A.M. Best Europe – Rating Services Limited

European Union Transparency Report – March 2015

This report is provided in accordance with Article 12 of Regulation (EC) 1060/2009 as amended by Regulation (EU) 513/2011 and Regulation (EU) 462/2013, Annex 1 Section E. The report covers the 12 month period from the 1st January 2014 to the 31st December 2014.

Contents

1. Introduction

The AM Best Group ("the Group") has been producing credit ratings and opinions on the insurance market for over 100 years. In recent years, the Group has expanded its geographical coverage from its principal market in the United States to cover the Americas, Europe, Middle East, Africa, Russia, India and the Asia-Pacific region. As at 31st December 2014, the Group had credit rating operations based in Oldwick (New Jersey), London, Hong Kong, Singapore and Mexico City.

The Group has regulatory registrations in:

- The USA (A.M. Best Company Inc. - AMB)
- Brazil (AMB)
- The European Union (A.M. Best Europe - Rating Services Limited - AMBERS)
- Dubai (AMBERS) - Representative Office only
- Hong Kong (A.M. Best Asia-Pacific Limited - AMBAP)
- New Zealand (AMBAP)
- Australia (AMBAP)
- Singapore (A.M. Best Asia-Pacific (Singapore) Pte. Limited – AMBAPS)
- Mexico (A.M. Best América Latina, S.A. de C.V – AMBAL)

The Group is renowned for its experience and knowledge of the insurance sector and currently provides ratings to circa 3,500 entities in that market.

The Group submitted its application for registration as a Credit Rating Agency in the European Union in September 2010 and AMBERS was subsequently registered on the 7th September 2011 by the European Securities and Markets Authority (ESMA) as a Credit Rating Agency under the applicable European legislation.

The credit ratings issued by the Group are independent opinions regarding the creditworthiness of an obligor, issuer or a debt obligation; the ratings are based on a quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile, or, where appropriate, the specific nature and details of a debt security. In common with most other rating agencies, A.M. Best operates on an issuer pays model which allows the public to gain free access to the published rating opinions.

The credit rating opinions are forward-looking opinions, rather than a backwards verification of the facts. Best's credit ratings are assigned using a number of simple, straight-forward scales, with each scale representing a rank ordering of our opinion of the creditworthiness of an insurer, issuer or financial obligator. For example, insurers that are assigned higher credit ratings are deemed to be less likely, in our opinion, to become financially impaired than insurers that are assigned lower credit ratings. While ratings reflect our opinions of relative creditworthiness at the time they are assigned, they are not indicators or predictors of defined impairment or default probabilities with respect to any specific insurer, issuer or financial obligation. The ratings themselves are opinions of relative credit risk. Therefore, users of ratings should consider the rating assigned to an entity alongside other information in order to reach an informed opinion.

AMBERS assigns three types of ratings:

- Financial Strength Ratings (FSRs) – These are an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance obligations. This type of rating is assigned to insurance companies.
- Issuer Credit Ratings – These are an independent opinion of the ability of an issuer or entity to meet its ongoing senior financial obligations. This rating is assigned to the insurance companies and their related holding companies as well as other legal entities authorised to issue financial obligations.
- Debt Ratings – These are an independent opinion of an issuer's ability to meet its ongoing financial obligations to security holders when due. This rating is assigned to the debt securities and insurance linked securities transactions of entities rated by the Group.

Our credit ratings are not a warranty, nor are they a recommendation to buy, sell, hold or trade any securities or insurance related products. They do not address the suitability of any particular financial obligation for specific purposes or for potential purchasers.

2. Legal Structure & Ownership

2.1 Legal Structure

AMBERS is a wholly owned subsidiary of A.M. Best Company Inc. (AMB), a privately owned company registered in New Jersey, USA. As such, the shares of AMB are not admitted for trading on a regulated market.

AMBERS is incorporated in accordance with the laws of England and Wales.

2.2 Board of Directors

AMBERS has an exemption from the requirement to have independent non-executive directors by virtue of the fact AMBERS has fewer than 50 employees. Consequently the AMBERS Board consists solely of Executive Directors and is chaired by an Executive Board Director of AMB. There were no changes to the composition of the Board during 2014.

Each of the five Directors of AMBERS has a combination of extensive experience in the insurance industry supplemented with credit rating specific experience gained within the Group.

The Directors are:

- Mr Larry Mayewski (Chairman)
- Dr Roger Sellek (CEO)
- Mr Nick Charteris-Black
- Mrs Suzanne Pool
- Mr Bernard Peecock

The Board of Directors currently meets on an approximately quarterly basis, although ad hoc meetings are scheduled as required.

3. Description of Internal Control Mechanisms

The Group strives to ensure that credit ratings are free from conflicts of interest, are consistent and are not subject to geographical variations. AMBERS is a separate legal entity based in the United Kingdom and subject to European credit rating agency legislation and regulation. However, as part of the Group, it shares common methodologies and processes.

At a high level, AMBERS internal control mechanisms ensure the quality of its credit rating activities and can be grouped into six broad headings.

- Ownership and Management Structure
- Code of Conduct and Policies and Procedures
- The Credit Rating Process
- The Management of Conflicts of Interest
- Performance of Credit Ratings
- Internal Control Functions and Frameworks

3.1 Management Structure

As set out in Section 2.2, all five of the Directors of AMBERS have a combination of extensive experience in the insurance industry supplemented with credit rating specific experience gained within the Group. Moreover, as a privately owned company, AMB is free from potential conflicts of interest and influence from external shareholders.

The exemption from the need to have independent Directors on the Board of AMBERS has transferred the requirements of Annex 1, Section A, of the legislation to the Executive Directors. The key elements of Section A (the Governance schedule) are that:

- Credit rating activities are independent and free from political, economic influences and constraints;
- Conflicts of interest are properly identified, managed and disclosed;
- The business is organised in a way that ensures its business interest does not impair the accuracy of the credit ratings;
- Senior Managers are of good repute and sufficiently skilled and experienced;
- The business has adequate policies and procedures to ensure compliance with the regulations;
- The business has:
    - Sound administrative and accounting procedures;
    - Internal control mechanisms;
    - Effective procedures for risk assessment;
    - Effective controls and safeguards for IT systems.
- The business has implemented and maintained decision making procedures and organisational structures which are clear and document specific reporting lines and allocate functions and responsibilities;
- The business appoints and maintains an independent compliance function that reports regularly to the Board and Senior Management;
- The business monitors and evaluates the adequacy and effectiveness of its systems, internal control mechanisms and arrangements, and takes appropriate measures to address any shortfalls.

The governance requirements which would normally be performed by Independent Directors have instead been devolved to the Board and include monitoring the:

- Development of credit rating policies and methodologies used in the ratings process;
- Effectiveness of the internal quality control system in relation to the credit rating activities;
- Effectiveness of the measures and procedures to ensure the proper management of potential and actual conflicts of interest;
- Compliance and governance processes, including the efficiency of the review function.

3.2 Code of Conduct and Policies and Procedures

AMBERS adheres to the AMB Code of Conduct which is based on the IOSCO Code of Conduct. The AMB Code sets out the principles under which all Directors, Senior Managers and Employees are expected to operate. The Code is regularly reviewed to take account of changes in legislation on a global basis.

The AMB Code of Conduct is viewed as the high level standards and principles against which the company operates. The Group also has a range of other policies and procedures which provide detailed interpretations of the laws, rules and regulations which govern the ways in which the business operates.

A summary of the policies and procedures used to determine credit ratings can be found at exhibit 2 within the attached link:

http://www.ambest.com/nrsro/FormNRSRO_Annual_Certification_March_Exhibit1-9.pdf

The above document provides an overview of the critical quality control role played by Rating Committees and outlines the high level processes for reviewing methodologies and maintaining ongoing surveillance of published ratings. Within the EU all ratings are subject to review on at least an annual basis.

More detailed information on rating methodology/criteria for the types of ratings issued by the Group is available on our web site at:

http://www.ambest.com/ratings/methodology.asp

Employees are provided with training and testing on compliance and ratings policies including the management of conflicts of interest. All policies are made available to employees through the Group's intranet pages and training is provided regarding new or amended requirements.

3.3 The Credit Rating Process

The foundation of the interactive credit rating process is an ongoing dialogue with the rated company's management, which is facilitated by the Group's credit analysts. Each interactively rated entity is assigned to a lead analyst who is supervised by a team leader. The lead analyst is charged with managing the ongoing relationship with company management and performing the fundamental credit analysis prescribed in AMB's rating criteria. It is the lead analyst's responsibility to monitor the financial and non-financial results and significant developments for each rated entity in their portfolio. A rating evaluation can be considered whenever A.M. Best becomes aware of a significant development, regardless of the annual review cycle.

This ongoing monitoring and dialogue with management occurs through formal annual rating meetings, as well as interim discussions on key trends and emerging issues as needed. Management meetings afford analysts the opportunity to review with the company factors that may affect its rating, including strategic goals, financial objectives and management practices. It is during these interactive meetings that a company typically will share information that may be extremely sensitive or proprietary in nature.

The dialogue with management continues throughout the rating process which is described in more detail below.

1. Compile Information. The rating assessment begins with the compilation of detailed public and proprietary financial information, including annual and quarterly financial statements, regulatory filings, certified actuarial and loss-reserve reports, investment detail and guidelines, reinsurance transactions, annual business plans and Best's Supplemental Rating Questionnaire. The primary credit analyst uses this information to develop a tailored meeting agenda for the annual rating meeting. The annual meeting is a key source of quantitative and qualitative information.

2. Perform Analysis. The Group's analytical process incorporates a host of quantitative and qualitative measures that evaluate various sources of risk to an organisation's financial health, including underwriting, credit, interest rate, country and market risks, as well as economic and regulatory factors. The analysis includes comparisons with peers, industry standards and proprietary benchmarks, as well as assessments of operating plans, philosophy, management, risk appetite, and the implicit or explicit support of a parent or affiliate.

3. Determine Best's Rating. An initial rating recommendation is developed based on the analytical process outlined above. Each rating recommendation is reviewed and modified, as appropriate, through a rigorous committee process that involves analysts and senior rating officers who possess relevant expertise. This committee approach ensures consistency of ratings across different business segments and maintains the integrity of the rating process and methodology. The final rating outcome is determined by one or more rating committees after a robust discussion of the pertinent rating issues and financial data.

Before public dissemination, the rating outcome is communicated to the company to which it is being assigned. If the company disagrees with the rating and believes that the information on which it was based was incomplete or misunderstood, then the rating can be appealed. If material new information is forthcoming in a timely manner, then the rating committee may reconsider the rating.

4. Disseminate Best's Rating. Best's Credit Ratings are disseminated as soon as practicable once the rating process is finalised. The ratings are made available to the public via the Group's website and through a number of different data providers and news vendors.

5. Monitor Best's Rating. Once an interactive credit rating is published, A.M. Best monitors and updates the rating by regularly analysing the company's creditworthiness. Analysts continually monitor current developments (e.g., financial statements, public documents, news events) to evaluate the potential impact on a company's rating. Significant developments can result in an interim rating evaluation, as well as modification of the rating or outlook. The primary analyst typically will initiate an evaluation of the rating upon becoming aware of any information that might reasonably be expected to result in a rating action.

There were no material changes to AMBERS Credit Rating process during 2014 that required disclosure under point 6 of Section E.I of Annex I of Regulation (EC) No 1060/2009.

In June 2014, AMBERS upgraded the "Best Publishing System (BPS)" which is the main platform used by analysts as part of the rating process. The upgraded system is known internally as "Best's Internal Credit Rating System (BCRS)." Essentially the system performs the same key tasks but has enhanced functionality (e.g. BCRS will auto-populate certain fields thereby reducing the risk of input error). The change does not impact upon the manner in which AMBERS undertakes rating activity and so does not constitute a material modification.

3.4 The Management of Conflicts of Interest

AMBERS operates an "issuer pays" business model in respect of the fees collected in return for the provision of a credit rating. The other recognised business model is termed "investor pays" which is where the general investors or users of the ratings pay a subscription to access company ratings. It is the Group's belief that whilst both methods have an inherent potential conflict of interest risk, the issuer pays model is the better method for making sure that the maximum exposure is given to any specific rating.

AMBERS has initiated a number of processes to manage potential conflicts of interest. These include:

- The adoption of the Code of Conduct based on the IOSCO principles. The code is regularly updated to keep it current and address evolving risks.
- The adoption of policies and procedures which address and manage conflicts of interest. Every quarter, employees affirm that they are aware of the details contained within the Code of Conduct and that they follow the policies and procedures, particularly with respect to gifts and entertainment, securities trading and ownership and other situations that could cause a real or potential conflict of interest.
- The business model operated by AMBERS separates the commercial aspects of providing a rating from the analytical process. The Code of Conduct expressly prohibits analytical employees from any knowledge of the commercial terms between the company and a rated entity.
- The working environment of AMBERS analytical staff is physically separated from that of all other employees.
- AMBERS only provides ratings services to its clients and does not operate any ancillary or other business which raises revenue from its clients.
- The rating process ensures that any potential conflicts of interest are declared at the outset of the ratings determination and analysts declare whether or not they have any potential conflicts of interest before joining any rating committee.
- The rating decision reached is that of a committee rather than the judgment of any single individual.
- When an analyst leaves the employ of the Group to work for a rated entity a look-back review is conducted to make sure that the analyst did not exert any undue influence on the decision of the rating committee of that entity.

- The compensation for analysts does not contain any element for the retention or acquisition of business.

The Compliance Officer actively monitors the potential and actual conflicts of interest that may occur within the business and reports his findings to the AMBERS Board.

3.5 Performance of Credit Ratings

The Group provides annual performance measurement statistics associated with Financial Strength Ratings, Issuer Credit Ratings, and Debt Ratings. The impairment database upon which the performance measurement statistics are based covers ratings associated with individual US and non-US operating insurance companies with public and private FSRs. Consequently, AMBERS believes the results are applicable to its rated population given the consistent global application of rating criteria. The applicable periods for the performance statistics are the most recent 1-year, 3-year and 10-year periods all ending on December 31 in the prior calendar year.

Performance measurement statistics are updated annually at the end of the first quarter and these are made available on the Group's website. These performance measurement statistics display the following ratings transition data for the various rating types:

a) 1-year ratings transition matrix and 1-year impairment/default rate for each rating level;

b) 3-year ratings transition matrix and 3-year impairment/default rate for each rating level,

c) 10-year ratings transition matrix and 10-year impairment/default rate for each rating level.

The most recently available performance measurement statistics can be found at:

http://www.ambest.com/nrsro/FormNRSRO_Annual_Certification_March_Exhibit1-9.pdf

For the purpose of tabulating impairment rates for insurers, the Group designates an insurer as a Financially Impaired Company (FIC) upon the first official regulatory action taken by an insurance department or regulatory organisation, whereby the insurer's:

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

The definition of financial impairment is different from that of issuer default that is generally used in the credit markets. (Issuer default is generally defined 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, a 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 more insurers would be impaired, according to the above definition, than actually would default in full (or in part) on policyholder obligations.

3.6 Internal Control Functions and Frameworks

Cross Jurisdictional Management Support Functions

In the interests of consistency the Group looks to utilise centralised functions wherever it is most appropriate to do so. The function responsible for the production of methodologies and models is centralised in the Group's Head Office in Oldwick, New Jersey.

Credit Rating Policy Committee

The Credit Rating Policy Committee (CRPC) is the global function which is responsible for overseeing the establishment, maintenance and appropriateness of the Group's global credit rating criteria, models and methodology. CRPC serves as the Group's independent internal review function globally. The committee is independent of the business lines that are responsible for the determination of credit ratings; however, members of the CRPC possess appropriate expertise in the credit rating process (and/or related disciplines) as to be able to provide sufficient knowledge to execute their duties. Under the terms of reference of the CRPC, the credit rating criteria, models and methodologies are subject to a continuous assessment and review process. This ongoing global review provides the appropriate degree of rigour which is paramount to the integrity of the credit rating process and allows the models and methodologies to be used with a high degree of confidence. The models and methodologies used in the sector have been developed and refined over a long period of time which gives the market confidence in the reliability of the overall rating process.

Group Risk Assessment Committee (RAC)

The RAC is a global oversight body that facilitates the identification and assessment of the risks relative to the CRA activities of the Group and the related development and evaluation of control systems and other mechanisms to mitigate the Group's exposure to these risks. The committee is comprised of members representing the Compliance function, CRPC, and senior management from the Ratings Division. The key responsibilities of the committee are:

- To identify and review relevant regulatory risks and other risks stemming from the Group's activities as a CRA.
- Identify the owners of each risk and work with the risk owners to identify and document the controls and other risk mitigants in place for each identified risk.
- Assess the adequacy of the controls, policies and procedures in place to mitigate the risks in the light of evolving regulatory requirements.

AMBERS Audit and Risk Management Committee (ARMC)

In accordance with the AMBERS Governance Manual, a Risk Management Committee (RMC) was established in 2013 with the "…responsibility for the oversight and advice to the Board on the current risk exposures and future risk strategy, including legal and regulatory risk, strategy for capital and liquidity management, and the embedding and maintenance of a supportive culture in relation to the management of risk." During 2014, the RMC was merged with the Audit Committee to create the Audit and Risk Management Committee (ARMCO). The role of the ARMCO is not to replace any of the corporate risk and control functions; rather the ARMCO is the direct interface between AMBERS management and the centralised corporate control functions. The ARMCO reviews the reports and other output from Corporate Compliance, Internal Review (CRPC), and RAC, and provides to the AMBERS Board a consolidated view of risk and control related topics so as to inform strategic decision making by the AMBERS Board.

4. Statistics regarding Staff Allocation

The table below lists the staff employed by AMBERS as at the 31st December 2014.

Staff Type	Number
Rating Analysts	19
Credit Rating Support Staff	4
Other Support Staff (e.g. HR, Market Development, Finance etc)	14
Senior Management (CEO, Managing Director Analytics, Finance Director, HR and Operations Director, Managing Director Market Development and Compliance Officer)	6
Total	**43**

As outlined earlier in this report, methodology and model appraisal is undertaken by the Group's Credit Rating Policy Committee based wholly in the United States office.

All AMBERS analysts are involved in both new and existing ratings and are solely allocated to corporate ratings (and associated debt instruments) of insurance companies. AMBERS does not issue either structured finance or sovereign ratings.

There were no material changes to resources during 2014 that require disclosure under point 6 of Section E.I of Annex I of Regulation (EC) No 1060/2009.

5. Record Keeping Policy

The record keeping requirements for AMBERS are governed by the Group's global record keeping and retention policy. The purpose of having a centrally administered policy is to allow the Group to present a single standard which is understood by all employees.

The policy classifies documents according to whether the documents themselves are central to the procedures and determinations of rating decisions, refer to the commercial relationships with our clients or are documents that the Group keeps to satisfy its legal and regulatory obligations.

Details of the Group's Credit Rating Division record keeping policy can be found at:

http://www.ambest.com/nrsro/FormNRSRO_Ex3_CreditRatingDivisionRecordkeeping.pdf

6. Compliance Function

The Compliance Officer for AMBERS operates independently of business management and provides regular reports to the AMBERS Board in order to apprise the Directors of the efficacy of compliance arrangements in accordance with the Annual Compliance Plan. This includes, but is not limited to, providing updates on:

- Compliance monitoring activity;
- Any identified compliance issues;
- Any regulatory interactions in the reporting period;
- Changes to policies and procedures; and
- Progress being made to deliver the Annual Compliance Plan.

The AMBERS Board has conducted an internal review of its compliance function and has concluded that the company's compliance arrangements are operating effectively and with the appropriate degree of independence. In helping to form this opinion, the AMBERS Board commissioned Mazars LLP to undertake a review of the AMBERS compliance function.

Mazars' audit scope included reviewing:

- Independence of the compliance function;
- Appropriateness of the compliance functions resource, authority and responsibilities;
- The establishment of adequate policies and procedures;
- The suitability of the monitoring undertaken by the compliance function to assess the adequacy and effectiveness of its policies and procedures;
- The provision of training programmes to assist staff in understanding their obligations; and
- The appropriateness of reporting to the Board on compliance matters.

This report did not identify any material weaknesses in processes or procedures.

7. Description of Rotation Policy

AMBERS has an exemption from regulatory requirements regarding the rotation of management and analysts by virtue of its current employee headcount.

8. Financial Information

Revenue of AMBERS

In 2014, AMBERS total turnover was £8,054,261.[1] AMBERS did not generate any income from ancillary services and its revenue was 100% attributable to the provision of credit rating services.

As outlined earlier in this report, AMBERS does not provide sovereign or structured finance ratings. As such all of its ratings revenue is attributable to corporate ratings related to the insurance sector.

No single rated entity or related third party was accountable for more than 5% of AMBERS' revenue.

AMBERS provides ratings to organisations based within the European Union and also to organisations based within wider Europe, the Middle East and Africa. Based on the location of the entity billed, AMBERS revenue can be assigned as follows:

European Union – 61%

Non-European Union – 39%

[1] Turnover represents the total value of fees earned in the year, excluding value added tax. Revenue is earned by recongising fees throughout the period of service under the rating service agreement. Any billed fees unearned at the year end are held in the balance sheet as deferred revenue.

9. Corporate Governance Statement

Regulation (EC) No 1060/2009 Section E Paragraph 8, requires Credit Rating Agencies to provide a governance statement within the Transparency Report in accordance with Article 46(a)(1) of Council Directive 78/660/EEC of 25 July 1978.[2] As a subsidiary of a privately owned company, AMBERS is exempt from Article 46(a).

However, in the interests of transparency, AMBERS makes the following disclosures:

Corporate Code of Conduct

As a privately owned company, AMBERS is not subject to any corporate governance code in the United Kingdom. However, as outlined in section 3.2 of this report, AMBERS adheres to the AMB Code of Conduct based on the IOSCO Code of Conduct. The Code sets out the principles under which all Directors, Senior Managers and Employees are expected to operate. The Code is regularly reviewed to take account of changes in legislation on a global basis.

The Group code of Conduct can be accessed via the following link:

http://www.ambest.com/nrsro/code.pdf

In addition, AMBERS has implemented a governance manual setting out the various roles and responsibilities within the company. The AMBERS Board is committed to reviewing its governance processes and updating the Governance manual on at least an annual basis.

Financial Reporting (Internal Control and Risk Management)

The annual financial statements of the Company are produced by the Finance Director and are submitted for review to the Board's Audit and Risk Management Committee (ARMCO). This review includes consideration of the appropriateness of the accounting policies that are followed in the preparation of the financial statements. The ARMCO also receives a report from the Company's appointed external auditors, including any comments they wish to bring to the attention of the Committee following their audit of the financial statements. The ARMCO makes a recommendation to the Board regarding the approval of the annual financial statements.

Responsibility for the design and maintenance of an appropriate and proportionate internal control environment for the finance function is delegated by the Board to the Finance Director. The ARMCO, chaired by the Chief Executive Officer, in turn has oversight responsibility for this internal control system. Further, the ARMCO agrees the work plan of the internal audit function and can thereby direct work in relation to any particular aspects of the internal controls over finance, as considered appropriate.

Share Ownership

AMBERS is a privately owned company with all of its shares held by A.M. Best Company, Inc. (AMB). AMB is in turn a privately owned company based and incorporated in New Jersey, United States of America.

The AMBERS Board consists of four executive directors and a member of the AMB Executive Committee who acts as Chairman.

[2] Article 46a was subsequently introduced through Council Directive 2006/46/EC.

The Chairman of the Board is also the ‘Nominated Director’ by which, under the Company’s Memorandum and Articles of Association, he is appointed by the shareholder and carries additional voting powers in the Board process. Specifically, no Board resolution is valid unless the Nominated Director supports the Board’s majority decision. Whilst the Nominated Director is unable to mandate a particular course of action without the backing of the Board as a whole, his voting rights do enable him to veto any proposal supported by the other members of the AMBERS Board. To date, there has been no instance where the Nominated Director has exercised this right of veto.

Directors of the Company can be appointed by the shareholders or by the Board when casual vacancies arise. Directors have no fixed term of office and there is no retirement and re-appointment by rotation. Names of the current Board members are included within Section 2.2, above.

END