KBRA KROLL BOND RATING AGENCY

KBRA Assigns Ratings to Converge RE II and Converge Holdings Inc.

NEW YORK, NY (December 21, 2018) – Kroll Bond Rating Agency (KBRA) assigns an insurance financial strength rating (IFSR) of A- to Converge RE II (Converge RE). Licensed in 2017, Converge RE is a Puerto Rico Class 5 International Insurer specializing in life and annuity reinsurance. KBRA also assigns an issuer rating of BBB- to Converge Holdings Inc. (Converge Holdings), the holding company for Converge RE. The Outlook for both ratings is Stable.

The assigned ratings reflect Converge RE's sound initial capitalization, the life and annuity business assumed to date, experienced management team and strong asset/liability management framework to ensure sufficient liquidity to cover projected cashflows. Converge RE's business plan is to target middle market U.S. life companies with investment guidelines compatible with its investment strategy. Converge RE's domicile gives it a unique competitive advantage over offshore reinsurers in that primary U.S. life companies in Compacting States receive full credit for reinsurance from Converge RE due to Puerto Rico's membership in the Interstate Insurance Product Regulation Compact Agreement as well as the NAIC. Converge RE's business plan capitalizes on current trends in the U.S. life and annuity market and optimally leverages management experience and relationships in the industry. Moreover, Converge RE employs disciplined underwriting by eschewing transactions that do not align with its targeted risk profile. Converge RE is owned by David Lichtenstein, Chairman and CEO of the Lightstone Group, a commercial real estate investment enterprise he founded in 1988. Mr. Lichtenstein has pledged his continued support of Converge RE's growth strategy beyond its current capitalization with an additional capital commitment letter. Lightstone views Converge RE as an integral part of its long-term growth strategy. The ratings reflect KBRA's expectation that sufficient capital will be infused into Converge RE as transactions are consummated.

Balancing these strengths are Converge RE's limited operating history, execution risk as a recently formed reinsurer in a competitive market, and its non-traditional investment strategy, which is more illiquid than a traditional approach. KBRA notes that Converge RE's investment strategy is to invest a portion of its assets in real estate equity and loans managed by Lightstone (up to 30%), balanced by a fixed income allocation of at least 60% managed by Western Asset Management, a global asset manager with over $420 billion of AUM at September 30, 2018. To date, Converge RE has consummated transactions involving life and annuity blocks as well as flow business. KBRA observes that Converge RE has yet to generate earnings as the company is still ramping up operations. The company's strategy is to assume blocks of annuities and other asset-intensive mortality business that are long-tailed with low volatility and predictable cashflows.

The Stable Outlook reflects KBRA's expectation that Converge RE will continue to maintain sound capitalization via needed/scheduled payments under the promissory note while judiciously executing its business plan. Additionally, KBRA expects Converge RE to retain its management team and board as well as maintain sufficient liquidity to cover projected liability cash flows.

A rating upgrade in the near to medium term is not expected. For the longer term, successful execution of its business plan, continued favorable capital trends, maintenance of sound financial flexibility, sustained growth in earnings, and the absence of any liquidity events could result in positive momentum. Lack of timely and/or adequate capital contributions from Converge RE's owner, departure of a key member of the management team, or a liquidity event requiring sale of assets into a distressed market could result in a negative rating action.

The ratings are based on KBRA's **Global Insurer & Insurance Holding Company Rating Methodology** published on October 10, 2017.

A full report will soon be available on **www.kbra.com**.

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