistent and are not subject to geographical variations. AMBAPS is a separate legal entity based in Singapore and subject to credit rating agency legislation and regulation in that jurisdiction. However, as part of AM Best, it shares common methodologies and processes of the Group.

At a high level, AMBAPS' internal control mechanisms ensure the quality of its credit rating activities and can be grouped into six broad headings:

- Ownership and Management Structure
- Code of Conduct and Policies and Procedures
- The Credit Rating Process
- The Management of Conflicts of Interest
- Performance of Credit Ratings
- Internal Control Functions and Frameworks

5.1 Ownership and Management Structure

The directors of AMBAPS have a combination of extensive experience in the insurance industry supplemented with credit rating specific experience gained within AM Best. Moreover, as a privately owned company, AM Best is free from the potential conflicts of interest and influence from external shareholders.

5.2 Code of Conduct and Policies and Procedures

Please also see Section 2 of this report.

AM Best has implemented and maintains its policies, procedures and guidelines on a global basis to reflect the global nature of the credit rating business. AM Best believes that the users of credit ratings are best served when there is a single recognisable standard that provides direct comparisons which have a single interpretation and meaning that are not subject to national or regional variations.

All of the policies, procedures and guidelines are designed to be consistent with the AMBRS Code of Conduct that takes into account applicable credit rating agency regulations.

Policies and procedures are created through a systematic process which involves several key stages; the interested parties to the proposed policies and procedures contribute their specific technical expertise to the drafting process to ensure that the key elements of the policies and or procedures have been included.

It is the responsibility of the Credit Rating Policy Committee (“CRPC”) to manage the drafting of the policies and procedures, and to publish the resultant drafts within AM Best, to allow employees the opportunity to comment.

The key stages for the implementation of a new policy or procedure may be summarised as follows:

- Analysis of the regulatory requirements or business needs for the policy or procedure;
- Gathering of technical expertise and key elements to be contained in the policy or procedure;

- Drafting of the policy by the CRPC;
- Presentation of policy or procedure to Rating Division management;
- General release of draft for further comment by employees; and
- Publication of the policy or procedure.

All policies and procedures are subject to regular review. This review process is managed by the CRPC. The CRPC reports on its activities and findings to the Executive Vice President, Global Rating Products and Services, and submits regular reports to the Directors of each of the individual legal entities within AM Best.

5.3 The Credit Rating Process

The foundation of the interactive credit rating process is an ongoing dialogue with the rated company's management, which is facilitated by AM Best's credit analysts. Each interactively rated entity is assigned to a lead analyst who is supervised by a team leader. The lead analyst is charged with managing the ongoing relationship with company management and performing the fundamental credit analysis prescribed in AM Best's rating criteria. It is the lead analyst's responsibility to monitor the financial and non-financial results and significant developments for each rated entity in his/her portfolio. A rating evaluation can be considered whenever AM Best becomes aware of a significant development, regardless of the annual review cycle.

This ongoing monitoring and dialogue with management occurs through formal annual rating meetings, as well as interim discussions on key trends and emerging issues as needed. Management meetings afford analysts the opportunity to review with the company factors that may affect its rating, including strategic goals, financial objectives and management practices. It is during these interactive meetings that a company typically will share information that may be extremely sensitive or proprietary in nature.

The dialogue with management continues throughout the rating process which is described in more detail below.

1. Compile Information. The rating assessment begins with the compilation of detailed public and proprietary financial information, including annual and quarterly financial statements, regulatory filings, certified actuarial and loss-reserve reports, investment detail and guidelines, reinsurance transactions, annual business plans and Best's Supplemental Rating Questionnaire. The lead analyst uses this information to develop a tailored agenda for the annual rating meeting. The annual meeting is a key source of quantitative and qualitative information.

2. Perform Analysis. AM Best's analytical process incorporates a host of quantitative and qualitative measures that evaluate various sources of risk to a company's financial health, including underwriting, credit, interest rate, country and market risks, as well as economic and regulatory factors. The analysis includes comparisons with peers, industry standards and proprietary benchmarks, as well as assessments of operating plans, philosophy, management, risk appetite, and the implicit or explicit support of a parent or affiliate.

3. Determine Best's Rating. An initial rating recommendation is developed based on the analytical process outlined above. Each rating recommendation is reviewed and modified, as appropriate through a rigorous committee process that involves analysts and senior rating officers who possess relevant expertise.

This committee approach ensures consistency of ratings across different business segments and maintains the integrity of the rating process and methodology. The final rating outcome is determined by one or more rating committees after a detailed discussion of the pertinent rating issues and financial data.

Before public dissemination, the rating outcome is communicated to the company to which it is being assigned. If the company disagrees with the rating and believes that the information which it was based on, was incomplete or misunderstood, then the rating can be appealed. If material new information is forthcoming in a timely manner, then the rating committee may reconsider the rating.

4. Disseminate Best's Rating. Best's Credit Ratings are disseminated as soon as practicable once the rating process is finalised. The ratings are made available to the public via AM Best's website and through a number of different data providers and news vendors.

5. Monitor Best's Rating. Once an interactive credit rating is published, AM Best monitors and updates the rating by regularly analysing the company's creditworthiness. Analysts continually monitor current developments (e.g., financial statements, public documents, news events) to evaluate the potential impact on a company's rating. Significant developments can result in an interim rating evaluation, as well as modification of the rating or outlook. The lead analyst typically will initiate an evaluation of the rating upon becoming aware of any information that might reasonably be expected to result in a rating action.

5.4 The Management of Conflicts of Interest

AMBAPS has initiated a number of processes to manage potential conflicts of interest. These include:

- The adoption of the AMBRS Code of Conduct based on the IOSCO principles. The AMBRS Code of Conduct is regularly updated to keep it current and address evolving risks.
- The adoption of policies and procedures which address and manage conflicts of interest. Every quarter, employees affirm that they are aware of the details contained within the AMBRS Code of Conduct and that they follow the policies and procedures, particularly with respect to gifts and entertainment, securities trading and ownership and other situations that could cause a real or potential conflict of interest.
- The business model operated by AM Best separates the commercial aspects of providing a rating from the analytical process. The AMBRS Code of Conduct expressly prohibits analytical employees from any knowledge of the commercial terms between AM Best and any rated entities.
- The rating process ensures that any potential conflicts of interest are declared at the outset of the ratings determination and analysts declare whether or not they have any potential conflicts of interest before joining any rating committee.
- The rating decision reached is that of a committee rather than the judgment of any single individual.
- When an analyst leaves the employ of AM Best to work for a rated entity, a look-back review is conducted to make sure that the analyst did not exert any undue influence on the decision of the rating committee of that entity.

- The compensation for analysts does not contain any element for the retention or acquisition of business.

The Compliance Officer actively monitors the potential and actual conflicts of interest that may occur within the business and reports any findings to the AMBAPS' Board.

5.5 Performance of Credit Ratings

AM Best provides annual performance measurement statistics associated with FSRs, ICRs, and Debt Ratings. The impairment database upon which the performance measurement statistics are based covers ratings associated with individual US and non-US operating insurance companies with public and private FSRs. Consequently, AMBAPS believes the results are applicable to its rated population given the consistent global application of rating criteria. The applicable periods for the performance statistics are the most recent 1-year, 3-year and 10-year periods all ending on 31st December in the prior calendar year.

Performance measurement statistics are updated annually at the end of the first quarter and these are made available on AM Best's website. These performance measurement statistics display the following ratings transition data for the various rating types:

- a) 1-year ratings transition matrix and 1-year impairment/default rate for each rating level;
- b) 3-year ratings transition matrix and 3-year impairment/default rate for each rating level; and
- c) 10-year ratings transition matrix and 10-year impairment/default rate for each rating level.

The most recently available performance measurement statistics can be found in Exhibit 1 within the attached link:

http://www.ambest.com/nrsro/FormNRSRO_Exhibit1-9.pdf

For the purpose of tabulating impairment rates for insurers, AM Best designates an insurer as a Financially Impaired Company ("FIC") upon the first official regulatory action taken by an insurance department or regulatory organisation, whereby the insurer's:

- ability to conduct normal insurance operations is adversely affected; and/or
- capital and surplus have been deemed inadequate to meet legal requirements; and/or
- general financial condition has triggered regulatory concern.

The definition of financial impairment is different from that of issuer default that is generally used in the credit markets. (Issuer default is generally defined as having occurred when an issuer misses interest or principal payments on its obligations; restructures its debt in a way that is deleterious to investors; or files for bankruptcy.)

Financial impairment of insurance companies, by contrast, often occurs even if an insurance company has not formally been declared insolvent. For instance, a FIC's capital and surplus could have been deemed inadequate to meet risk-based capital requirements, or there might have been regulatory concerns regarding its general financial condition. Thus, more insurers would be impaired, according to the above definition, than actually would default in full (or in part) on policyholder obligations.

5.6 Internal Control Functions and Frameworks

Cross Jurisdictional Management Support Functions

To achieve the goal of consistency, the Group looks to use centralised functions wherever it is most appropriate to do so. The relatively small size of the operation in Singapore means the business is focused on delivering ratings. The function responsible for the production of methodologies and models is centralised in the Group's Head Office.

Credit Rating Policy Committee

The CRPC is the global function which is responsible for overseeing the establishment, maintenance, appropriateness and documentation of AM Best's global credit rating criteria, models and methodology. CRPC serves as AM Best's independent internal review globally. The committee is independent of the business lines that are responsible for the determination of credit ratings, sales/marketing activities and compliance. Members of CRPC possess appropriate expertise in the credit rating process (and/or related disciplines) so as to be able to provide sufficient knowledge to execute their duties. Under the terms of reference of the CRPC, the credit rating criteria, models and methodologies are subject to a continuous assessment and review process. This ongoing global review provide the appropriate degree of rigour which is paramount to the integrity of the credit rating process and allows the models and methodologies to be used with a high degree of confidence. The models and methodologies used in the sector have been developed and refined over a long period of time which gives the market confidence in the reliability of the overall rating process.

Group Risk Management Advisory Committee

The Risk Management Advisory Committee ("RMACo") is a global oversight body charged with monitoring risks relative to AM Best's credit rating agency activities and the related development and evaluation of control systems and other mechanisms to mitigate AM Best's exposure to these risks. The committee is comprised of members of the Risk function and senior management from the Ratings Division and international non-executive directors.

The purpose of the RMACo is to assist AMBRS and its subsidiaries in the oversight of:

- compliance with global legal and regulatory requirements;
- The adequacy of the internal control framework within RMACo's authority and responsibility;
- The adequacy of risk management systems including current risk exposures and risk strategy; and
- The embedding and maintenance of a supportive culture in relation to the management of risk.

Audit and Risk Management Committee

The Audit and Risk Management Committee ("ARMCo") operates within AMBAPS' risk tolerance framework which is determined by the AMBAPS' Board, subject to the AMBRS' risk tolerance. The ARMCo includes representation from the AMBAPS' Board, including the co-

CEOs (where one of the co-CEO, Market Development, will perform the role of Chairman), Directors, as well as the Compliance Officer and the Accounting Manager. The Senior Director, Regulatory Research and Risk Analysis and a representative from internal audit may be invited to attend relevant ARMCo meetings.

The purpose of ARMCo is to assist the AMBAPS' Board in its oversight of:

- the integrity of AMBAPS' statutory financial statements;
- AMBAPS' independent auditors' qualifications and independence;
- the performance of AMBAPS' independent auditors and outsourced internal audit function;
- AMBAPS' compliance with legal and regulatory requirements;
- the adequacy of AMBAPS' internal control frameworks;
- the adequacy of AMBAPS' risk management systems including current risk exposures and risk strategy; and
- the embedding and maintenance of a supportive culture in relation to the management of risk.

ARMCo shall make recommendations to the AMBAPS' Board on any area within its remit where it is deemed that action or improvement is needed. It is the responsibility of the Chairman of ARMCo to report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

Compliance

The Compliance function is responsible for assessing the Group's compliance with the AMBRS Code of Conduct, and policies and procedures on a global basis. The Group's Compliance Officers are responsible for identifying potential and actual conflicts of interest, and assisting the Group in managing and, where possible, eliminating these conflicts.

The Chief Compliance Officer operates from the Group's Head Office in Oldwick, New Jersey, USA. Compliance for the Asia-Pacific region is handled by the AMBAPS Compliance Officer who is based in the Singapore office and is independent of business management. The AMBAPS Compliance Officer provides regular reports to the senior management and AMBAPS Board on compliance activities, issues and findings. The AMBAPS Compliance Officer, with the support of the broader Compliance function, is responsible for providing guidance and advice (including relevant compliance training) on the interpretation of regulatory policy to all AMBAPS employees.

The Group has a global whistle-blowing policy in place and it is the responsibility of the Compliance Department to investigate any issues raised through this channel.

Compliance Internal Testing – Rating Division

The Group's Compliance Internal Testing – Rating Division is designed to examine the analysts and managers' compliance with the recordkeeping requirements established within the Group's credit rating policies and procedures.

Annually, an internal testing of the Rating Division Compliance is performed by the Group Compliance team in New Jersey, USA. This testing encompasses rating activities from all AM Best offices. The corporate annual testing is supplemented by interim examinations covering specific time periods or activities. In addition, the local Compliance Officer performs further

tests to provide additional assurance regarding compliance with local regulations. When completed, the test results are shared with senior management in a report with recommendations and in the Board reports. Management's response and action plans to the test results and recommendations are recorded in the final report.

For the year 2018, the Internal Testing of Rating Division Compliance reviewed various aspects of the rating process (i.e. handling of confidential information, monitoring of credit ratings, dissemination, file maintenance, document storage, retention) to ensure consistent rating treatment and compliance with AM Best policies and procedures. There are no material issues from the review.

In addition to the annual testing, periodic abridged tests of operational compliance as well as reviews that specifically address the MAS regulatory requirements are conducted. These ad-hoc examinations typically target a particular control process, or examine a random population of credit rating activity for a specified period of time.

6. Recordkeeping Policy

The Group has in place global recordkeeping policies which have been designed to ensure that the Group maintains adequate recordkeeping requirements which meet not only the Singapore regulations with respect to recordkeeping, but also the global regulatory standards that are applicable in all the jurisdictions where the Group provides credit rating services.

Credit Rating Division Record Keeping - Exhibit 3 (CRPC Policy 3)

Financial Record Keeping - Exhibit 7 (C-30)

Compliance Record Keeping – Exhibit 7 (C-32)

The Record Keeping Policies can be viewed here:

http://www.ambest.com/nrsro/FormNRSRO_Exhibit1-9.pdf

7. Analyst Rotation

The Group's procedure for Analyst Rotation was developed to be consistent with applicable regulations in the jurisdictions in which the Group operates. The Analyst Rotation Procedure applies where local regulations require or where the scale of operations within AM Best and its subsidiaries can support the rotation of analysts without having a detrimental effect on the quality of service and expertise provided to the rated entities. In the smaller subsidiary offices, such as AMBAP and AMBAPS, where there are a smaller number of analysts and, in some instances, specific language requirements, such a rotation procedure is not applied; however, management does work toward the spirit and intentions of this rotation procedure. For example, while the rotation requirements of the Group's procedures do not directly apply to AMBAPS owing to the size and scope of its operation, our rating committee structure and quorum requirements provide for a broad-based review and challenge of the credit rating recommendations of the primary analytical teams in AMBAPS.

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