

Best's Rating Report



Berkshire Hathaway
GUARD Insurance
Companies

NorGUARD Insurance Company
AmGUARD Insurance Company
EastGUARD Insurance Company
WestGUARD Insurance Company

A+
A+
A+
A+



Associated With:

Berkshire Hathaway Inc.

**BERKSHIRE HATHAWAY GUARD
INSURANCE COMPANIES**

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AMB#: 018331

Associated Ultimate Parent#: 058334

RATING RATIONALE

Rating Rationale: The ratings reflect Berkshire Hathaway GUARD Insurance Companies' (GUARD) (formerly known as GUARD Insurance Group) solid capitalization, favorable operating profitability achieved through disciplined underwriting initiatives, as well as the cautious manner in which initial claim reserves are established, which has resulted in favorable reserve development in recent years. The ratings

also acknowledge the implicit and explicit financial support provided by GUARD's ultimate parent, Berkshire Hathaway Inc. (Berkshire), and Berkshire subsidiary, National Indemnity Company (NICO), including significant reinsurance transactions. Partially offsetting these positive rating factors are the group's substantial growth over the past several years, above-average common stock leverage, the inherent risk associated with integrating new product lines and expansion into new states, and a degree of concentration in several states and production sources. Despite these concerns, the outlooks reflect GUARD's enhanced financial flexibility provided by Berkshire, solid balance sheet, and historical underwriting profitability.

Reinsurance transactions include a 50% loss portfolio transfer of existing reserves through the end of 2012 and a 50% quota share agreement on in-force, new, and renewal policies on or after January 1, 2013. The reinsurance agreements are between GUARD's insurance companies and NICO. In addition to Berkshire's track record of sup-

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porting its member companies, these transactions demonstrate the explicit commitment provided by Berkshire, for which GUARD's members receive rating enhancement. In support of its expansion activities, Berkshire, through its NICO subsidiary, provided an additional \$102 million of capital in the fourth quarter of 2015.

A.M. Best believes GUARD's members are well positioned at the current rating levels. However, their ratings/outlooks could come under pressure should softer market conditions and a lack of underwriting discipline in their new product lines and expansion initiatives result in a decline in underwriting and overall profitability to levels underperforming their peers or should Berkshire fail to provide adequate financial and operational support or should a sudden reduction in surplus emanate from investment portfolio losses given the large block of equity holdings.

RATING UNIT MEMBERS

Berkshire Hathaway GUARD Insurance Companies

(AMB# 018331):

AMB#	Company	Best's FSR	Pool %
010643	NorGUARD Insurance Company	A+	50.00
000293	AmGUARD Insurance Company	A+	35.00
000665	EastGUARD Insurance Company	A+	10.00
010009	WestGUARD Insurance Company	A+	5.00

KEY FINANCIAL INDICATORS (\$000)

Year	Net Premiums Written	Pre-tax Operating Income	Total Admitted Assets	Policy-holders' Surplus	Comb. Ratio
2012	47,652	15,495	1,060,389	280,742	-99.9
2013	140,366	37,158	887,809	286,900	94.3
2014	274,317	35,333	1,294,329	309,051	88.7
2015	342,133	57,598	1,664,475	430,898	81.8
2016	459,426	74,579	2,069,070	509,189	82.9

(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

BUSINESS PROFILE

Berkshire Hathaway GUARD Insurance Companies (GUARD or the group) is a group of property and casualty insurers that provide multiple lines of coverage while focusing mainly on the services, construction, retail, and manufacturing classes of business. Insurance company members of the group include AmGUARD Insurance Company, EastGUARD Insurance Company, NorGUARD Insurance Company, and WestGUARD Insurance Company, which operate under a state-approved pooling agreement.

In recent years, GUARD has embarked upon a diversification strategy to expand operations and is now a national carrier operating in all non-monopolistic states for workers' compensation insurance that seeks a modest market share across many jurisdictions, which allows the group to reduce its business concentration risk. In addition, the group acts as a workers' compensation servicing carrier in several states. During 2008, GUARD expanded its product offerings to include complementary lines of commercial property and casualty coverages aimed at its existing demographic in furtherance of its diversification strategy. New product offerings include business owner's policies and either commercial umbrella or excess coverage now available across more than half of the U.S., as well as commercial auto coverage in several states. In August 2012, GUARD began writing disability insurance in New York as an additional complementary line, and Lawyers and Miscellaneous Professional Liability policies were added in 2016 in a number of states.

Business is produced through a network of independent agents and brokers, accounting for almost 70% of the production, as well as supplemental methods of distribution that include two independent payroll processors, accounting for about 30% of the production. The group's producer management process, which monitors results against a variety of quantitative and qualitative performance standards, is used to develop and reward the network of producers. GUARD utilizes early intervention, telephonic claims reporting, professional claims handling, and a managed care approach to contain claim costs.

2016 BY-LINE BUSINESS (\$000)

Product Line	—DPW—		Reinsurance —Prem Assumed—		
	(\$000)	(%)	(\$000)	(%)	
Workers' Comp	764,865	75.1	24,849	99.6	
Com'l MultiPeril	231,832	22.8	74	0.3	
All Other	21,567	2.1	14	0.1	
Total	1,018,264	100.0	24,937	100.0	
Product Line	—Reinsurance —Prem Ceded—		—NPW—		Business Retention (%)
	(\$000)	(%)	(\$000)	(%)	
Workers' Comp	452,818	77.6	336,896	73.3	42.7
Com'l MultiPeril	120,119	20.6	111,787	24.3	48.2
All Other	10,838	1.9	10,744	2.3	49.8
Total	583,774	100.0	459,426	100.0	44.0

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HISTORY

On August 16, 2012, Clal Insurance Enterprises Holdings Ltd. (Clal Insurance) signed an agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc. (Berkshire) (NYSE: BRK.A and BRK.B), for the sale of wholly owned subsidiary Clal U.S. Holdings, Inc. (CUSH), which owned (through its wholly owned subsidiary, GUARD Financial Group, Inc. (GFG)), GUARD Insurance Group, Inc. (GIG), to NICO. The price was approximately \$221 million in cash and the release of a \$48 million guarantee given by Clal Insurance to secure a loan to CUSH from a foreign bank. As a result of the acquisition of CUSH, which was completed on October 25, 2012, GIG was effectively 100% owned by NICO. On September 12, 2013, the group announced adoption of a new identity, becoming known as Berkshire Hathaway GUARD Insurance Companies (GUARD).

Shortly after the close of the transaction with NICO, NICO contributed the funds needed to repay GIG's parent companies' external debt. In addition, two intercompany reinsurance agreements were established: (1) a 50% loss portfolio transfer of reserves to NICO as of December 31, 2012, and (2) a 50% quota share of business to NICO, effective January 1, 2013, providing explicit financial support to carry out expansion plans. Berkshire has provided similar means of financial support to other newly acquired insurance companies in the past. While GUARD is expected to continue to operate independently with management remaining intact, its operations should be strengthened by being part of Berkshire, which will largely manage the group's investments, provide growth opportunities and certain economies of scale, and advise the group on strategic and other operational matters.

During 2014, mainly as a result of a series of mergers, CUSH, GFG, GIG, and other non-insurance companies were eliminated from the corporate structure, resulting in more streamlined operations to support GUARD's business plans and simplified financial reporting. NICO now directly owns 100% of WestGUARD Insurance Company, which owns 100% of the group's companies. All of GUARD's insurance companies operate under a state-approved pooling agreement.

Consolidated Balance Sheet Admitted Assets (\$000)

	YE 2016	%
Bonds	\$ 237,972	11.5
Preferred stock	1,340	0.1
Common stock	363,790	17.6
Cash and short-term invest	370,653	17.9
Other non-affil inv asset	9,369	0.5
Investments in affiliates	0	...
Real estate, offices	<u>5,255</u>	<u>0.3</u>
Total invested assets	\$ 988,379	47.8
Premium balances	967,958	46.8
Accrued interest	1,982	0.1
All other assets	<u>110,750</u>	<u>5.4</u>
Total assets	\$2,069,070	100.0

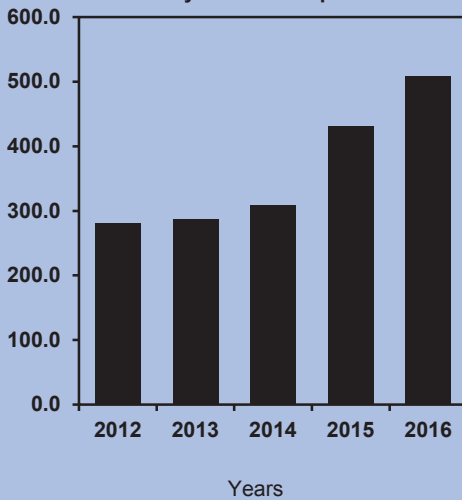
Liabilities & Surplus (\$000)

Loss & LAE reserves	\$ 506,334	24.5
Unearned premiums	214,173	10.4
Conditional reserve funds	1,250	0.1
All other liabilities	<u>838,123</u>	<u>40.5</u>
Total liabilities	\$1,559,881	75.4
Capital & assigned surplus	418,978	20.2
Unassigned surplus	<u>90,211</u>	<u>4.4</u>
Total policyholders' surplus	\$ <u>509,189</u>	<u>24.6</u>
Total liabilities & surplus	\$2,069,070	100.0

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BERKSHIRE HATHAWAY GUARD INSURANCE COMPANIES

Policyholders' Surplus



in millions
of dollars

FINANCIAL SUMMARY (\$'000) as of YE 2016

Policyholders' Surplus	\$	509,189
Direct Premiums Written	\$	1,018,264
Combined Ratio		82.9
Net Underwriting Income	\$	56,573
Net Investment Income	\$	17,424

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The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899.

A Best's Financial Strength Rating (FSR) is an **independent opinion** of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR 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. An FSR 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.

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