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R.V.I. Guaranty Co. Ltd.

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R.V.I. Guaranty Co. Ltd.

SACP* Assessments					SACP*			Support			Ratings
Anchor	bbb	+	Modifiers	0	=	bbb	+	0	=		Financial Strength Rating
Business Risk			ERM and Management	0		Liquidity	0	Group Support	0		BBB/Stable/--
Fair											
Financial Risk			Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0		
Moderately Strong											

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Fair

- Less-than-adequate competitive position due to narrow business focus with limited growth potential
- Intermediate insurance industry and country risk assessment

Financial Risk Profile: Moderately Strong

- Absolute size of total adjusted capital limits the capital and earnings score
- Intermediate risk position due to high sensitivity to changes in economic conditions
- Less-than-adequate financial flexibility due to limited access to capital markets

Other Factors

- Adequate enterprise risk management (ERM) and management assessment
- Exceptional liquidity

Outlook: Stable

The stable outlook on R.V.I. Guaranty Co. Ltd. (RVI) reflects Standard & Poor's Ratings Services' view that RVI will maintain its competitive position in the residual value market but will continue to explore opportunities to grow its franchise. We expect the company's financial risk profile to remain moderately strong with the support of an extremely strong capital positon.

Downside scenario

We may lower our ratings if RVI cannot sustain its already constrained competitive position or if it significantly changes its capital management strategy.

Upside scenario

We are unlikely to raise the ratings in the next two years because we expect limited improvement of the company's competitive position.

Base-Case Scenario

Macroeconomic Assumptions

- Real GDP growth of about 2.4% in 2015, which will remain sluggish with relatively inelastic demand for property/casualty (P/C) insurance products
- An average 10-year Treasury rate of about 2.2% in 2015
- Core Consumer Price Index of 1.9% for 2015
- Neutral industry economic outlook for P/C insurers

Company-Specific Assumptions

- A 5%-10% increase in net premiums written (NPW) in 2015 and 2016
- Net income of $12 million-$14 million for 2014 and 2015
- Combined ratio of less than 80%
- Capital adequacy remains extremely strong

Key Metrics

	--Year ended Dec. 31--				
(Mil. $)	**2016***	**2015***	**2014**	**2013**	**2012**
Gross premiums written	42-43	42-43	40.7	30.8	21.6
P/C net combined ratio (%)	<80	<80	64.9	60.9	79.3
Net income	12-14	12-14	13.9	12.4	9.5
Capital adequacy	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong

*Forecast data reflect Standard & Poor's base-case assumptions.

Company Description

RVI together with its subsidiary R.V.I. America Insurance Co. (collectively RVI) is a provider of residual value insurance; its policies bring financial, regulatory, and accounting benefits to clients around the world in leasing, asset-based finance, and asset securitization. Residual value insurance helps companies manage asset value risk by guaranteeing that a properly maintained asset will have a specified value at a future date. Firms buy residual value insurance to provide accounting coverage, greater loan-to-value ratios, and asset value coverage in three major asset areas: commercial equipment, passenger vehicles, and commercial real estate. RVI also offers risk-management advice to the automobile finance industry, providing a broad range of risk assessment and portfolio-management products and services. The company is 98% owned by Quantum Partners, LP (QP). QP is a private investment fund managed by Soros Fund Management.

R.V.I. America Insurance Co. cedes approximately 80% of its business to R.V.I. Guaranty Co. Ltd., and we consider it core to R.V.I. Guaranty Co. Ltd.'s business.

Business Risk Profile: Fair

RVI's business risk profile reflects its less-than-adequate competitive position due to its relatively small premium base and niche business strategy.

Insurance industry and country risk: Intermediate

In our view, RVI's insurance industry and country risk is driven by very low country risk and intermediate industry risks because it operates predominantly in the U.S. but also has operations in global P/C markets. Our view of RVI's very low country risk stems from the potentially high-income nature of these markets, as well as their relatively effective and stable political institutions, sophisticated financial systems, and strong payment culture, especially in the U.S. We believe RVI's P/C operations are exposed to intermediate industry risks because of the inherent product risk and consequent susceptibility to reserve volatility. The litigious environment in the U.S. also affects claims amounts and payment patterns. However, the stability of the U.S. insurance market's profitability, market growth prospects, and overall institutional framework offset this weakness.

Table 1

Industry And Country Risk

Insurance sector	IICRA	Business mix
United States P&C	Intermediate risk	82.84%
China P&C	Intermediate risk	13.15%
Canada P&C	Low risk	2.74%
Mexico P&C	Intermediate risk	1.12%
Norway P&C	Low risk	0.00%
Colombia P&C	Moderate risk	0.15%

Competitive position: Less than adequate

Although RVI enjoys a favorable brand name and has extensive market knowledge in the residual value and leasing markets, we believe its business is narrowly focused and the size of its premium base is small relative to higher-rated insurance companies. The company was, however, able to increase its customer base in 2014.

In 2014, RVI's total NPW grew 32% year-over-year to $40.7 million, driven by strong growth in the passenger vehicle business line, which almost doubled to $15.6 million in NPW. NPW from commercial equipment also was up 21.9%. For the first half of 2015, NPW were relatively flat at $16.6 million. Although business looks strong in the second half of the year and the U.S. economy may improve, we do not think that the company will be able to repeat the NPW growth reported in 2014. We expect RVI to report a 5%-10% increase in NPW in 2015 and 2016. We also expect it to report net income of $12 million-$14 million for the same period and a combined ratio less than 80%.

Table 2

Competitive Position					
	--Year ended Dec. 31--				
(Mil. $)	**2014**	**2013**	**2012**	**2011**	**2010**
Gross premiums written	40.7	30.8	21.6	17.7	18.2
Change in gross premiums written (%)	32.1	42.8	21.9	(2.5)	(7.3)
Net premiums earned	32.1	27.3	25.9	24.1	26.8
Change in net premiums earned (%)	17.3	5.7	7.2	(10.1)	(8.6)

Financial Risk Profile: Moderately Strong

We view RVI's financial risk profile as moderately strong, reflecting strong capital and earnings and an intermediate risk position.

Capital and earnings: Strong

RVI's capital is redundant at the extremely strong level, and we expect it to remain so through 2016 in our base-case scenario. Our base-case scenario assumes sizable dividends paid to QP, which limits growth in capital. In addition, the absolute size of the company's total adjusted capital at less than $250 million limits the capital and earnings score. RVI has good operating performance, as measured by a combined ratio that has averaged approximately 68% for the past five years. There have been sizable fluctuations in the combined ratio throughout the years due to large claims relative to the company's earnings power, which highlights the vulnerability of the company's capital position.

Table 3

Capitalization Statistics					
	--Year ended Dec. 31--				
(Mil. $)	**2014**	**2013**	**2012**	**2011**	**2010**
Common equity	125.5	123.3	129.1	134.6	139.8
Change in common equity (%)	1.8	(4.5)	(4.0)	(3.8)	15.7
Total capital (reported)	141.0	138.8	144.6	150.0	155.3
Change in total capital (reported) (%)	1.6	(4.0)	(3.6)	(3.4)	13.9

Table 4

Earnings Statistics					
	--Year ended Dec. 31--				
(Mil. $)	**2014**	**2013**	**2012**	**2011**	**2010**
Total revenues	39.1	34.5	33.9	33.0	35.7
EBIT adjusted*	18.4	18.0	13.0	16.0	18.0
Net income (attributable to all shareholders)	13.4	12.2	9.5	12.0	23.0
Return on shareholders' equity reported (%)	10.8	9.7	7.2	8.8	17.3
P/C: Net expense ratio (%)	64.4	63.0	55.0	65.7	58.7
P/C: Net loss ratio (%)	0.5	(2.1)	24.2	4.7	6.8
P/C: Net combined ratio (%)	64.9	60.9	79.3	70.4	65.5
Return on revenue (%)	46.9	52.0	39.8	48.9	50.4

*Before (un)realized capital gains/losses

Risk position: Intermediate

Although RVI is not exposed to catastrophe events, its earnings are susceptible to changes in economic conditions. However, the long-term earnings power of the company somewhat mitigates this risk, as illustrated by the unearned premium reserve that totaled $97 million as of year-end 2014. RVI typically collects the premiums up front and earns them during the life of the underlying transaction, which is seven years on average.

RVI's investment portfolio is predominately fixed-income instruments with an average credit quality of 'AA-'; about 44% of total investments were in corporate debt obligations, 28% in municipal issues, and 12% were mortgage-backed securities. The portfolio is well diversified in terms of sector and issue, and it does not create significant risk to the financial risk profile.

Table 5

Risk Position					
	--Year ended Dec. 31--				
(Mil. $)	**2014**	**2013**	**2012**	**2011**	**2010**
Total invested assets	199.7	191.7	208.1	212.9	226.0
Net investment income	4.7	5.3	6.6	7.8	8.3
Net investment yield (%)	2.4	2.7	3.2	3.6	3.7
Net investment yield including realized capital gains/(losses) (%)	2.6	3.1	3.6	4.6	8.8
Investment portfolio composition (%)					
Cash and short-term investments	0.8	1.3	1.8	2.2	1.8
Bonds	99.0	98.5	98.0	97.6	98.0
Other investments	0.2	0.2	0.2	0.2	0.2

Financial flexibility: Less than adequate

Because we view residual value insurance as a unique and specialized niche market, we believe the company's access to capital markets is limited. RVI does not have any bank lines of credit, which constrains its ability to raise emergency capital quickly. RVI's financial leverage consists of trust preferred securities that total $15.5 million and no debt. The trust preferred securities are due 2032 and priced at three-month LIBOR plus 4% per year. Through various economic cycles, RVI has maintained a strong coverage metric. As of June 30, 2015, RVI had not deferred any interest payments.

Table 6

Financial Flexibility					
	--Year ended Dec. 31--				
(Mil. $)	**2014**	**2013**	**2012**	**2011**	**2010**
Fixed-charge coverage (x)	25.0	23.7	17.0	20.1	46.9
Financial leverage including pension deficit as debt (%)	11.8	12.2	12.2	11.5	10.7

Other Assessments

We view RVI's enterprise risk management (ERM) and management assessment as adequate and liquidity as exceptional.

Enterprise risk management: Adequate

Our view of RVI's enterprise risk management is supported by our neutral view of its risk management culture, overall risk controls, emerging risk management, risk models, and strategic risk management. The key risks are underwriting and operational.

In September 2011, management established an ERM framework within the company to enhance its risk-management practices. Since then, the process has been formalized with underwriting guidelines, investment-risk guidelines, and audits enforced by the chief risk officer, whose role has been embedded in the risk-management aspects of the organization. The surveillance process monitors policies across all business lines to effectively measure the aggregate risk to the company. The chief risk officer updates the board quarterly on risk limits and the watch list. Capital allocation strategy continues to limit risk concentration by business line with sensitivity testing driving management strategies. As a result of evidence of management's commitment to the enhance the framework, we have changed our view of strategic risk management to neutral from negative.

Management and governance: Fair

In our view, RVI's management team is highly experienced in the residual value and leasing industries. However, the company's main risks are somewhat elevated because of its size. The CEO is one of only three board members and plays a significant role in the approval of all transactions and business developments. The departure of either (or both) the CEO and a key member of the underwriting team would significantly affect the operations.

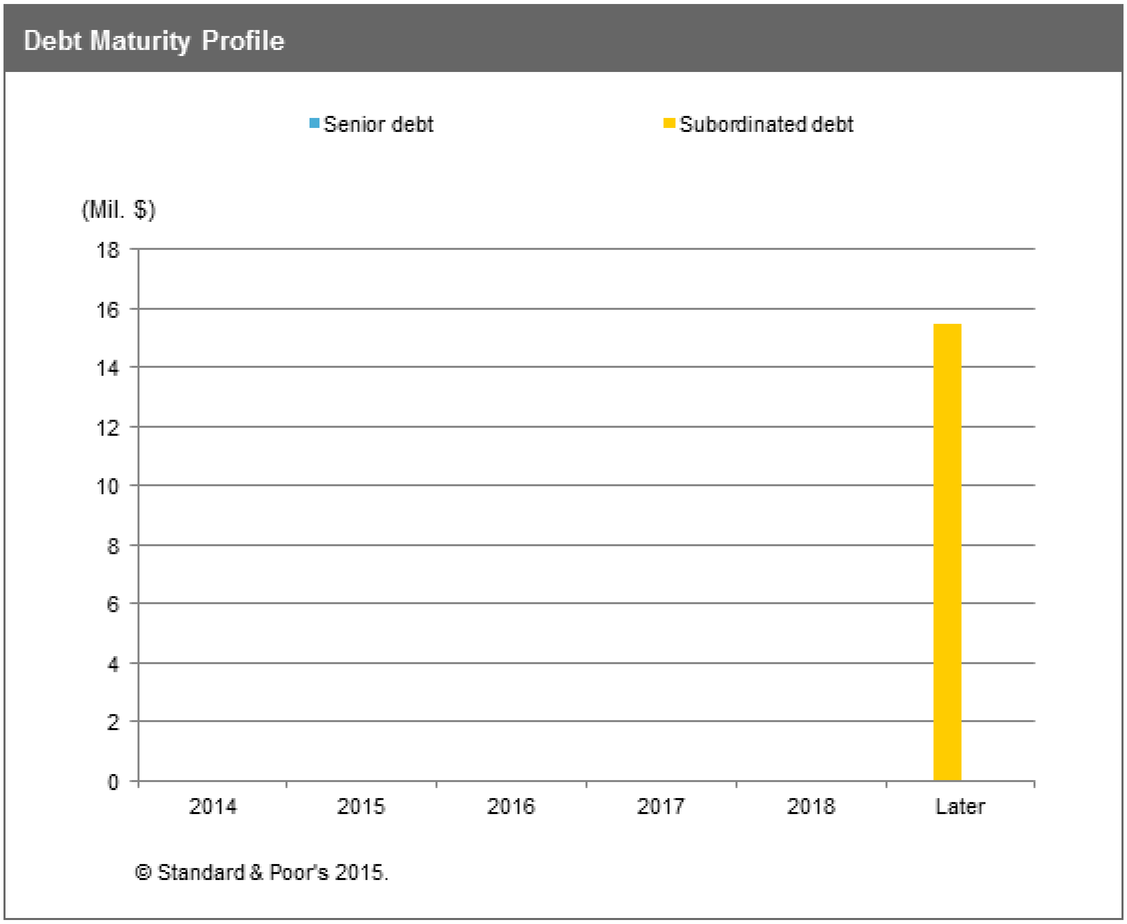
Management has tried to diversify into other market segments, but this process has been slow and has so far had a minimal impact on operations. However, premium growth in 2014 and the first half of 2015 has been strong due to the addition of a number of new clients and an improving economy.

We have not identified any governance deficiencies in our assessment.

Liquidity: Exceptional

RVI generates adequate cash flow, and it has a high-quality, liquid investment portfolio. There are no near-term liquidity concerns, and RVI has proven its ability to meet its claim payments from internal sources of cash.

Chart 1



Accounting Considerations

In our analysis, we have reviewed RVI's financial statements based on U.S. generally accepted accounting principles (GAAP) and an insurance basis that eliminates the fair-value adjustment on the derivative contracts. RVI files financial statements according to GAAP, whereas R.V.I. America Insurance Co. files financial statements under statutory accounting principles (SAP). Under GAAP, RVI's contracts that pay claims or settle to the highest of actual proceeds, third-party published values, or appraisals, meet the derivative requirements pursuant to the Financial Accounting Series Board's (FASB) Accounting Standards Codification "Derivatives and Hedging" (ASC 815), which requires derivatives to be marked to market at each reporting date. Relative to residual value insurance, we believe this has introduced earnings volatility with little bearing on the likelihood of a potential claim or an insurer's intrinsic earnings power. Unlike other financial sectors for which ASC 815 may be more relevant, residual value insurers' contracts are not traded, and there is no business intention to trade to realize gains. Therefore, we believe recording a marked-to-market gain or loss because of changing spreads in the marketplace is unnecessary. Because almost all contracts expire without a claim, corresponding marked-to-market positions are usually zeroed out at maturity. We believe the insurers' loss reserves indicate potential claims and a better representation of the economics of the residual value policy. We also look to our own capital charge evaluations as good indicators of changes to the credit profile of any of the insurers' insured exposure.

Related Criteria And Research

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of October 1, 2015)	
Operating Companies Covered By This Report	
R.V.I. Guaranty Co. Ltd.	
Financial Strength Rating	
Local Currency	BBB/Stable/--
Counterparty Credit Rating	
Local Currency	BBB/Stable/--
R.V.I. America Insurance Co.	
Financial Strength Rating	
Local Currency	BBB/Stable/--
Issuer Credit Rating	
Local Currency	BBB/Stable/--
Domicile	Bermuda

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.