

A.M. Best Asia-Pacific Limited
Hong Kong Public Disclosure Report
2019

Hong Kong Annual Public Disclosure Report

This report is published in accordance with the requirements of Part 4 of the Code of Conduct for Persons Providing Credit Rating Services (“CCPPCRS”) which was published by the Securities and Futures Commission (“SFC”) in June 2011.

It is a requirement that a Credit Rating Agency (“CRA”), registered in Hong Kong, publicly discloses, on an annual basis, the general details of its Code of Conduct and how it implements the provisions of the CCPPCRS.

The CRA is also required to publicly disclose details of its internal control mechanisms, its recordkeeping policy and its management and analyst rotation policy.

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Background

A.M. Best Asia-Pacific Limited (“AMBAP”) is a subsidiary of A.M. Best Rating Services, Inc. (“AMBR”) a company incorporated in Delaware, USA and with its Head Office in New Jersey, USA. AMBAP has been registered with the SFC in Hong Kong since 13 August 1999 and licenced since 1 June 2011.

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 (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 (AMBAP)
- New Zealand (AMBAP)
- Australia (AMBAP)
- Singapore (A.M. Best Asia-Pacific (Singapore) Pte. Ltd. – “AMBAPS”)
- Mexico (A.M. Best América Latina, S.A. de C.V)

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

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 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 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 instrument. 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.

AMBAP 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 policy and contract 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 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.

Code of Conduct

In June 2011, the SFC published the CCPPCRS. The CCPPCRS 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 CCPPCRS.

It should be emphasised that the Group specialises in providing ratings exclusively to the insurance sector. Neither AMBAP nor its subsidiary company (AMBAPS) which is domiciled in Singapore, issues Structured Finance Ratings, or provides Sovereign Ratings.

AMBAP is solely concerned with the production of credit ratings. 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 AMBAP.

In accordance with the CCPPCRS, AMBAP is required to disclose the parties (i.e. a single issuer, originator, arranger, client or subscriber and/or any affiliate of such issuer, originator, arranger, client or subscriber) where total remuneration exceeds 5% of AMBAP's total annual revenue. The 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 annual revenue for the year ended 31 December 2018.

The AMBRS Code of Conduct states that the Compliance Officer of AMBRS is responsible for communicating with market participants and the public about any questions, concerns or complaints that the Group receives concerning adherence to this AMBRS Code of Conduct.

The Group has established various reporting and monitoring systems, which are used across the Group, to track employee compliance with key elements of the Code of Conduct. For example, AM Best's Quarterly Policy C-5 Reporting System is used to track employee disclosures of potential conflicts, and for the subsequent monitoring undertaken by the Compliance Department regarding potential conflicts. This system requires all employees to affirm their compliance with AMBRS' Confidentiality, Firewall, Conflicts of Interest, and Securities Trading and Reporting Policy ("Policy C-5") to protect our reputation against actual and perceived conflicts of interest or other potential threats to our honesty and integrity.

All employees are required to be familiar with and to comply with Policy C-5, and the Group's other policies and procedures, and the AMBRS Code of Conduct (collectively referred to as "Best's Policies"). Violations of Best's Policies (including failure to comply with the Policy C-5 reporting requirements and failure to comply with Policy C-5's requirements in a timely manner) may lead to disciplinary action by the Group, up to and including termination of employment.

Internal Control Mechanisms Ensuring Quality of Credit Rating Activities

Policies and Procedures

The Group implements and maintains its policies, procedures and guidelines on a global basis to reflect the global nature of the credit rating business. The Group 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 Code of Conduct and take 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 policy and procedure contribute their specific technical expertise to the drafting process to ensure that the key elements of the policy and or procedure have been included.

It is the responsibility of the Credit Rating Policy Committee (“CRPC”) to manage the drafting of the policy and or procedure, and to publish the resultant draft within the Group to allow employees the opportunity to comment.

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 and Chief Operating Officer and submits regular reports to the Directors of each of the individual legal entities within the Group.

Control Functions

The control of the rating process is achieved through established processes that take account of the local and Group aspects of the business model.

At the local level, AMBAP has in place a system of control through supervisors in the local analytical team. This process of supervision is supported by the reporting lines that extend back to the Senior Rating Analysts within the Group Head Office and into AMBAP Executive Management.

Global Management of Rating Function

The philosophy of the Group is that credit ratings should, at all times, be free from conflicts of interest, be consistent and not be subject to geographical variations. In this way, both the rated entities and the users of the ratings can refer to a common scale and make direct comparisons across any particular ratings band. AMBAP is a separate legal entity based in Hong Kong and subject to regional credit rating agency legislation and regulation. However, as part of the AM Best Group, it shares common values, methodologies and processes.

The AMBRS Code of Conduct and the supporting policies and procedures ensure that there is a separation between the commercial and analytical functions that constitute the overall credit rating agency business. This separation of duties is actively managed, and it is the responsibility of the Chief Executive Officer of AMBAP to ensure that this is observed on a day to day basis. The Compliance Officer provides advice and support in making sure that all employees recognise the need for vigilance at all times. The Board of Directors is advised of issues in this regard through regular Board reports.

The day-to-day management of the analytical team is the responsibility of the Head of Analytics, North East Asia. To maintain the integrity of the ratings process, the Head of Analytics, North East Asia of AMBAP reports to the Chief Executive Officer of AMBAP, and as at 31 December 2018, has an analytical line of reporting to the Chief Rating Officer.

Board of Directors

The AMBAP Board is chaired by an Executive Director of AMBRS. All five Directors of AMBAP have a combination of extensive experience in the insurance industry, supplemented with credit rating specific experience gained within the Group.

The Directors¹ as of 31 December 2018 were:

- Chairman, Larry Mayewski
- CEO, Roger Sellek
- Suzanne Pool
- Bernard Peacock
- Jose Ribeiro²

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 Hong Kong means the business is focused on delivering ratings. The function responsible for the production of methodologies and models is centralised in the AM Best Group Head Office.

Credit Rating Policy Committee

The CRPC is responsible for overseeing the establishment, maintenance, appropriateness and documentation of CRPC Policy, CRPC Operational Procedures of the AM Best Group's global credit rating criteria and methodology (known as "Methodology" or "BRM"), as well as criteria procedures pertaining to the production of Credit Ratings or other assessments or evaluations. CRPC serves as the Group's independent internal review function globally for the review and update of BRM, including any new criteria/model development, as well as policy and procedure maintenance and development, as required by law or implemented for internal business purposes. CRPC is independent of the business lines that are responsible for the determination of credit ratings, the sales and marketing activities. However, members of the CRPC possess appropriate expertise in the credit rating process and/or related disciplines as to provide sufficient knowledge to execute the duties of the committee.

The CRPC is responsible for ensuring that credit rating criteria and policy are developed, elaborated and reviewed so that they take into account all information available and relevant to its activities. The AMBRS Board of Directors will designate, for all new CRPC Policies and CRPC Operational Procedures developed, if the CRPC Policy or Operational Procedure is related to the determination or dissemination of Credit Ratings. The AMBRS Board of Directors approves the use of any new, or material changes to existing methodology, Criteria Procedures or models as well as new, or substantial changes to existing CRPC Policies and CRPC Operational Procedures which have been designated to be related to the determination or dissemination of Credit Ratings, prior to their implementation. The AMBRS Board of Directors is ultimately responsible to approve material changes to methodology and substantial changes to any CRPC Policy/Procedure which is classified as a Credit Rating Determination & Dissemination document.

The CRPC is responsible for the review of all credit rating criteria and policy and may approve changes to CRPC Policies and CRPC Operational Procedures which have been deemed not related to the determination or dissemination of Credit Ratings by the AMBRS Board of Directors. In total, there were 30 CRPC Meetings held during 2018.

In addition, the CRPC may carry out the following:

- Propose new CRPC policies and CRPC Operational Procedures to the AMBRS Board of Directors for review.
- Propose substantial changes to existing CRPC Policies and CRPC Operational Procedures which have been deemed related to the determination or dissemination of Credit Ratings by the

¹ On 1 January 2019, Matthew Mosher, Executive Vice President & Chief Operating Officer, AMBRS, was appointed as a director of AMBAP.

² Jose Ribeiro ceased to be a director of AMBAP with effect from 18 February 2019.

AMBRs Board of Directors. CRPC may approve non-substantial changes to existing CRPC Policies and CRPC Operational Procedures which have been deemed related to the determination or dissemination of Credit Ratings by the AMBRs Board of Directors.

- Approve non-material changes to methodology and related Criteria Procedures and models.
- Propose material changes to methodology and related Criteria Procedures and models for approval by AMBRs Board of Directors.
- CRPC has the authority to approve the Call for Comment for any methodology, Criteria Procedure or model.

AM Best conducted an annual review of Best's Credit Rating Methodology ("BCRM") and its 23 related criteria procedures in 2018. None of these reviews resulted in the need to make any material changes to BCRM or the criteria procedures. In addition to this, the newly developed criteria procedure "Evaluating Mortgage Insurance" was released during the year.

The edits included in the BRCM were related to clarifications in the terminology under the Enterprise Risk Management section, clarifications regarding the treatment of lift or drag stemming from a non-insurance holding company and the inclusion of a new "blue box" making explicit reference to Environmental, Social and Governance factors and their role in the rating process.

An Annual Review of BRM is completed by the Annual Review Group ("ARG") composed of individuals who are sufficiently knowledgeable to perform the review and maintain an appropriate level of independence from the Rating Division. The ARG consists of at least three individuals led by a member of CRPC. Additional participants may include members of CRPC, experienced Rating Analysts or members of Credit Rating Criteria Research and Analytics.

The responsibilities of the ARG are to review the previous:

- Credit Rating performance statistics against established transition matrices;
- Rating Actions resulting in rating movements of more than two Issuer Credit Ratings; and
- Aggregate Methodology Reviews.

The results of an ARG are presented to CRPC along with any recommended changes, such as updates, suspension or development of methodologies, Criteria Procedures or models, as well as the underlying assumptions.

Audit and Risk Management Committee

The AMBAP Audit & Risk Management Committee ("ARMCo") assists the Board in the oversight of the financial statements, the qualifications and performance of the audit function, the compliance with legal and regulatory requirements, and the embedding and maintenance of a supportive culture in relation to the management of risk. ARMCo reviews the reports and other output from Risk Management, Finance, External and Internal Auditors and Compliance, and provides to the AMBAP Board a consolidated view of risk and control related topics so as to inform strategic decision making.

Compliance

The Compliance function is responsible for assessing the Group's compliance with the 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 managed by the AMBAP Compliance Officer, who provides

regular reports to the senior management and the Board of AMBAP on compliance activities, issues and findings. The AMBAP Compliance Officer is based in the Group's Singapore office, is independent of business management, and provides regular reports to the AMBAP Board. The AMBAP 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 employees of the AMBAP entity.

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 record keeping requirements established within the Group's credit rating policies and procedures.

Annually, an Internal Testing of 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 function 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 SFC 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.

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 Hong Kong 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 Recordkeeping - Exhibit 7 (C-30)

Compliance Recordkeeping – Exhibit 7 (C-32)

The Record Keeping Policies can be viewed here:

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

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 is 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 AMBAP 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 AMBAP.

The End