BEST'S METHODOLOGY AND CRITERIA

A.M. Best Ratings on a National Scale

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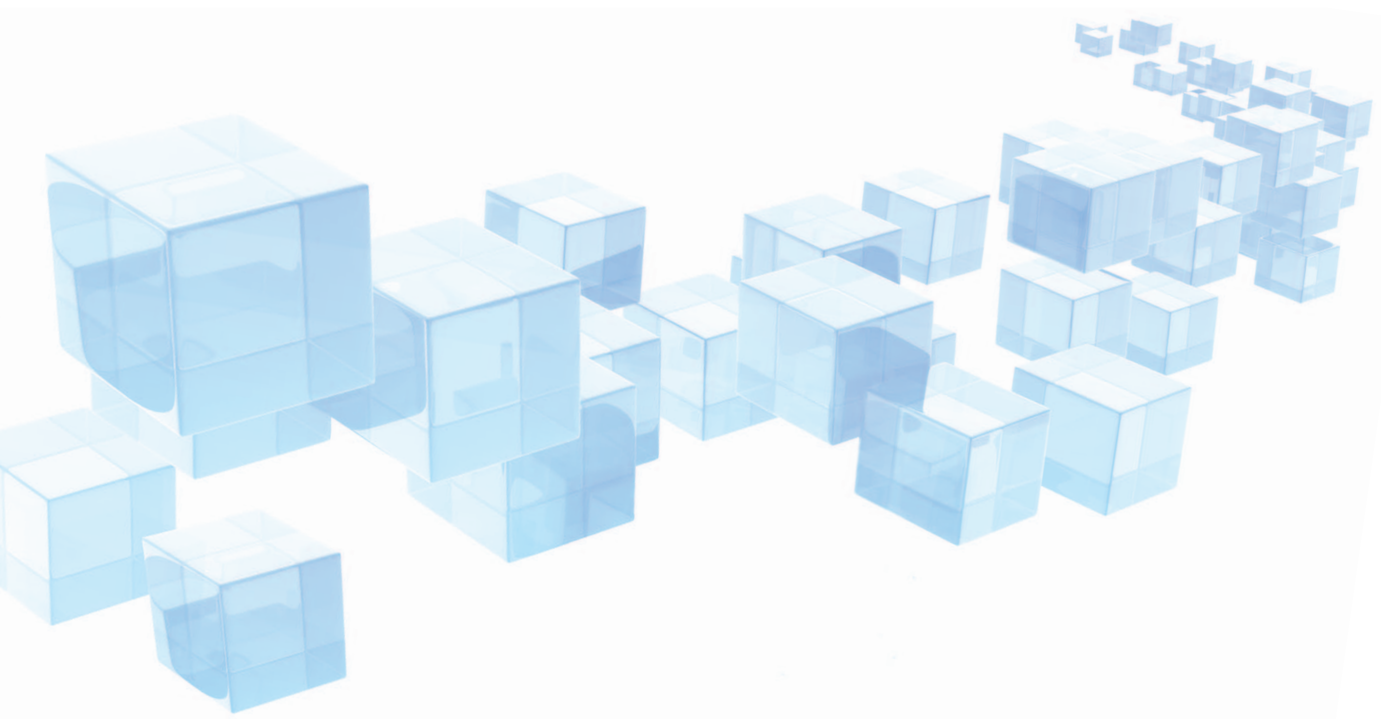

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A.M. BEST®

A.M. Best Ratings on a National Scale

Outline

The following criteria procedure should be read in conjunction with *Best's Credit Rating Methodology (BCRM)* and all other BCRM-associated criteria procedures. The BCRM provides a comprehensive explanation of A.M. Best Rating Services' rating process.

A. Introduction

A Best's Issuer Credit Rating (ICR) is a global rating that allows for the comparison of companies across all countries by using the same credit scale. By contrast, a national scale rating is a relative opinion of an insurance company's financial strength within a single country. The unique features of a national scale rating and the analysis associated with its assignment are discussed within this criteria procedure.

All companies that enter the A.M. Best national scale rating process are first assigned an ICR. Since a national scale rating provides a relative opinion of financial strength among companies within a single country, a national scale rating assigned to an insurer in one country is not comparable to a national scale rating assigned to an insurer in another country. Thus, impairment statistics cannot be directly compared to a national rating. However, since a global rating is assigned as the basis for the national rating, impairment rates can be inferred.

The national scale was created to address the concern that country-specific limiting factors the industry faces—including economic, political, and financial system risk, and lack of maturity in the insurance industry—can create less differentiation and result in: 1) using only a particular section of the rating scale and 2) ratings that are grouped tightly. The national scale allows for maximum differentiation among insurers operating in a given country.

Currently, national scale ratings are only offered in Country Risk Tier (CRT) 3 through 5 countries that: (1) have adequate available market data to establish the national scale mapping and (2) either accept national scale ratings as meeting a regulatory rating requirement *or* currently use national scale ratings within the country.

B. Country Risk and National Ratings

Country risk, along with country-specific, industry-related risks, has an impact on the financial strength of the overall insurance industry in a specific country. However, since a national scale rating is a relative analysis of companies within a country, the macro-level risks that impact all companies operating in the country—such as limited access to secure investable assets and limited industry maturity and/or regulation—are no longer rating differentiators, as all insurers in the country are subject to the same risks.

As stated previously, the assignment of a national scale rating is derived from a global scale rating, which incorporates country risk. Therefore, the national scale rating captures the extent to which a particular company can mitigate and manage its country risk exposures. In other words, a company that manages its country risk exposure better would be relatively stronger and would have a higher national scale rating, all else being equal.

C. Constructing the National Scale Mapping

Each country's scale is created individually. As the degree of country risk increases, the distribution of ratings on the global rating scale within that country moves farther away from the top end of the global scale. To assess the proper ratings mapping, an understanding of the "average" rating for a country, along with the distribution of companies around that "average," must be achieved. The average national scale rating is estimated using country-specific information—including the Country Risk Tier, the Country Investment Class, the overall credit quality of the industry's potential investment portfolio, and any current global ratings assigned within the country. Public data is used to analyze the active insurance companies within the market in order to determine the distribution of ratings around the average national scale rating.

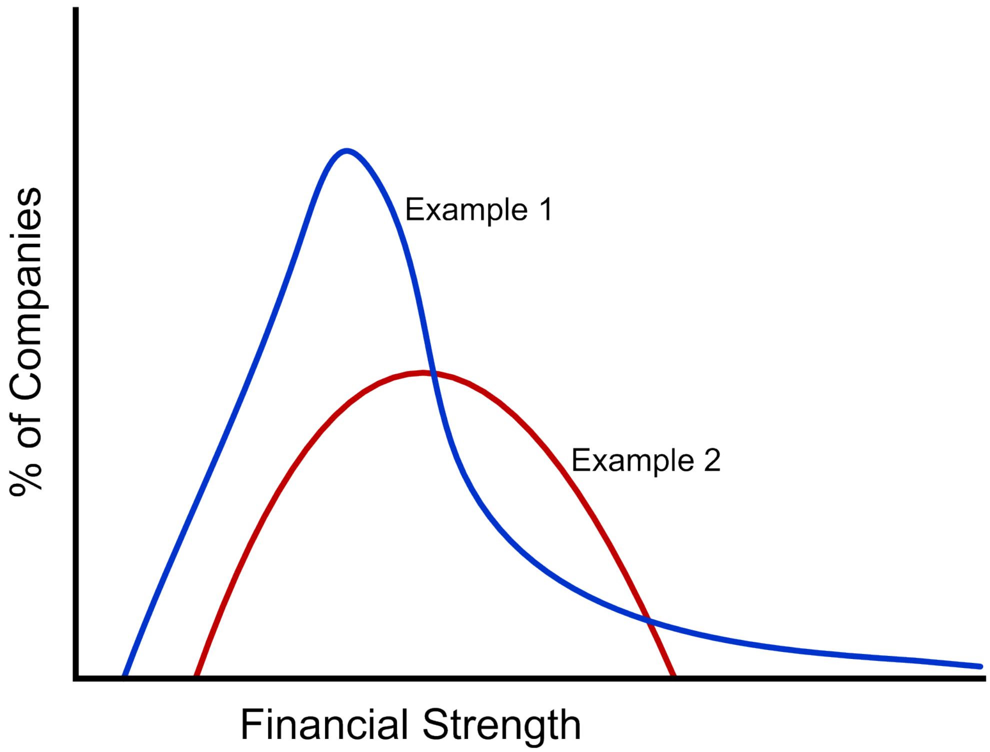
The evaluation of the distribution of financial strength in a country is done through analysis of nine individual factors:

1. Amount of Capital and Surplus
2. Ratio of Cash & Fixed Investments to Total Investments
3. Gross Leverage Ratio: (Gross Premiums Written + Total Gross Provisions)/(Capital & Surplus)
4. Amount of Gross Premiums Written
5. Return on Equity
6. Return on Assets
7. Retention Ratio: Net Premiums Written/Gross Premiums Written
8. Combined Ratio: Incurred Loss & Loss-Adjustment Expense [LAE] Ratio + Underwriting Expense Ratio
9. Total Amount of Assets

The industry average for each of these factors is calculated for the country being evaluated. Each company operating within this market is evaluated based on distance from the industry average for each measure. This process is based on a three-year average, and the result is a country-specific distribution of financial strength centered on the country's industry average.

This generates an estimate of the distribution of financial strength in the insurance market. Different markets have different distributions. A common distribution is a small number of market leaders that are relatively stronger than the market as a whole (Example 1). Another common distribution is a large group of companies clustered around a similar global rating level (Example 2). **Exhibit C.1** illustrates these two potential distributions of financial strength.

Exhibit C.1: Examples of Financial Strength Distributions in Different Markets



Understanding the shape of this distribution allows A.M. Best to efficiently spread out the global ratings curve within a country. This allows for maximum use of the rating scale within that country, thus creating the greatest degree of differentiation among national market participants.

This approach to the creation of a national rating scale is consistent with A.M. Best's belief that country factors, while clearly important and able to negatively affect an insurer's global rating, should not act as a ceiling to companies on the global scale.

D. The National Scale in the Rating Process

As stated previously, the analysis of an insurer begins with the assignment of an ICR. This global rating is then "mapped" to a national scale rating based on the country-specific national scale mapping that has been developed for the company's country of domicile. In cases where one global ICR level maps to more than one national scale rating, a rating committee will decide which level, in accordance with the mapping, is appropriate given the relative financial strength of the insurer. To denote the difference between an A.M. Best global rating and an A.M. Best national scale rating, the credit rating will have an ".XX" where XX represents a two-letter country code. In other words, for Mexico (**Exhibit D.1**), a national scale rating might appear as a+.MX.

A.M. Best Ratings on a National Scale

Exhibit D.1: Mexico National Scale Mapping

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

Changes to the National Scale Rating

An insurer's national scale rating can change for two primary reasons:

1. The analysis of the company's financial strength leads to a change in that company's rating.
2. The country- and/or industry-specific characteristics lead to a change in the overall national scale mapping for the country of domicile.

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METHODOLOGY

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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. An FSR is not assigned to specific insurance policies or contracts.

Best's Issuer Credit Rating (ICR): an independent opinion of an entity's ability to meet its ongoing financial obligations and can be issued on either a long- or short-term basis.

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 and can be issued on a long- or short-term basis (obligations with original maturities generally less than one year).

Rating Disclosure: Use and Limitations

A Best's Credit Rating (BCR) is a forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness. The opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance and business profile or, where appropriate, the specific nature and details of a security. Because a BCR is a forward-looking opinion as of the date it is released, it cannot be considered as a fact or guarantee of future credit quality and therefore cannot be described as accurate or inaccurate. A BCR is a relative measure of risk that implies credit quality and is assigned using a scale with a defined population of categories and notches. Entities or obligations assigned the same BCR symbol developed using the same scale, should not be viewed as completely identical in terms of credit quality. Alternatively, they are alike in category (or notches within a category), but given there is a prescribed progression of categories (and notches) used in assigning the ratings of a much larger population of entities or obligations, the categories (notches) cannot mirror the precise subtleties of risk that are inherent within similarly rated entities or obligations. While a BCR reflects the opinion of A.M. Best Rating Services Inc., (AMBRS) of relative creditworthiness, it is not an indicator or predictor of defined impairment or default probability with respect to any specific insurer, issuer or financial obligation. A BCR is not investment advice, nor should it be construed as a consulting or advisory service, as such; it is not intended to be utilized as a recommendation to purchase, hold or terminate any insurance policy, contract, security or any other financial obligation, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. Users of a BCR should not rely on it in making any investment decision; however, if used, the BCR must be considered as only one factor. Users must make their own evaluation of each investment decision. A BCR opinion is provided on an "as is" basis without any expressed or implied warranty. In addition, a BCR may be changed, suspended or withdrawn at any time for any reason at the sole discretion of AMBRS.

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