



# NEWS RELEASE

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## FOR IMMEDIATE RELEASE

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### **A.M. Best Assigns Ratings to American Physicians Insurance Company and American Physicians Service Group, Inc.**

**OLDWICK, N.J., Nov. 27, 2007**—A.M. Best Co. has assigned a financial strength rating (FSR) of A- (Excellent) and an issuer credit rating (ICR) of “a-” to **American Physicians Insurance Company** (API). A.M. Best also has assigned an ICR of “bbb-” to API’s parent holding company, **American Physicians Service Group, Inc.** (APS) (both of Austin, TX) [NASDAQ: AMPH]. The outlook for all ratings is stable.

These ratings reflect API’s strengthened risk-adjusted capital position, historically favorable operating performance, experienced management team and strong policyholder retention. These rating factors are primarily derived from API’s longstanding commitment for over 30 years to Texas healthcare practitioners. Due to management’s broad knowledge of the market, extensive physician involvement and strong focus on customer relationship management, API has been able to renew approximately 90% of policyholders on an annual basis, while simultaneously producing generous returns on revenue and surplus. In addition, recent returns have been enhanced by the favorable impact that comprehensive tort reform has had on underwriting results since its passage in 2003. The rating outlook is contingent upon API’s cycle management capabilities, price discipline and ability to manage exposure growth in a profitable manner in Texas and its recently added market of Oklahoma.

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The ratings also reflect the benefits derived from API's status as a newly acquired wholly owned subsidiary of APS. This transaction has provided API with financial flexibility and access to capital that it previously did not possess as the former American Physician Insurance Exchange (APIE). These benefits were demonstrated in second quarter 2007 when a secondary offering and over allotment of APS common stock generated \$36 million in net proceeds, \$10 million of which was contributed to API to enhance its capital position.

Partially offsetting these positive rating factors are the inherent market risks associated with being predominantly a single state, monoline medical malpractice insurer as they relate to price competition, loss cost trends and regulatory challenges. Although competition has increased due to the favorable tort reform in Texas and price compression has become evident, A.M. Best does not expect significant levels of margin compression in the near term. API also has substantially grown its exposure base over the last few years, which has led to additional risks in the pricing, claim and reserving areas. However, these risks are mitigated by the company's conservative reserve position and strong risk-adjusted capital position.

Since inception, API was managed by its attorney-in-fact, APS Facilities Management (FMI), a wholly owned subsidiary of APS. Effective April 1, 2007, API became a wholly owned subsidiary of APS in a stock transaction that involved total consideration of approximately \$45 million, consisting of approximately 2.0 million common shares and \$9.2 million worth of preferred shares. The preferred stock, which is scheduled to be redeemed at a rate of \$1 million per year with a 3% annual dividend, was issued to API policyholders who made refundable surplus contributions prior to 1992 and represents the sole source of APS' modest financial leverage of approximately 7% (total debt/total capital).

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