



A.M. BEST COMPANY, INC.

## Supplementary Credit Rating Disclosure Statement

### **Substantially Material Sources of Information**

In arriving at a rating decision, A.M. Best Company Inc. including all subsidiaries (AMB) relies primarily on information provided by the rated entity. As such, for the types of credit ratings produced by AMB, the rated entity is typically deemed to be the only substantially material source of information. In cases where another source of information is deemed to be a substantially material source, this fact will be disclosed in the public rating dissemination.

Typical information provided may include a company's annual and quarterly (if available) financial statements presented in accordance with customs or regulatory requirements of the country of domicile. Other information and documents obtained include, but are not limited to: interim management reports on emerging issues; supplemental information requested by AMB; information provided through scheduled rating meetings and other discussions with management; and information available in the public domain. The specific data requirements are available in our online document on [Best's Credit Rating Methodology](#). Also linked below are the meeting agendas per business sector, that further outline the types of information typically requested.

- [Health](#)
- [Life/Annuities](#)
- [Property/Casualty](#)

AMB adheres to policies and procedures that define the minimum documentation and record keeping requirements for all rating activities. Beyond those minimum requirements, it is the responsibility of the members of each rating committee to determine the information required to address the factors material to the specific rated entity on a case-by-case basis. In recognition of this, the responsibilities of the chair of each rating committee include ensuring that there is sufficient information for the rating committee to come to a decision. If there is insufficient information, the chair will defer the vote until all requirements are met. Ultimately, if AMB is not able to obtain information deemed necessary to appropriately review and analyze the rated entity, or if the quality of the information is not deemed to be satisfactory, AMB reserves the right to take a rating action or withdraw any existing interactive ratings, or cease the initiation of any new credit rating engagement.

### **Quality of Information Available**

While the information obtained from material source(s) is believed to be reliable, its accuracy is not guaranteed. AMB does not audit the company's financial records or statements, or otherwise independently verify the accuracy and reliability of the information and therefore cannot attest as to the accuracy of the information provided. Consequently, no representations or warranties are made or given

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as to the accuracy or completeness of the information and no responsibility can be accepted for any error, omission or inaccuracy in AMB's credit reports.

### **Notification Standards**

All Best Credit Ratings are interactive in that they include communications with the entity being rated. This interactive communication is used to gather information to be considered at a rating committee that will determine the rating opinion on the entity. As such, AMB informs the rated entity of the rating committee determinations associated with the entity following the conclusion of the rating committee meeting as soon as practicable. However, in A.M. Best Europe - Rating Services Limited (AMBERS), the notification to the rated entity will occur during its working hours and at least a full working day before publication of the rating/outlook by AMBERS. In all cases, the rating notification communication informs the rated entity of the credit rating, rating outlook as well as the principal grounds on which the rating/outlook are based in order to give the entity an opportunity to draw attention to any factual errors, and/or to appeal the rating committee decision.

In cases of a contested or appealed rating/outlook, the rated entity must present additional information shortly after the rating notification that offers substantial clarification on the principal considerations on which the rating/outlook is based, or, material new information, that could reasonably be expected to influence the rating committee's decision. Such information is forwarded to the chair of the appropriate rating committee and, if deemed sufficient, the chair shall withhold the release of such ratings until the rating committee can be re-convened. If the rating committee decision is amended based on the rated entity's appeal, this fact will be disclosed in the public dissemination of the credit rating/outlook.

### **Meaning of Each Rating Category**

AMB produces Best's Financial Strength Ratings and Best's Debt/Issuer Credit Ratings on insurers and certain affiliated entities.

For the meaning of each financial strength rating category, please refer to the [Guide to Best's Financial Strength Ratings – Insurer](#).

For the meaning of each debt and issuer credit rating category, please refer to [Guide to Best's Debt and Issuer Credit Ratings](#).

### **Definition of Default or Recovery**

AMB maintains a general impairment database and historical rating records from which long-term impairment rate and one-year rating transition studies are performed annually aimed at estimating default risk of insurers that have had interactive Best's Financial Strength Ratings. Note: This study includes credit ratings produced by all AMB subsidiaries. Management believes the results are applicable across

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its total rated population given the consistent global application of Best's Credit Rating Methodology (BCRM).

AMB, and credit markets in general, deem a non-insurer issuer default as having occurred when an issuer misses interest or principal payments on its obligations; restructures its debt in a way that is deleterious to investors; or files for bankruptcy. Within the European Union, historic default rates are published by ESMA in its [central repository](#) on the Internet.

### **Definition of Impairment**

For purposes of its long-term impairment rate and one-year rating transition studies, A.M. Best designates an insurer as a Financially Impaired Company (FIC) upon the first official regulatory action taken by an insurance department, whereby the insurer's:

- Ability to conduct normal insurance operations is adversely affected;
- Capital and surplus have been deemed inadequate to meet legal requirements; and/or
- General financial condition has triggered regulatory concern.

Such regulatory actions include involuntary liquidation because of insolvency, as well as other regulatory processes and procedures such as supervision, rehabilitation, receivership, conservatorship, a cease-and-desist order, suspension, license revocation, administrative order and any other action that restricts a company's freedom to conduct its insurance business as normal. Companies that enter voluntary dissolution and are not under financial duress at that time are not counted as financially impaired.

### **Impairments vs. Defaults**

The definition of financial impairment is different from that of issuer defaults generally used in the credit markets. As mentioned above, the credit markets broadly deem an issuer default as having occurred when an issuer misses interest or principal payments on its obligations; restructures its debt in a way that is deleterious to investors; or files for bankruptcy.

Financial impairment of insurance companies, by contrast, often occurs even if an insurance company has not formally been declared insolvent. For instance, an FIC's capital and surplus could have been deemed inadequate to meet risk-based capital requirements, or there might have been regulatory concern regarding its general financial condition. Thus, at any given rating level, more insurers would be impaired, according to the A.M. Best definition, than actually would default on policyholder obligations.

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### **Appropriate Risk Warning**

As noted previously, AMB produces Best's Financial Strength Ratings and Best's Debt/Issuer Credit Ratings on insurers and certain affiliated entities. All credit ratings and rating outlooks are the opinion of AMB (note: an indication of the specific AMB subsidiary who released the rating opinion is denoted on the associated press release and/or website publication) which are produced utilizing a rating committee process and should be relied upon to a limited degree.

A Best's Financial Strength Rating is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. It is based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.

The Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Debt/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security. It is based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile and, where appropriate, the specific nature and details of a rated debt security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor do they address the suitability of any particular financial obligation for a specific purpose or purchaser.

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### **Sensitivity Analysis of the Relevant Key Rating Assumptions**

For AMB credit ratings on insurers, sensitivity analysis plays a role in a number of areas of the rating process, including the stress testing of company-provided forecasts and projections, and within our proprietary capital model, Best's Capital Adequacy Ratio (BCAR).

Within our BCAR model various sensitivity analyses are applied.

- Interest rate sensitivity tests – stresses the balance sheet based on prescribed movements in interest rates, including shocks up and down, as well as prolonged extreme trends.
- Spread of Risk – stresses the balance sheet by increasing risk charges on smaller asset portfolios to reflect the impact of diversification and the ability of companies with larger portfolios to invest in a broader array of assets.
- Natural catastrophe stress test (non-life only) – stresses the balance sheet for companies with natural catastrophe exposure to better understand a company's financial position post an actual event by examining the balance sheet risks from increased reinsurance recoverables and reserves associated with a natural catastrophe. Assuming an event has actually occurred, including the resulting financial affects, allows A.M. Best to formulate a more accurate view of the company's balance sheet strength following an event.
- Terrorism exposure stress test (non-life only) – stresses the balance sheet for companies with terrorism exposure by examining the impact of a series of scenarios considering the probability of a large-scale attack within an insurer's book of business given its geographic make-up and risk concentrations.
- Premium/reserve growth factors (non-life only) – the primary analyst can adjust the growth factors to reflect changing market dynamics or potential volatility in determining capital requirements.

### **Worst-case and Best-case Scenario Credit Ratings**

The following tables are based upon three year rating transition matrices for the period ended December 31, 2012. The exhibits represent the anticipated potential upward or downward movement that could likely occur for each current assigned rating level, as depicted as the "Best-case" and "Worst-case" scenarios, for each type of rating:

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# A.M. BEST COMPANY, INC.

Operating Company Issuer Credit Rating		
Current	Best-case	Worst-case
aaa	aaa	aa+
aa+	aaa	aa
aa	aa+	aa-
aa-	aa	a
a+	aa-	a-
a	aa-	bbb+
a-	a+	bbb-
bbb+	a	bb+
bbb	a	bb
bbb-	a-	bb-
bb+	bbb+	b+
bb	bbb	b
bb-	bbb-	ccc+
b+	bb	ccc
b	bb-	ccc-
b-	b	rs
ccc+	b-	rs
ccc	b-	rs
ccc-	ccc+	rs
cc	ccc	rs
c	ccc-	rs

Holding Company Issuer Credit Rating		
Current	Best-case	Worst-case
aaa	aaa	aa+
aa+	aaa	aa
aa	aa+	aa-
aa-	aa	a+
a+	aa-	a
a	a+	bbb+
a-	a	bbb
bbb+	a-	bbb-
bbb	bbb+	bb+
bbb-	bbb	bb
bb+	bbb-	b+
bb	bb+	b
bb-	bb	b-
b+	bb-	ccc
b	b+	ccc-
b-	b	cc
ccc+	b-	rs
ccc	ccc+	rs
ccc-	ccc	rs
cc	ccc-	rs
c	cc	rs

Operating Company Financial Strength Rating		
Current	Best-case	Worst-case
A++	A++	A+
A+	A++	A
A	A+	B++
A-	A	B+
B++	A	B
B+	A-	B-
B	B++	C++
B-	B+	C
C++	B	C-
C+	C++	F
C	C+	F
C-	C	F
D	C-	F

## Date the Credit Rating was First Released for Distribution

The original rating date for all credit ratings and rating outlooks issued by AMB can be identified via the individual company listings on the [Rating & Criteria Center](#) of the AMB website.

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### **Time Horizons for Rating Decisions: Rating Outlooks and Under Review Modifiers**

All credit rating actions associated with an FSR, ICR or Debt Rating (except Under Review actions described below) either for the establishment of a new credit rating or the update of an existing credit rating, are accompanied by a rating outlook. There are three classifications of rating outlooks including a: Positive Outlook, Negative Outlook and Stable Outlook. In general, the time horizon associated with an assigned rating outlook is 12 to 36 months. However, AMB reserves the right to update an existing published rating or rating outlook at any time should circumstances materialize that necessitate a rating action (i.e. a credit rating or rating outlook may be changed, suspended or withdrawn at any time for any reason at the sole discretion of AMB).

Credit ratings that include the Under Review rating modifier, denoted by a lower case “u” (or asterisk \*) presented directly next to the letter rating (ex. “Au” or “a\*”), indicates that the associated rating may change in the near term, typically within six months and will not include a traditional rating outlook. Alternatively, the Under Review status will be accompanied by the assignment of a descriptor of the circumstance associated with the Under Review status, denoted as “Positive Implications”, “Negative Implications” or “Developing Implications”. Note these Under Review descriptors are not traditional rating outlooks as they are associated with a much shorter time horizon.