

Press Release - APRIL 29, 2008

## A.M. Best Upgrades Rating of Knight Insurance Company Ltd.

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### CONTACTS:

Analyst(s) Eric Nesbitt (908) 439-2200, ext. 5629 eric.nesbitt@ambest.com	Public Relations Jim Peavy (908) 439-2200, ext. 5644 james.peavy@ambest.com
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Steven Chirico (908) 439-2200, ext. 5087 steven.chirico@ambest.com	Rachelle Morrow (908) 439-2200, ext. 5378 rachelle.morrow@ambest.com
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### FOR IMMEDIATE RELEASE

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**A.M. Best Co.** has upgraded the financial strength rating to A- (Excellent) from B++ (Good) and assigned an issuer credit rating of "a-" to **Knight Insurance Company Ltd.** (Knight) (Cayman Islands). The outlook for all ratings is stable.

The ratings reflect Knight's excellent capitalization, characterized by moderate underwriting leverage and prudent reserves, and its historically favorable underwriting results. The ratings also consider the strategic role Knight performs as a captive for the Hankey Group, a group of companies that operate in the retail automotive industry. Partially offsetting these positive rating factors are the company's high stock investment leverage and current dependence on a fronting arrangement.

Knight's capitalization has been supported by substantial capital injections over the years to support growing business volumes. The company's balance sheet strength is demonstrated by moderate underwriting leverage measures, as well as a conservative approach to reserving. While producing favorable underwriting results with consistently low loss ratios, the company has maintained robust loss reserves and built up its surplus levels. Nevertheless, Knight's balance sheet is exposed to some volatility as a large portion of invested assets are in equity securities. Its operating results also have been impacted over the past five years by volatility associated with realized capital gains and losses. Though heavily weighted to equity holdings, the company's investment portfolio is diversified and includes a significant and increasing fixed income component in recent years.

As a captive reinsurer, Knight generates a substantial portion of business from an automotive finance company with common ownership, but it also has added programs with unaffiliated third party business. Knight has effectively partnered with fronting carriers to grow its books of business; however, the dependence on fronting arrangements somewhat limits its strategic flexibility and competitive market position. Knight is therefore implementing new production strategies to develop more autonomy, though A.M. Best expects it to maintain a niche market focus providing coverages relating to the retail automotive industry.

A.M. Best remains the leading rating agency of captive insurers rating a wide variety of more than 200 captives in the United States and throughout the world.

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