

A.M. Best Europe – Rating Services Limited
Rules on the Presentation of Credit Ratings
Supplementary Disclosure Statement

The European Parliament and The Council of the European Union’s credit rating agency regulation (Regulation (EC) No 1060/2009) in part established rules on the presentation of credit ratings. Per the regulation, required disclosures are to be made as part of the dissemination of each rating, or where the information would be disproportionate in relation to the length of the report distributed, it shall suffice to make clear and prominent reference in the report itself to the place where such disclosures can be directly and easily accessed.

Items Disclosed In Dissemination of Each Credit Rating

A.M. Best Europe – Rating Services Limited (AMBERS) discloses the information noted below when disseminating each credit rating. The dissemination of all credit ratings is executed through the issuance of a public press release distributed via Business Wire News Service.

Name and job title of the lead rating analyst

Name and position of the person primarily responsible for approving the credit rating

Effective date of the credit rating

Information as to whether the credit rating concerns a newly issued financial instrument and whether the credit rating agency is rating the financial instrument for the first time

Key elements underlying the credit rating

Principal methodology and criteria used in determining the rating, with a reference to a comprehensive description of each methodology or criteria employed

Explanation of any significant adjustments and deviations from published methodology, and how these aspects are taken into account in the credit rating.

Items Disclosed via this Supplementary Disclosure Statement

Below are the disclosure requirements addressed via this Supplementary Disclosure Statement. AMBERS’ management believes this information would otherwise be disproportionate to the length of the rating dissemination itself.

Substantially Material Sources of Information and the Quality of Information Available

In arriving at a rating decision, AMBERS relies primarily on information provided by the rated entity. As such, for the types of credit ratings produced by AMBERS, 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.

One of the critical documents provided is 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 AMBERS; information provided through the annual rating meeting and other discussions with management; and information available in the public domain.

AMBERS maintains 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 AMERS 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, AMBERS reserves the right to take a rating action or withdraw any existing interactive ratings, or cease the initiation of any new credit rating engagement.

While the information obtained from the material source(s) is believed to be reliable, its accuracy is not guaranteed. AMBERS 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 as to the accuracy or completeness of the information and no responsibility can be accepted for any error, omission or inaccuracy in A.M. Best's credit reports.

At least 12 hours before publication of the credit rating, AMBERS informs the rated entity of the credit rating and the principal grounds on which the rating is based in order to give the entity an opportunity to draw attention to any factual errors, and/or to appeal the rating decision. In cases of a contested or appealed rating, the rated entity must present additional information shortly after rating notification that offers substantial clarification on the principal considerations on which the rating 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 credit rating decision is amended based on the rated entity's appeal, this fact will be disclosed in the public dissemination of the credit rating.

Meaning of Each Rating Category

As noted previously, AMBERS' 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* at <http://www.ambest.com/ratings/guide.pdf>

For the meaning of each debt and issuer credit rating category, please refer to the *Guide to Best's Debt and Issuer Credit Ratings* at <http://www.ambest.com/debt/debtguide.pdf>

Definition of Default or Recovery

A.M. Best Company, Inc., AMBERS' parent company domiciled in the United States, 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. While these studies cover U.S. domiciled insurers, AMBERS' management believes the results are applicable to its rated population given the consistent global application of rating criteria.

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. 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.

Appropriate Risk Warning

As noted previously, AMBERS' produces Best's Financial Strength Ratings and Best's Debt/Issuer Credit Ratings on insurer's and certain affiliated entities.

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.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information.

Sensitivity Analysis of the Relevant Key Rating Assumptions

For AMBERS' 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 there are various sensitivity analyses 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

Due to the breadth and depth of the quantitative and qualitative issues addressed in the rating process, AMBERS does not apply a modeled or formulaic approach which would lend itself to developing a scenario-based range of credit ratings for each rated entity. However, as mentioned previously, one-year rating transition studies are prepared annually which can reveal to what extent ratings are stable across different periods. *Best's One-Year Rating Transition Matrix (1977–2009)* can be accessed at www.ambest.com.

Date the Credit Rating was First Released for Distribution

A listing of original rating dates for all credit ratings issued by AMBERS is available at europe.ambest.com