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Best's Idealized Default Matrix

The table below, Best's Idealized Default Matrix, shows A.M. Best's expected long-term default probabilities on the credit market scale for insurance-linked securities. The credit market scale in the matrix is fully described in *A.M. Best's Ratings & the Treatment of Debt* of Oct. 11, 2004. Best's Idealized Default Matrix can be used to rate: natural catastrophe bonds; mortality catastrophe bonds; contingent capital debt; sidecar debt; debt backed by trust-preferred securities, surplus notes, life settlements or structured settlements; embedded value and closed-block transactions; life/health securitizations based on redundant reserves; reinsurance recoverable transactions; transactions based on the statistical performance risk of a property/casualty line of business such as automobile insurance; and other insurance-linked structured transactions.

The matrix shows that for each debt rating, there is an associated cumulative default risk corresponding to the term of the debt being rated. For example, a 10-year structured security issued an "a" rating by A.M. Best would be assumed to have a cumulative default risk of 3.028%, barring any other considerations. Conversely, for a known default risk, there is an associated rating. For example, a 10-year structured security with a default risk of 1.789% would be assigned a rating of "aa", absent any other considerations.

Best's Idealized Default Matrix

Years	Credit Market Scale									
	aaa	aa+	aa	aa-	a+	a	a-	bbb+	bbb	bbb-
1	0.026%	0.034%	0.043%	0.053%	0.064%	0.113%	0.162%	0.212%	0.231%	0.270%
2	0.076	0.105	0.135	0.227	0.318	0.437	0.556	0.674	0.736	0.888
3	0.142	0.199	0.257	0.417	0.576	0.761	0.945	1.130	1.252	1.509
4	0.221	0.315	0.408	0.623	0.838	1.085	1.332	1.579	1.758	2.131
5	0.314	0.449	0.585	0.844	1.103	1.409	1.715	2.021	2.253	2.752
6	0.419	0.602	0.786	1.078	1.371	1.733	2.094	2.456	2.738	3.369
7	0.534	0.772	1.009	1.326	1.643	2.057	2.470	2.884	3.213	3.981
8	0.660	0.956	1.251	1.585	1.918	2.380	2.843	3.306	3.677	4.585
9	0.795	1.154	1.512	1.854	2.196	2.704	3.212	3.720	4.131	5.179
10	0.937	1.363	1.789	2.134	2.479	3.028	3.578	4.128	4.575	5.762
11	1.087	1.583	2.079	2.422	2.764	3.352	3.941	4.529	5.009	6.331
12	1.242	1.812	2.381	2.717	3.053	3.676	4.299	4.923	5.432	6.884
13	1.402	2.048	2.693	3.019	3.345	4.000	4.655	5.310	5.845	7.419
14	1.566	2.289	3.012	3.327	3.641	4.324	5.007	5.690	6.247	7.935
15	1.733	2.535	3.337	3.639	3.941	4.648	5.356	6.063	6.639	8.428

Years	Credit Market Scale								
	bb+	bb	bb-	b+	b	b-	ccc+	ccc	ccc-
1	0.671%	1.202%	2.296%	2.812%	5.802%	7.610%	8.514%	9.410	10.171%
2	1.956	3.259	5.276	7.296	10.599	14.353	16.840	18.218	19.396
3	3.183	5.229	8.103	11.464	15.081	20.601	24.459	26.225	27.741
4	4.351	7.114	10.781	15.328	19.258	26.374	31.411	33.485	35.269
5	5.461	8.914	13.314	18.900	23.144	31.694	37.739	40.048	42.038
6	6.515	10.631	15.706	22.192	26.752	36.582	43.480	45.961	48.106
7	7.512	12.264	17.962	25.216	30.095	41.058	48.670	51.272	53.526
8	8.455	13.814	20.086	27.984	33.185	45.144	53.344	56.022	58.349
9	9.342	15.284	22.081	30.508	36.035	48.861	57.534	60.255	62.623
10	10.177	16.672	23.952	32.800	38.659	52.229	61.271	64.007	66.395
11	10.958	17.981	25.703	34.872	41.069	55.271	64.585	67.318	69.708
12	11.687	19.210	27.339	36.736	43.277	58.006	67.503	70.221	72.605
13	12.364	20.362	28.863	38.404	45.297	60.456	70.050	72.750	75.123
14	12.991	21.435	30.279	39.888	47.142	62.642	72.253	74.937	77.301
15	13.568	22.433	31.592	41.200	48.824	64.586	74.133	76.812	79.175

This criteria report can be found at
www.ambest.com/ratings/methodology



A.M. Best Company Methodology

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