



# Demotech, Inc.

## Rating Information Disclosure Form

**1. Symbol, number, or score in the rating scale used by Demotech and the identity of the rated entity as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7**

### **Farmers & Mechanics Fire & Casualty Insurance Company**

NAIC: 12611

NAIC Group: Farmers & Mechanics Insurance Companies

**Financial Stability Rating® (FSR): A**

**Status: FSR affirmed 9/30/2022**

**2. Version of the Procedure or Methodology used to Determine the Credit Rating as Required by Paragraph(a)(1)(ii)(B) of Rule 17g-7**

Financial Stability Rating® Methodology, 7/11/2022

Detailed information regarding the applicable methodology is available at [www.demotech.com/regulatory](http://www.demotech.com/regulatory).

**3. Main Assumptions and Principles Used to Construct the Rating Methodology used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7**

Demotech has followed the applicable methodology, including the quantitative and qualitative considerations described in the methodology, in determining the rating. The applicable methodology is identified in Section 2 of this disclosure form and publicly available at [www.demotech.com](http://www.demotech.com). Demotech identified the following assumptions in determining the rating:

- Accuracy of data and information provided – Demotech does not independently audit the data and information it receives from rated entities and assumes the data and information provided is accurate and reliable. Demotech reviews such data and information for reasonableness.
- Stability of financial markets.
- Consistency within the legal and regulatory environment.
- Accuracy of catastrophe modeling.
- Stability of the holding company and affiliated companies.

**4. Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7**



Financial Stability Ratings<sup>®</sup> represent Demotech's opinion of the ability of an insurer to meet its insurance related obligations based upon our assessment of financial information. FSRs do not constitute a warranty of a company's ability to meet its contractual or legal obligations and are not an endorsement of any particular insurer or its products. Insureds, agents, and third parties need to independently evaluate any relationship with a particular insurer as well as the applicability of an insurer's products to the needs of the insured or agent. FSRs are not a recommendation to buy, sell or hold any security. Investors should independently evaluate the suitability of particular securities for their specific circumstances and investment needs.

**5. Information on the Uncertainty of the Credit Rating Including the Scope, Reliability, Accuracy, Quality, and Accessibility of Data as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7**

Demotech obtains information from sources considered reliable. Demotech reviews the data and information it receives for reasonableness and consistency, but does not independently audit the data it receives and assumes no responsibility for data provided by rated entities or prepared by third parties. Demotech initiates rating assignments and takes rating actions only when it determines that it has sufficient information to assess a company and assign and accurate and reliable rating.

**6. Use of Third Party Due Diligence Services as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7**

Demotech did not use any third party due diligence services in taking the rating action.

**7. Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating as Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7**

Demotech did not use any servicer or remittance reports to conduct surveillance or monitoring of the rating.

**8. Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7**

Demotech relies upon publicly available information including statutory financial statements and historical operating performance. In addition, Demotech may consider actuarial and loss reserve reports, reinsurance program information, business plans, pro forma financials, regulatory filings, and other supplemental information that may be requested from an entity.

**9. Overall Assessment of the Quality of Information Available and Considered in Determining the Credit Rating in Relation to the Quality of Information Available in Rating Similar Obligors as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7**

The quality of information available and considered by Demotech in determining the rating was of the same quality of information available and considered in rating similar entities, and was provided by sources considered reliable by Demotech.



**10. Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7**

Demotech was paid to determine the rating by the obligor being rated.

The entity being rated did not pay Demotech for any services other than determining and assigning the credit rating during the most recently ended fiscal year.

The rating action identified in this disclosure form did not result from a review conducted pursuant to Section 15E(h)(4)(A) of the Securities Exchange Act (15 U.S.C. 78o-7(h)(4)(A)) and § 240.17g-8(c).

**11. Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7**

All rating actions are taken in accordance with Demotech's published procedures and methodologies. Factors that may lead to a change in the rating include, but are not necessarily limited to, capital adequacy, liabilities to surplus leverage, liquidity (cash and invested assets to total liabilities), loss and loss adjustment expense reserves, premium to surplus leverage, underwriting results, the quality and quantity of reinsurance, changes to an entity's business plan, changes in the legal or regulatory environment, or conditions impacting an entity's group, holding company or affiliated companies.

The impact of the factors identified above on an assigned rating depends on the nature, magnitude, duration of the factor or condition. Underperformance or deterioration in a single metric over a short period of time may have little to no impact on the rating. Significant changes in a single metric or material changes over an extended period of time may result in a rating change of one level or more, depending on the magnitude and duration of the change. Changes in financial metrics often result in a rating change of one level; however, depending upon the nature and level of the change, the rating may change by more than one level. Changes in a business plan or operating environment, may result in a rating change of one level, but it is possible that a significant change could result in a rating change of more than one level.

Please refer Demotech's rating procedures and methodologies for more information, including additional information about Demotech's analysis and review of entities, and monitoring of rating assignments. The relevant methodology is referenced in Section 2 of this disclosure form and available at [www.demotech.com](http://www.demotech.com). Please also refer to Item 13 of this Rating Information Disclosure Form for more information regarding the sensitivity of the credit rating to specific assumptions.

**12. Information on the Content of the Rating as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7**

Demotech utilizes the following definitions for each rating symbol:



#### *A" (A Double Prime), Unsurpassed*

Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning a Financial Stability Rating® of A" (A Double Prime) possess Unsurpassed financial stability related to maintaining surplus as regards policyholders at an acceptable level.

*One hundred percent of the insurers receiving a Financial Stability Rating® of A" (A Double Prime) are expected to have positive surplus as regards policyholders as of eighteen months from the initial date of rating assignment*

#### *A' (A Prime), Unsurpassed*

Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning a Financial Stability Rating® of A' (A Prime) possess Unsurpassed financial stability related to maintaining surplus as regards policyholders at an acceptable level.

*At least ninety-nine percent of all the insurers countrywide receiving a Financial Stability Rating® of A' (A Prime) are expected to have positive surplus as regards policyholders as of eighteen months from the initial date of rating assignment.*

#### *A' (A Prime), Unsurpassed*

Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning a Financial Stability Rating® of A' (A Prime) possess Unsurpassed financial stability related to maintaining surplus as regards policyholders at an acceptable level.

*At least ninety-nine percent of all the insurers countrywide receiving a Financial Stability Rating® of A' (A Prime) are expected to have positive surplus as regards policyholders as of eighteen months from the initial date of rating assignment.*

#### *A, Exceptional*

Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning a Financial Stability Rating® of A possess Exceptional financial stability related to maintaining surplus as regards policyholders at an acceptable level.

*At least ninety-seven percent of all the insurers countrywide receiving a Financial Stability Rating® of A are expected to have positive surplus as regards policyholders as of eighteen months from the initial date of rating assignment.*

#### *Substantial*

Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning a Financial Stability Rating® of S possess Substantial financial stability related to maintaining surplus as regards policyholders at an acceptable level.

*At least ninety-five percent of all the insurers countrywide receiving a Financial Stability Rating® of S are expected to have positive surplus as regards policyholders as of eighteen months from the initial date of rating assignment.*

#### *M, Moderate*

Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning a Financial Stability Rating® of M possess Moderate financial stability related to maintaining surplus as regards policyholders at an acceptable level.



*At least ninety percent of all the insurers countrywide receiving a Financial Stability Rating® of M are expected to have positive surplus as regards policyholders as of eighteen months from the initial date of rating assignment.*

#### *L, Licensed*

Insurers earning a Financial Stability Rating® of L are Licensed by state regulatory authorities. Our evaluation of their financial stability precludes assignment at a Financial Stability Rating® category referenced above.

Financial Stability Ratings® represent Demotech’s opinion of the ability of an insurer to meet its insurance related obligations based upon our assessment of financial information. Rating assignments do not reflect a specific probability of default or impairment for a particular entity. The definitions associated with each rating level are based on Demotech’s observations of the historical performance of our rating assignments over time.

Additional information about the historical performance of Demotech ratings can be found at [www.demotech.com](http://www.demotech.com), with specific information related to performance measurement statistics found at [www.demotech.com/regulatory](http://www.demotech.com/regulatory) within [Exhibit 1](#) to Form NRSRO.

### **13. Information on the Sensitivity of the Credit Rating to Assumptions made by Demotech as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7**

- Accuracy of data and information provided – Demotech does not independently audit the data and information it receives from rated entities and assumes the data and information provided is accurate and reliable. Demotech reviews such data and information for reasonableness. Demotech assumes that financial information provided is reliable and credible. A material error or misstatement in the data provided to Demotech could negatively impact a rating assignment.
- Financial metrics – Material changes to financial metrics that could create situations that make a company change policy or strategy could influence a rating assignment.
- Reinsurance – Ratings are often dependent on a company’s ability to access and utilize reinsurance for both the working layer and catastrophe protection. Changes to availability or pricing could potentially lead to rating action.
- Legislative, judicial, regulatory environment – Rating actions by Demotech are based on assumptions given the current legislative, judicial, and regulatory environment as known to Demotech. A material change in legislation or regulation, or a material judicial decision, could impact the operating environment of the rated entity and may negatively impact a rating assignment. Given an entity’s geographic concentration, new legislative, judicial, or regulatory decisions may impact the financial stability of the entity, particularly as these decisions could impact the policyholder claims environment and claims frequency.

### **14. Information on the Representations, Warranties and Enforcement Mechanisms Available to Investors as Required by Paragraph (a)(1)(ii)(N) of Rule 17g-7**



The rating action disclosed in this form is not assigned to an asset-backed security as defined in section 3(a)(79) of the Securities Exchange Act (15 U.S.C. 78c(a)(79)) and the representations, warranties, and enforcement mechanisms referenced in Paragraph (a)(1)(ii)(N)(1) of Rule 17g-7 do not apply to this rating.

**15. Attestation as Required by Paragraph (a)(1)(iii) of Rule 17g-7**

The undersigned individual states that they have responsibility for the rating action and, to the best of their knowledge:

- (A) No part of the credit rating was influenced by any other business activities;
- (B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated; and
- (C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Name/Title: /s/ Barry J. Koestler II, Chief Ratings Officer

Date: 9/30/2022

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