

### Best's Credit Rating Effective Date

December 09, 2022

### Best's Country Risk Reports Utilized

Ghana - CRT - 5  
Sierra Leone - CRT - 5  
Nigeria - CRT - 5

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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](#).

## WAICA Reinsurance Corporation PLC

AMB #: 071675

### Best's Credit Ratings - for the Rating Unit Members

**Financial Strength Rating (FSR)**

<b>B u</b>  <b>Fair</b>
Implication: <b>Negative</b> Action: <b>Downgraded Under Review</b>

**Issuer Credit Rating (ICR)**

<b>bb+ u</b>  <b>Fair</b>
Implication: <b>Negative</b> Action: <b>Downgraded Under Review</b>

u Denotes Under Review Best's Credit Rating

### Assessment Descriptors

Assessment Descriptors	
Balance Sheet Strength	<b>Strong</b>
Operating Performance	<b>Strong</b>
Business Profile	<b>Limited</b>
Enterprise Risk Management	<b>Marginal</b>

### Rating Unit - Members

**Rating Unit: WAICA Reinsurance Corp PLC | AMB #: 071675**

**AMB # Rating Unit Members**  
094468 WAICA Reinsurance Corp PLC

## Under Review Rationale

The ratings of WAICA Reinsurance Corporation PLC (WAICA Re) have been placed under review with negative implications while AM Best continues to assess the full impact of Ghana's deteriorating economic and operating conditions on the company's balance sheet strength and its broader credit fundamentals. Despite the geographical diversification of its operations across Africa, WAICA Re maintains significant exposure to Ghana, where approximately 40% of its invested assets are held and 13% of its revenue is generated. AM Best will continue to monitor this matter and provide updates as conditions warrant.

## Rating Rationale

### Balance Sheet Strength: **Strong**

- WAICA Reinsurance Corporation PLC's (WAICA Re) risk-adjusted capitalisation continued to decrease in 2021 as a result of sustained significant business growth. BCAR scores, as measured by Best's Capital Adequacy Ratio (BCAR), were nonetheless at the strongest level at the end of 2021, albeit with a reduced buffer to absorb potential shock losses.
- A further reduction in risk-adjusted capitalisation is expected at year-end 2022 due to a material deterioration in the credit quality of debt issued by the government of Ghana (77% of the company's government bond portfolio as at year end 2021). In addition, the company is exposed to the Ghanaian banking sector through cash and term deposits.
- Heightened levels of political, economic and financial system risk persist in Ghana and, on 5 December 2022, Ghana's Ministry of Finance announced the exchange of domestic government debt (excluding treasury bills) for new bonds with longer maturity dates and lower coupons. An announcement in respect of external government debt is anticipated in the near term.
- Low retrocession dependence.
- Conservative investment allocation by asset class, with the majority of the portfolio held as cash and deposits; however, investment risk is considered elevated as most assets are held in countries that are exposed to significant economic, political and financial system risks.

### Operating Performance: **Strong**

- Track record of strong operating performance, demonstrated by a five-year (2017-2021) weighted average return on equity of 12.4%.
- Solid and stable technical performance with a five-year (2017-2021) weighted average combined ratio of 88.4%.
- Prospective earnings are expected to remain strong, underpinned by robust technical performance, and complemented by positive, albeit modest, investment returns, reflecting the low-yielding assets in which the company primarily invests.

### Business Profile: **Limited**

- WAICA Re is a regional composite reinsurer writing business across more than 50 countries; however, the business remains geographically concentrated in property risks written in Nigeria and Ghana.
- Good long-term growth prospects with the expectation of continued growth in premium income, as the company's primary markets develop.
- Pricing sophistication and data quality remain limited, driven by the information available from cedants.

### Enterprise Risk Management: **Marginal**

- Enterprise risk management (ERM) framework is considered to be evolving given the size and complexity of operations.
- Positive steps are being taken to improve and embed risk management throughout operations, and it is expected that the organisation will continue to develop its risk management capabilities.
- Considerable challenges are presented by elevated economic, political, regulatory and legal risks in the company's core markets.

### Rating Drivers

- Negative rating actions may arise from a further deterioration in the economic or operating conditions in Ghana, or from a revision in AM Best's assessment of the economic, political or financial system risks in the company's other core markets, as well as the company's ability to manage these risks.

- Negative rating action could arise on the company's balance sheet strength assessment should there be a further decline in risk-adjusted capitalisation due to further deterioration in asset quality or liquidity, or from increased capital requirements driven by significant business growth.
- Negative rating movement could result from a deterioration of the company's operating performance, which could be driven by aggressive growth of the underwriting portfolio.

## Key Financial Indicators

AM Best may recategorize company-reported data to reflect broader international reporting standards and increase global comparability.

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

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	64.0	48.4	41.6	39.4

Source: Best's Capital Adequacy Ratio Model - Global

Key Financial Indicators	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)
Net Premiums Written:					
Life	4,011	2,439	1,384	1,211	1,277
Non-Life	125,180	89,171	60,615	52,241	50,886
Composite	129,191	91,610	61,999	53,452	52,163
Net Income	19,929	13,136	9,574	6,932	5,464
Total Assets	210,358	183,884	136,888	123,549	117,779
Total Capital and Surplus	113,740	98,159	89,370	85,957	81,619

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018 USD (000)	2017 USD (000)	Weighted 5-Year Average
Profitability:						
Balance on Life Technical Account	766	461	-13	-87	-2,212	...
Balance on Non-Life Technical Account	18,508	8,480	5,008	3,133	8,278	...
Net Income Return on Revenue (%)	13.2	16.0	15.6	12.5	10.6	13.7
Net Income Return on Capital and Surplus (%)	18.8	14.0	10.9	8.3	...	...
Non-Life Combined Ratio (%)	86.9	88.9	91.2	93.9	82.8	88.4
Net Investment Yield (%)	3.1	3.4	3.8	3.9	...	4.0

Leverage:

Net Premiums Written to Capital and Surplus (%)	113.6	93.3	69.4	62.2	63.9	...
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Source: BestLink® - Best's Financial Suite

## Credit Analysis

### Balance Sheet Strength

The Best's Capital Adequacy Ratio (BCAR) scores presented under the "Best's Capital Adequacy Ratio (BCAR) Scores (%)" section of this report are based on WAICA Reinsurance Corporation PLC's (WAICA Re) 2021 audited consolidated financial statements. The company has been publishing consolidated accounts since 2017, when its Kenyan subsidiary was set up.

WAICA Re's balance sheet strength assessment is underpinned by consolidated risk-adjusted capitalisation at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). Risk-adjusted capital requirements increased in 2021, primarily as a result of significant premium growth, leading to a reduction in BCAR score. The balance sheet strength assessment factors in the company's conservative investment allocation by asset class and low level of retrocession dependence. A partially offsetting factor is the company's exposure to the significant economic, political and financial system risks associated with the countries where WAICA Re operates, which include Nigeria, Ghana and Sierra Leone.

## Balance Sheet Strength (Continued...)

A further reduction in risk-adjusted capitalisation is expected at year-end 2022 due to a material deterioration in the credit quality of debt issued by the government of Ghana (around 75% of the company's government bond portfolio as at year end 2021). In addition, the company is exposed to the Ghanaian banking sector through cash and term deposits.

## Capitalisation

WAICA Re's financial flexibility has been enhanced by capital injections by its shareholders in the past, for USD 14.2 million in 2017 and USD 10.5 million in 2016. The company not received any capital support since 2017, and access to developed capital markets is limited.

WAICA Re manages its capital adequacy according to Sierra Leone's regulatory solvency requirements, according to which eligible assets should exceed liabilities by at least 10% of net written premium (NWP). Based on this calculation, the company exceeded is local regulatory solvency threshold by 75% of NWP as at year-end 2021. As at 31 December 2021 the company started monitoring its capital adequacy on consolidated level using a risk-adjusted economic model similar to the Solvency II standard formula capital requirement calculation. The model is modified to reflect the specifics of WAICA Re and its market environment. The company targets a coverage ratio of at least 150% of internal economic model capital requirements, with a minimum threshold of 120%. As at 31 December 2021, the coverage ratio was 132%.

A partially offsetting factor to the balance sheet strength is WAICA Re's high proportion of insurance-related receivables relative to its premium base. Nonetheless, following the implementation of measures aimed at mitigating credit risk in recent years, such as a stricter impairment policy and 90 days premium payment warranty (no claims payments until due premium is fully paid), the ratio of receivables to gross written premiums (GWP) decreased to 23.4% at year-end 2021 from 54.6% at year-end 2017.

<b>Capital Generation Analysis</b>	<b>2021 USD (000)</b>	<b>2020 USD (000)</b>	<b>2019 USD (000)</b>	<b>2018 USD (000)</b>	<b>2017 USD (000)</b>
Beginning Capital and Surplus	98,160	89,370	85,957	81,619	62,947
Net Income	19,929	13,136	9,574	6,932	5,464
Currency Exchange Gains (Losses)	-111	-1,234	-3,955	-525	-65
Change in Equalisation and Other Reserves	...	...	...	518	2,756
Net Change in Paid-In Capital and Surplus	...	...	...	...	10,525
Stockholder Dividends	-4,000	-3,000	-2,500	-2,500	...
Other Changes in Capital and Surplus	-238	-112	294	-87	-8
Net Change in Capital and Surplus	15,580	8,790	3,413	4,338	18,672
Ending Capital and Surplus	113,740	98,160	89,370	85,957	81,619
Net Change in Capital and Surplus (%)	15.9	9.8	4.0	5.3	29.7

Source: BestLink® - Best's Financial Suite

<b>Liquidity Analysis (%)</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Liquid Assets to Total Liabilities	139.4	122.7	166.8	195.9	158.0
Total Investments to Total Liabilities	151.3	134.3	187.4	222.1	212.6

Source: BestLink® - Best's Financial Suite

## Asset Liability Management - Investments

WAICA Re's investment portfolio is considered to be relatively conservative by asset class, with investments split at year-end 2021 as follows: cash and deposits (79.5%), fixed income securities (13.5%), investment properties (6.5%). The remainder of the investment portfolio consists of equity holdings and loans (less than 1% share). In 2021 WAICA Re continued its strategy of investing primarily in deposits and fixed income securities.

There is no significant concentration of cash and deposits within a single bank, with each counterparty accounting for less than 10% of total investments.

As a result of the investment allocation, liquidity levels are high, with cash and deposits covering net technical provisions by 175.9% at year-end 2021.

## Balance Sheet Strength (Continued...)

In order to mitigate the risk of depreciation associated with the local currencies in WAICA Re's main countries of operation, which could erode shareholders' equity, more than 75% of investments are held in US dollars, euros or pounds sterling. Amounts in local currencies are maintained mainly to meet local regulatory requirements and match current liabilities.

Despite a relatively conservative asset allocation by class, the company is exposed to the elevated economic, political and financial system risks associated with the region in which it operates that heightens credit risk and can lead to volatility in investment valuations.

Debt issued by the government of Ghana represented around 75% of the company's government bond portfolio as at year end 2021. On 5 December 2022, the Ghanaian Ministry of Finance announced domestic bonds (i.e. all bonds trading in local exchanges in Ghana) existing as of 1 December 2022 will be exchanged for four new bonds maturing in 2027, 2029, 2032 and 2037. The annual coupon on these new bonds will be set to 0% in 2023, 5% in 2024 and 10% from 2025 until maturity (semi-annual payments). Treasury Bills are exempt from the restructuring and all holders will be paid the full value of their investments on maturity. External debt (i.e. all bonds trading outside of the country - including Eurobonds) restructuring parameters are expected to be presented in due course.

The announcement followed a material deterioration in the economic and operating environment in Ghana during 2022, with inflation rates exceeding 40% in October and the currency having devalued over 50% against the dollar since the beginning of the year. Following multiple hikes in 2022, base rates were 27% (negative in real terms) as at December 2022, compared to 14.5% at year-end 2021.

<b>Composition of Cash and Invested Assets</b>	<b>2021 USD (000)</b>	<b>2020 USD (000)</b>	<b>2019 USD (000)</b>	<b>2018 USD (000)</b>	<b>2017 USD (000)</b>
Total Cash and Invested Assets	146,227	115,152	89,066	83,493	76,859
Cash (%)	89.1	86.3	83.6	86.2	72.3
Bonds (%)	2.9	5.1	5.4	2.0	2.0
Real Estate, Mortgages and Loans (%)	7.6	8.3	10.7	11.7	12.0
Other Invested Assets (%)	...	...	...	...	13.7
Total Cash and Unaffiliated Invested Assets (%)	99.7	99.7	99.6	99.9	100.0
Investments in Affiliates (%)	0.3	0.3	0.4	0.1	...
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

## Reserve Adequacy

WAICA Re's booked reserves are prescribed by regulatory requirements. The company's reserves are additionally subject to review by external actuarial consultants. At year-end 2021, the gross reserves booked by the company on consolidated basis amounted to USD 77.6 million, exceeding the reserves on stand-alone basis of USD 63.9 million by 21.4%.

## Operating Performance

WAICA Re has a track record of strong operating performance, as demonstrated by a five-year (2017-2021) weighted average combined ratio and return on equity ratio of 88.4% and 12.4%, respectively. The five-year (2017-2021) weighted average data and ratios disclosed in the narrative part of this report are based on consolidated data for the period of 2017-2021 and stand-alone data for 2016.

WAICA Re reported a net profit of USD 19.9 million on a consolidated basis in 2021, up 51.9% compared to the USD 13.1 million reported in 2020. This was supported by robust technical results of USD 19.3 million (2020: USD 8.9 million). This can be evidenced by a solid five-year (2017-2021) average loss ratio of 39.4%. The loss ratio increased to 48.2% in 2021, with the increase attributed to reserve strengthening due to the use of more robust actuarial assumptions in contrast to previously used methodology, which followed minimal local regulatory requirements.

Underwriting profits are well diversified by lines of business. All lines of business have contributed positively to technical profits in 2021. Life business has been a very modest contributor to the company's revenues in recent years

## Operating Performance (Continued...)

The five-year (2017-2021) operating expense ratio is 49.0% and, although higher than that of regional peers, it is in line with WAICA Re's expectations given the company's organizational growth and expanding footprint. In 2021 WAICA Re achieved an operating expense ratio of 38.8% as cost are considered stable and WAICA Re is starting to experience economies of scale

WAICA Re reported USD 4.1 million of net investment income in 2021 (2020: USD 3.4 million). Investment income is largely derived from fixed income instruments (i.e. deposits and bonds), and it is expected to remain stable during the next few years. In the last five years, the company has generated net investment returns in the range of 3.1%-3.9%, with a weighted average of 3.5%. WAICA Re reports relatively lower investment yields compared to regional peers that report in local currencies. This reflects the company's conservative investment allocation by asset class and USD reporting currency.

WAICA Re's prospective operating earnings are expected to remain strong, underpinned by robust technical performance, and complemented by positive investment returns.

<b>Financial Performance Summary</b>	<b>2021 USD (000)</b>	<b>2020 USD (000)</b>	<b>2019 USD (000)</b>	<b>2018 USD (000)</b>	<b>2017 USD (000)</b>
Pre-Tax Income	21,163	13,553	9,734	6,838	5,478
Net Income after Non-Controlling Interests	19,929	13,136	9,574	6,932	5,464

Source: BestLink® - Best's Financial Suite

<b>Operating and Performance Ratios (%)</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Overall Performance:					
Return on Assets	10.1	8.2	7.4	5.7	...
Return on Capital and Surplus	18.8	14.0	10.9	8.3	...
Non-Life Performance:					
Loss and LAE Ratio	48.2	39.2	31.9	31.6	31.0
Expense Ratio	38.8	49.8	59.3	62.3	51.8
Non-Life Combined Ratio	86.9	88.9	91.2	93.9	82.8

Source: BestLink® - Best's Financial Suite

## Business Profile

WAICA Re's business profile is assessed as limited owing to its relatively small size and geographic concentration of business in Nigeria and Ghana.

WAICA Re has experienced strong growth in GWP over the last five-years (2017-2021), as demonstrated by a compound annual growth rate of 31.7% over the period.

The portfolio is concentrated on a line of business basis, with property (fire and engineering) contributing 56.5% of the overall GWP in 2021. The rest of the portfolio was split between accident (17.4%), oil and gas (11.0%), marine and aviation (7.6%), motor (4.8%) and life (2.6%). The company primarily writes facultative business (72.9% of GWP in 2021, against 72.4% in 2020), with significant reliance on the brokerage distribution channel.

Exposure to catastrophe risk is typically low in West Africa, with risks generally geographically diverse given the low insurance penetration. The main catastrophic event category that WAICA Re is considered to be exposed to is flood.

WAICA Re operates via its headquarters in Sierra Leone, its two insurance subsidiaries (in Kenya and Zimbabwe) and a network of branches and representative offices (in Ghana, Nigeria, Ivory Coast and Tunisia).

The head office in Sierra Leone manages insurance business from markets where the company does not have a specific regional office: Central Africa; English-speaking West Africa, excluding Ghana and Nigeria; the Middle East and the rest of the world. The Nigeria and Ghana regional offices manage business from their respective markets, given their size and importance. The branch in Ivory Coast manages business from French-speaking Africa, excluding North Africa, which is covered from the Tunisian regional office together with the Middle East. The subsidiary in Zimbabwe (WAICA Re Zimbabwe (Private) Limited) focuses on southern Africa markets, whilst the eastern Africa market is served by the subsidiary in Kenya (WAICA Re Kenya Limited).

## Business Profile (Continued...)

The company underwrites risks in over 50 countries across Africa and Asia. However, the business is relatively concentrated in Nigeria (27.4% of 2021 GWP) and Ghana (13.1%). Whilst the strategic focus of the company is to expand and diversify its coverage across regions outside of these two main markets, AM Best expects business to continue to originate primarily from Nigeria and Ghana over the medium term.

## Enterprise Risk Management

WAICA Re's enterprise risk management (ERM) framework is considered to be evolving, supportive of a marginal assessment. Positive steps are being taken to improve and embed risk management throughout the operations, and it is expected that the company will continue to develop its risk management process.

WAICA Re maintains a risk appetite key risk indicators chart with targets, which sets out appetites by risk type with assigned tolerances. The management team has a clear set of responsibilities in place. Risk owners are required to maintain their risk registers, which are reviewed on a regular basis. The board receives quarterly reports that highlight the aggregated risk profile of the business. The company's senior management is aware of the company's exposure to operational risks and has implemented a yearly training plan to improve learning and awareness amongst employees as part of its efforts to reduce operational risk.

WAICA Re's data quality is not homogeneous, reflecting the information provided by its cedants, which can have data issues (e.g., accuracy, granularity, and ground-up versus truncated data).

WAICA Re faces considerable challenges represented by elevated economic, political, regulatory and legal risks in its core markets.

## Reinsurance Summary

WAICA Re's reinsurance protection includes a non-proportional retrocession programme for its main classes of business: liability, property, and marine, energy and aviation. The company also has an aggregate cover.

WAICA Re's dependence on retrocession is considered low, highlighted by an 83.8% non-life premium retention ratio in 2021. Nonetheless, WAICA Re is exposed to counterparty credit risk, driven by the presence of low-rated participants on its retrocession panel.

## Environmental, Social & Governance

WAICA Re's main markets, Nigeria and Ghana, are highly dependent on natural resources revenues to sustain economic growth. While most of these natural resources, such as oil and gas, are still a sought after commodity and are expected to spur growth and opportunities in the (re)insurance sector, there is concern regarding their long-term viability. The concepts of sustainability and Environmental, Social and Governance factors (ESG) are slowly gaining traction in the region.

Given that (re)insurance companies in Western Africa operate under similar market dynamics, it is unlikely that ESG initiatives will have a significant bearing on WAICA Re's credit quality over the short-to-medium term.

## Financial Statements

	12/31/2021		12/31/2020
	USD (000)	%	USD (000)
<b>Balance Sheet</b>			
Cash and Short Term Investments	130,350	62.0	99,324
Bonds	4,309	2.0	5,895
Other Invested Assets	11,568	5.5	9,933
<b>Total Cash and Invested Assets</b>	146,227	69.5	115,152
Reinsurers' Share of Reserves	12,188	5.8	23,522
Debtors / Amounts Receivable	35,958	17.1	27,955
Other Assets	15,985	7.6	17,255
<b>Total Assets</b>	210,358	100.0	183,884
Unearned Premiums	36,014	17.1	47,214
Non-Life - Outstanding Claims	41,188	19.6	26,072
Life - Outstanding Claims	411	0.2	9
Total Gross Technical Reserves	77,613	36.9	73,295
Other Liabilities	19,005	9.0	12,430
<b>Total Liabilities</b>	96,618	45.9	85,725
Capital Stock	49,083	23.3	49,083
Retained Earnings	32,469	15.4	26,935
Other Capital and Surplus	32,188	15.3	22,141
<b>Total Capital and Surplus</b>	113,740	54.1	98,159
<b>Total Liabilities and Surplus</b>	210,358	100.0	183,884

Source: BestLink® - Best's Financial Suite

				12/31/2021	12/31/2020
	Non-Life USD (000)	Life USD (000)	Other USD (000)	Total USD (000)	Total USD (000)
<b>Income Statement</b>					
Gross Premiums Written	149,309	4,040	...	153,349	102,604
Net Premiums Earned	141,746	4,684	...	146,430	78,660
Net Investment Income	...	...	4,071	4,071	3,430
Total Revenue	141,746	4,684	4,071	150,501	82,090
Benefits and Claims	68,295	1,650	...	69,945	30,505
Net Operating and Other Expense	54,943	2,268	2,182	59,393	38,032
Total Benefits, Claims and Expenses	123,238	3,918	2,182	129,338	68,537
<b>Pre-Tax Income</b>	18,508	766	1,889	21,163	13,553
Income Taxes Incurred	...	...	...	1,234	417
<b>Net Income before Non-Controlling Interests</b>	...	...	...	19,929	13,136
<b>Net Income/(loss)</b>	...	...	...	19,929	13,136

Source: BestLink® - Best's Financial Suite

## Related Methodology and Criteria

Best's Credit Rating Methodology, 11/13/2020

Catastrophe Analysis in A.M. Best Ratings, 10/13/2017

Available Capital & Holding Company Analysis, 10/13/2017

Evaluating Country Risk, 10/13/2017

Scoring and Assessing Innovation, 03/05/2020





Understanding Global BCAR, 06/30/2022

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