



**Best's Credit Rating Effective Date**

April 22, 2020

**Best's Country Risk Reports Utilized**

[Barbados - CRT - 4](#)

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**Information**

- [Best's Credit Rating Methodology](#)
- [Understanding 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](#).

**BMO Reinsurance Limited**

**AMB #:** 056229 | **AIIN#:** AA-3160075

**Ultimate Parent:** AMB # 030194 - Bank of Montreal

**Best's Credit Ratings**

**Financial Strength Rating (FSR)**

<b>A</b>
<b>Excellent</b>
Outlook: <b>Stable</b>
Action: <b>Affirmed</b>

**Issuer Credit Rating (ICR)**

<b>a+</b>
<b>Excellent</b>
Outlook: <b>Stable</b>
Action: <b>Affirmed</b>

**Assessment Descriptors**

Balance Sheet Strength	<b>Very Strong</b>
Operating Performance	<b>Strong</b>
Business Profile	<b>Neutral</b>
Enterprise Risk Management	<b>Appropriate</b>



## Rating Rationale

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

- Strongest level of risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR) model.
- BMO Reinsurance Limited (BMO Re) has maintained a conservative investment portfolio composed entirely of high quality government and corporate bonds and cash/cash equivalent assets.
- Capital does not accumulate as the company dividends out most, if not all, earnings.

### Operating Performance: **Strong**

- Long track record of a consistently high return on equity and substantial cash flow generation despite some volatility from its non-life business lines over the past three years.
- Very favorable underwriting results over the long term, with the assumption of decreasing volatility going forward as the company divests from its property catastrophe and specialty property and casualty lines.
- The company maintains a very high dividend payout ratio as most earnings are dividended upstream.

### Business Profile: **Neutral**

- As a profitable subsidiary of one of the five largest Canadian banks sharing the same brand name, BMO Re has a significant market profile to leverage.
- BMO Re's core life creditor reinsurance business is viewed as lower risk on AM Best's product risk continuum with a short duration, monthly paid premiums, and a long track record of favorable performance.
- Due to former Canadian tax law changes and an upcoming Barbados tax law change that will take effect for BMO Re in June 2021, the strategic advantage of being domiciled in Barbados has diminished moderately. Future economic and political risk within Barbados also has the potential to temporarily disrupt operations if a domicile relocation is deemed necessary.

### Enterprise Risk Management: **Appropriate**

- Benefits from the integration with the overall group risk framework of the Bank of Montreal, one of Canada's five largest banks, which also provides resources and expertise when necessary.
- Well-defined risk appetite statement that specifies exposure targets and limits along with substantial policies and procedures in place to identify and report emerging and ongoing risks.
- Significant quantification of risks and dynamic capital adequacy testing to ensure the company can withstand multiple large property and casualty events occurring in the same period or a global pandemic.

### Outlook

- The stable outlooks reflect BMO Re's very strong balance sheet strength and strong operating performance.

### Rating Drivers

- A significant decline in the company's risk-adjusted capitalization could result in a negative rating action.
- A sustained deterioration in operating performance could result in a negative rating action.
- Negative rating actions at the Bank of Montreal could result in a negative rating action.

## Key Financial Indicators

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

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	68.2	55.0	49.6	47.9

Source: Best's Capital Adequacy Ratio Model - Universal



<b>Key Financial Indicators</b>	<b>2019 CAD (000)</b>	<b>2018 CAD (000)</b>	<b>2017 CAD (000)</b>	<b>2016 CAD (000)</b>	<b>2015 CAD (000)</b>
Net Premium Written:					
Composite	609,356	618,157	611,667	366,998	972,456
Net Income	160,987	230,187	138,229	223,269	214,323
Total Assets	706,725	702,145	614,488	538,233	657,265
Total Capital and Surplus	305,179	325,398	295,264	365,923	364,485

Source: BestLink® - Best's Financial Suite

<b>Key Financial Ratios (%)</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>Weighted 5 Year Average</b>
Profitability:						
Net Income Return on Revenue	24.4	36.5	24.8	38.5	20.4	27.8
Net Income Return on Capital and Surplus	51.1	73.4	42.8	60.6	54.1	58.3
Net Investment Yield	1.6	1.2	0.6	1.2	1.1	1.1
Leverage:						
Net Premium Written to Capital and Surplus	199.7	190.0	207.2	100.3	266.8	...

Source: BestLink® - Best's Financial Suite

## Credit Analysis

### Balance Sheet Strength

#### Capitalization

BMO Re remains well capitalized with capital of \$305 million, as of fiscal year-end October 31, 2019. In June of 2012, the company amended its Articles of Incorporation to create a new class of unlimited Class A Preferred Shares which is non-cumulative with dividends paid at the discretion of the directors. BMO RE issued 71 million shares to the company's shareholder, BMO Investments Limited, for a subscription price of CAD \$213 million. At the same time, BMO RE paid a common share dividend to BMO Investments Limited of CAD \$213 million which was funded by an issuance of a Dividend Note. The net impact of the preferred share issuance did not impact the capital levels of BMO RE, but changed a percentage of the capital make-up from common to preferred.

The dividend payout ratio for BMO RE has been and continues to be high. Despite shareholder dividends, risk-adjusted capital levels are assessed as "strongest" per Best's Capital Adequacy Ratio and are more than required to support the risks accepted on the company's balance sheet.

AM Best believes there is a significant amount of liquidity to support the liquidity needs of the company due to a high cash balance, significant commercial paper holdings, and a relatively short duration bond portfolio. The short duration of the investment portfolio accompanied by a strong cash position and a history of strong earnings enhances the company's liquidity position which is currently viewed as favorable.

<b>Capital Generation Analysis</b>	<b>2019 CAD (000)</b>	<b>2018 CAD (000)</b>	<b>2017 CAD (000)</b>	<b>2016 CAD (000)</b>	<b>2015 CAD (000)</b>
Beginning Capital and Surplus	325,399	295,264	365,923	364,486	364,206
Net Income after Non-Controlling Interests	160,987	230,187	138,229	223,269	214,323
Unrealized Capital Gains (Losses)	13,794	-4,707	-2,978	-3,171	3,301
Stockholder Dividends	195,001	195,346	205,910	218,661	217,345
Net Change in Capital and Surplus	-20,220	30,134	-70,659	1,437	279
Ending Capital and Surplus	305,179	325,398	295,264	365,923	364,485
Net Change in Capital and Surplus (%)	-6.2	10.2	-19.3	0.4	0.1

Source: BestLink® - Best's Financial Suite

**Balance Sheet Strength (Continued...)**

<b>Liquidity Analysis</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net Operating Cash Flow (CAD 000)	200,563	242,995	236,513	209,595	218,841
Liquid Assets to Total Liabilities (%)	143.1	146.7	157.1	280.4	166.2

Source: BestLink® - Best's Financial Suite

**Asset Liability Management - Investments**

The company's investment portfolio includes investment grade bonds, commercial paper, cash, and currency swaps for foreign exchange risk hedging. Historically, the company has maintained a highly liquid investment portfolio with a large portion of invested assets in either cash or short term deposits. The company's investment policy continues to keep investment risk at a minimum and liquidity strong. Foreign currency risk on non-Canadian denominated bonds is hedged utilizing cross currency swaps. Given the large amount of cash and short term holdings, interest rate risk and credit risk are not viewed as material.

<b>Composition of Cash and Invested Assets</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Total Cash and Invested Assets (CAD 000)	574,682	552,817	501,362	483,091	486,594
Composition Percentages (%):					
Unaffiliated:					
Cash and Short Term Investments	36.5	30.2	59.1	52.8	32.8
Bonds	63.5	69.8	40.9	47.2	67.2
Total Unaffiliated Cash and Invested Assets	100.0	100.0	100.0	100.0	100.0
Total Cash and Invested Assets	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

**Holding Company Assessment**

BMO RE is a wholly owned subsidiary of BMO Investments Limited, a company incorporated in Bermuda. The ultimate parent is the Bank of Montreal, doing business as BMO Financial Group. (BMOFG) Established in 1817, BMOFG is a highly diversified financial services provider based in North America and is considered one of the big five Canadian banks. BMOFG provides a wide range of personal and commercial banking, wealth management, and investment banking products and services to over 12 million customers. As of BMOFG's fiscal year-end 2019 the company posted \$5.76 billion CAD in earnings on an equity base of \$51.1 billion CAD. AM Best notes that BMO RE has the implicit support of their parent should it ever be required.

<b>Holding Company Analytics</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Liquid Assets to Total Liabilities (%)	143.1	146.7	157.1	280.4	166.2

Source: BestLink® - Best's Financial Suite

**Operating Performance**

BMO Re has generated strong annual operating results historically with high returns on equity. Net premiums grew in 2019 but are expected to fall significantly in 2020 due to non-renewal of the property casualty business and likely flat creditor premiums which have been an industry wide trend. Although creditor reinsurance remains the company's top line for earnings, BMO Re has three other programs in place for diversification benefits including property catastrophe, specialty P&C, and life reinsurance. Due to some unfavorable claims experience in the previous three years leading to occasional losses in the property catastrophe line and specialty P&C lines BMO Re will be rolling off both in the coming year. Creditor business will remain the focus of the company and remains highly profitable which resulted in the company as a whole remaining highly profitable over the long term. AM Best believes that with the removal of property and casualty business the company's earnings will see less volatility going forward.

Creditor business covering life and disability reinsurance is BMO Re's core segment, as this product line consistently generates the most earnings. The company has secured reinsurance business from a number of reinsurance clients, and management has continued to focus on growing volume by selectively partnering with quality reinsurers. Earnings for the company are expected to remain strong over the medium-term.



## Operating Performance (Continued...)

BMO Re's investment strategy is conservative as the company has no equity holdings and investments are comprised primarily of short to medium term bonds. The bond portfolio is of high quality and primarily consists of bonds with A through AAA ratings with international diversification. Investment yield is low, reflecting its conservative and short duration investment portfolio. It is noted by AM Best however that BMO Re does not rely on investment income for earnings which has historically made up only a small portion of its overall earnings.

<b>Financial Performance Summary</b>	<b>2019 CAD (000)</b>	<b>2018 CAD (000)</b>	<b>2017 CAD (000)</b>	<b>2016 CAD (000)</b>	<b>2015 CAD (000)</b>
Pre-Tax Income	160,987	230,187	138,229	223,269	214,323
Net Income (after Non-Controlling Interests)	160,987	230,187	138,229	223,269	214,323

Source: BestLink® - Best's Financial Suite

<b>Operating and Performance Ratios (%)</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Overall Performance:					
Return on Assets	22.9	34.6	24.5	37.0	35.2
Return on Capital and Surplus	51.1	73.4	42.8	60.6	54.1

Source: BestLink® - Best's Financial Suite

## Business Profile

BMO Reinsurance Limited (BMO Re) is incorporated under the laws of Barbados and is licensed under the Exempt Insurance Act. In 2019 Barbados repealed the Exempt Insurance Act however BMO Re was grandfathered into the former act and will remain under its tax regime until June 2021 at which point the company will be subject to a 2% income tax. BMO Re is a wholly owned subsidiary of BMO Investments Limited, a company incorporated in Bermuda. BMO Re has three primary product lines: creditor life and disability reinsurance, property and casualty reinsurance, and life reinsurance and retrocession. BMO Re began pursuing property catastrophe and specialty P&C product lines in 2013 and generated mixed results over the past three years leading to the company decision to roll off the product lines starting in late 2019. The ultimate parent is Bank of Montreal, established in 1817 and based in Canada. BMO Financial Group is a highly-diversified North American financial services organization. BMO Financial Group provides a broad range of retail banking, wealth management and investment banking products and solutions. BMO Re has total assets of \$707 million CAD as of October 31, 2019. The company reinsures risks from a number of North American and European Life and Health insurers and reinsurers, as well as general reinsurers. An ongoing business strategy has been to increase the volume of non-life in the international reinsurance market by leveraging BMO Re's financial strength and risk management capabilities to deliver strong bottom line returns.

BMO Re's market offering expanded significantly in 2017 to include cyber, crop, marine, and satellite as a part of their specialty property and casualty program. The company's property catastrophe reinsurance program reinsures insured losses arising out of natural perils and includes industry loss warranties, ultimate net loss excess-of-loss treaties, and property casualty quota share treaties. These programs always remained a smaller portion of the company's overall book of business and are expected to be insignificant by year end 2020 as BMO Re exits the property casualty space.

## Enterprise Risk Management

The company's enterprise risk management program (ERM) is integrated into the global ERM program established by its banking parent. Since counterparty relationships are mostly Modco based, asset risk is held on counterparty balance sheets, which are all highly rated entities. One of the primary risks to the company comes in the form of treaty agreements and claims verification, or operational type risk within the specific business lines the company participates in.

The company operates on a three-lines-of-defence operating model which is the standard of Bank of Montreal and its subsidiaries. The first line of defense is at the company level where regular reporting of delegated risk limits compared to actual exposures are created. The second line is the Enterprise Risk and Portfolio Management group (ERPM) along with Corporate Support Areas (CSA) which provide oversight and perform an independent assessment of risk. ERPM independently assesses, quantifies, monitors, and reports all significant risks to senior management and as appropriate, the Board of Directors. The third and final line of defense is the corporate audit division which conducts an internal audit assessing the effectiveness of internal controls with the group.

Significant regulatory changes remain one of the company's top risks although no immediate issues are expected. The regulatory authority in Barbados is the Financial Services Commission (FSC). The Insurance Act is the general law relating to insurance companies doing business in Barbados, whether locally incorporated or foreign companies. Under this law the company must have at least one



## Enterprise Risk Management (Continued...)

director who is a resident citizen of Barbados. The FSC requires that statutory accounts prepared under International Accounting Standards be supplied on an annual basis. In addition, the Insurance Act requires the filing of Audited Financial statements with the FSC.

For exempt insurance companies, the Exempt Insurance Act requires a minimum solvency margin of the greater of: 1) BBD 250,000; 2) 20% of net earned premiums equal to or less than BBD 10 million; and 3) BBD 2 million plus 10% of net earned premiums in excess of BBD 10 million. Under the terms of the Exempt Insurance Act of Barbados, the company is subject to zero percent tax for the first 15 years of its operations with the ability to apply for an additional 15 year exemption, and, thereafter, charged at the rate of 8% per annum on the first US\$125,000 of taxable income. With the repeal of the Exempt Insurance Act in 2019 many companies fall under a new tax regime however BMO Re has been grandfathered into remaining under the act until June 2021 at which point it will be subject to a flat 2% income tax.



## Financial Statements

	10/31/2019		10/31/2019
	CAD (000)	%	USD (000)
<b>Balance Sheet</b>			
Cash and Short Term Investments	209,980	29.7	160,045
Bonds	364,702	51.6	277,972
Total Cash and Invested Assets	574,682	81.3	438,017
Reinsurers' Share of Reserves	3,559	0.5	2,713
Debtors / Amounts Receivable	115,416	16.3	87,969
Other Assets	13,068	1.8	9,960
<b>Total Assets</b>	<b>706,725</b>	<b>100.0</b>	<b>538,659</b>
Gross Technical Reserves:			
Unearned Premiums	41,934	5.9	31,962
Non-Life Reserves	290,224	41.1	221,206
Life Reserves	58,981	8.4	44,955
Total Gross Technical Reserves	391,139	55.4	298,122
Other Liabilities	10,407	1.5	7,932
<b>Total Liabilities</b>	<b>401,546</b>	<b>56.8</b>	<b>306,054</b>
Capital Stock	263,000	37.2	200,456
Retained Earnings	35,547	5.0	27,094
Other Capital and Surplus	6,632	0.9	5,055
<b>Total Capital and Surplus</b>	<b>305,179</b>	<b>43.2</b>	<b>232,604</b>
<b>Total Liabilities, Mezzanine Items and Surplus</b>	<b>706,725</b>	<b>100.0</b>	<b>538,659</b>

Source: BestLink® - Best's Financial Suite

				10/31/2019	10/31/2019
	Non-Life CAD (000)	Life CAD (000)	Other CAD (000)	Total CAD (000)	Total USD (000)
<b>Income Statement</b>					
Gross premiums written	...	...	624,199	624,199	475,758
Net Premiums Earned	...	...	652,038	652,038	496,977
Net Investment Income	...	...	8,836	8,836	6,735
Net realized gains/(losses)	...	...	-1,619	-1,619	-1,234
Total Revenue	...	...	659,255	659,255	502,478
Losses and Benefits	...	...	381,580	381,580	290,836
Net Operating Expense	...	...	116,688	116,688	88,938
Total Losses, Benefits, and Expenses	...	...	498,268	498,268	379,775
<b>Earnings before interest &amp; taxes (EBIT)</b>	...	...	160,987	160,987	122,703
Net income before Non-Controlling interests	...	...	...	160,987	122,703
Net income/(loss) from continuing operations	...	...	...	160,987	122,703
<b>Net Income</b>	...	...	...	160,987	122,703

Source: BestLink® - Best's Financial Suite



	10/31/2019 CAD (000)	10/31/2019 USD (000)
<b>Statement of Cash Flows</b>		
Net cash provided/(used) in Operating Activities	200,563	152,867
Net cash provided/(used) in Investing Activities	41,943	31,969
Net cash provided/(used) in Financing Activities	-195,000	-148,627
Total increase (decrease) in cash	47,506	36,209
Cash, beginning balance	71,454	54,462
Cash, ending balance	118,960	90,670

Source: BestLink® - Best's Financial Suite

## Related Methodology and Criteria

[Best's Credit Rating Methodology, 03/05/2020](#)

[Available Capital & Holding Company Analysis, 10/13/2017](#)

[Evaluating Country Risk, 10/13/2017](#)

[Scoring and Assessing Innovation, 03/05/2020](#)

[Understanding Universal BCAR, 05/23/2019](#)

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