BERKSHIRE HATHAWAY GUARD INSURANCE COMPANIES

AMB #: 018331 **NAIC #:** N/A **FEIN #:** N/A

Phone: **Fax:** **Website:** N/A

AZGUARD Insurance Company	A+
AmGUARD Insurance Company	A+
EastGUARD Insurance Company	A+
NorGUARD Insurance Company	A+
WestGUARD Insurance Company	A+

Best's Credit Rating Effective Date

July 26, 2023

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Information

Best's Credit Rating Methodology

Guide to Best's Credit Ratings

Market Segment Outlooks

Financial Data Presented

Financial data in this report: (i) includes data of affiliated entities that are not rating unit members where analytics benefit from inclusion; and/or (ii) excludes data of rating unit member entities if they operate in different segments or geographic areas than the Rating Unit generally. See list of companies for details of rating unit members and any such included and/or excluded entities.

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: Best's Financial Report.

Berkshire Hathaway GUARD Insurance Companies

AMB #: 018331
Associated Ultimate Parent: AMB # 058334 - Berkshire Hathaway Inc.

Best's Credit Ratings - for the Rating Unit Members

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
A+	**aa-**
Superior	**Superior**
Outlook: **Stable**	Outlook: **Stable**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

Balance Sheet Strength	**Strongest**
Operating Performance	**Adequate**
Business Profile	**Neutral**
Enterprise Risk Management	**Appropriate**

Rating Unit - Members

Rating Unit: Berkshire Hathaway GUARD Cos | AMB #: 018331

AMB #	Rating Unit Members
020650	AZGUARD Insurance Company
000293	AmGUARD Insurance Company
000665	EastGUARD Insurance Company
010643	NorGUARD Insurance Company
010009	WestGUARD Insurance Company

Rating Rationale

Balance Sheet Strength: Strongest

- Berkshire Hathaway GUARD Insurance Companies (GUARD) are owned directly and indirectly by National Indemnity Company (NICO), which is owned by Berkshire Hathaway Inc. NICO provides the group substantial financial flexibility and implicit support, which has been recognized through capital contributions, reinsurance coverage, loss portfolio transfers, and investment management services.
- Risk-adjusted capitalization is at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR) at the 99.6% VaR. This position is supported by the group's high-quality reinsurance coverage and invested assets.
- The equity portfolio is composed of long-term, value-driven, high-quality names. Cash and short-term fixed-income investments have short durations and more than cover net loss reserves. Investments are managed at the ultimate parent company, Berkshire Hathaway Inc. Investment managers have demonstrated a remarkably long-term track record of positive returns and capital allocation.
- The group has historically reported favorable reserve development on an accident and calendar year basis. However, in 2020 and 2021, GUARD reported some adverse development in key lines of business for the first time in a decade due to loss creep and social inflation on larger claims.

Operating Performance: Adequate

- GUARD's overall operating performance has begun to improve since the deterioration shown in the past couple of years, when the group was affected by natural catastrophe events, in addition to rising loss costs related to economic and social inflation.
- Most of the growth has come from commercial multi-peril and homeowners lines, where results have been less favorable. Pricing and tightening of underwriting guidelines for non-workers' compensation lines, along with improvement in claims management, have started to show signs of improvement in GUARD's loss ratio.
- When viewed on a five- and ten-year average basis, GUARD's underwriting results and overall operating performance continue to exceed its peer composite.
- The investment portfolio, which is managed by GUARD's ultimate parent company, Berkshire Hathaway Inc., has been a steady contributor to earnings over the years, mostly via unrealized capital gains, given the above-average allocation to common stocks in its portfolio. Common stock investments are in high-quality issues. Additionally, its large short-term portfolio is expected to provide significant investment income given the current interest rate environment.

Business Profile: Neutral

- GUARD continues to diversify its product lines across the U.S., utilizing several channels as its premium sources: retail, wholesale, and payroll processors. The diverse set of production sources has aided in the robust growth in premiums the group has experienced in recent years while mitigating channel risk.
- GUARD aims to provide a one-stop shop solution to business owners, writing workers' compensation, property and liability via business owners' policies, commercial auto, commercial umbrella, and professional liability. GUARD also sells personal lines products via homeowners and personal umbrella.
- GUARD carries the Berkshire Hathaway Inc. brand name and has the full support of the parent company.
- GUARD utilizes proprietary software for daily operations, which allows for scalable operations and competitive advantages.

Enterprise Risk Management: Appropriate

- Formalized ERM processes, with a dedicated ERM Committee and oversight from the senior management team. Quarterly reporting to the CEO and annual reporting to the board have been established, allowing for a consistent review of key and emerging risks.
- Direct support from NICO, which provides high-quality reinsurance programs to GUARD. In turn, the group's risk-adjusted capitalization is supportive well into the tail-risk exposure.
- Formalized risk tolerance statements are established and approved by the board of directors.

Rating Lift/Drag

- Explicit financial support from NICO through significant reinsurance transactions and capital.
- Implicit support through the Berkshire Hathaway Inc. brand name.
- AM Best expects ongoing willingness of the ultimate parent company, Berkshire Hathaway Inc., and of the parent company, NICO, to provide implicit and explicit support to GUARD.

Outlook

- The stable outlooks reflect AM Best's expectation that NICO and Berkshire Hathaway Inc. will continue to provide explicit and implicit support to GUARD in the future. AM Best also expects that the parental support will help GUARD to maintain its balance sheet assessment in the strongest range over the intermediate- to long-term period in case unexpected catastrophic events continue to negatively affect GUARD's operating performance.

Rating Drivers

- Factors that could result in a ratings downgrade include the following:
- -- if underwriting results and overall operating performance decrease to a level below the adequate assessment level;
- -- if Berkshire Hathaway Inc. ceased to provide financial and operational support;
- -- if GUARD were to suffer a significant reduction in surplus due to losses in its investment portfolio, which has a significant allocation to equity holdings, or from significant unfavorable reserve development.

Credit Analysis

Balance Sheet Strength

The group's net and gross leverage measures continue to trend higher in recent years, and now compare unfavorably to the commercial casualty industry average. Since being acquired by Berkshire Hathaway in 2012, leverage measures increased steadily, largely reflecting increasing reserve leverage, associated with above-average growth, as well as higher net premium leverage. This growth stems from the impact of the Berkshire Hathaway brand recognition in the market, new product lines, and new territories. In order to support the new levels of premiums and reserves, the parent company NICO has supported the group through additional reinsurance coverage and loss portfolio transfers. The financial flexibility provided by the organization as a whole supports the current balance sheet strength assessment of strongest.

Capitalization

GUARD continues to report solid growth in surplus, which is reflected over the recent five-year period. The combination of underwriting performance and net investment income continue to improve year over year. Due to the recent operating trends and management's commitment to maintain reserve adequacy, AM Best anticipates GUARD should continue to report profitable earnings while internally generating capital over the near term.

GUARD's underwriting, investment, and reinsurance risks reflect the strongest level of capitalization as measured by Best's Capital Adequacy Ratio (BCAR), which was significantly strengthened by its loss portfolio transfer and quota share agreements with NICO. No stockholder dividend is anticipated to be paid to GUARD's parent in the near term.

The current level of risk-adjusted capitalization reflects organic surplus growth achieved through the retention of profitable earnings and equity embedded within its loss reserves when considering the time value of money. Additionally, credit risk, while higher as a result of the group's 50% quota share with NICO, is mitigated through NICO's Long-Term Issuer Credit Rating of "aaa" / Financial Strength Rating of A++, both with stable outlooks.

Asset Liability Management - Investments

The investment portfolio is primarily allocated towards cash and short-term investments, comprising over half (67%) of non-affiliated invested assets, followed by common stocks with 23% of the total. Long-term bonds represented 9% of the total, 96% of which were government bonds. The bond portfolio is high-quality and liquid, consisting of 94% NAIC class 1 issuances, and 100% publicly-traded. The fixed income portfolio, as a whole, maintains an average rating of AA and is monitored across sectors and individual exposures. The effective duration of the portfolio is less than 6 months.

The common stock portfolio is managed by Berkshire Hathaway Inc. The largest positions in the common stocks in GUARD's portfolio at the end of 2022 were Apple, Hewlett-Packard, Globe Life, Bank of America, and Chevron. The allocation of the portfolio is determined by Berkshire Hathaway, following exposure limits and asset liability management guidelines determined by GUARD. These are considered credible and liquid companies.

Balance Sheet Strength (Continued...)

Reserve Adequacy

The group has consistently reported redundant reserve development on both an accident and calendar-year basis. This trend is based on favorable development in workers compensation reserves, which represent roughly 42% of total loss & alae reserves. In 2022, there was overall favorable prior year reserve development driven by workers' compensation line; however, business owners' policies recorded prior year adverse development and almost offset the overall favorable prior year development in the year. In 2021 there was unfavorable reserve development coming from business owners policies (commercial multi-peril), despite the favorable reserve development recorded in the workers' comp and other lines. Loss reserves are opined on by their internal Chief Actuary. Additionally, the group's reserving practices are supported and reviewed by NICO's staff actuaries and KPMG LLP.

In recent years, the group has reported adverse development in their new lines of business, commercial auto, and commercial multi-peril. Management indicated that the adverse development stems from the utilization of ISO loss costs and industry development factors as they initially built their data set for the new lines. Additionally, loss reserves were impacted by loss creep on wind/hail/freeze/wildfires claims and social inflation on larger claims. In response to these trends, the group has strengthened both IBNR and case reserves for the impacted lines of business, as well as implemented more stringent underwriting and exclusions on the front-end.

Holding Company Assessment

National Indemnity Company (NICO) acquired 100% of GUARD group 10 years ago. GUARD group composed of WestGUARD Insurance Company, which owns 100% of AmGUARD, NorGUARD, EastGUARD, and AZGUARD Insurance Companies. NICO is in turn owned by Berkshire Hathaway (NYSE: BRK-A), an insurance, freight rail transportation, and utility conglomerate. Berkshire Hathaway's total revenues were $302 billion at the end of 2022, with $481 billion in surplus and $948 billion in total assets.

Operating Performance

GUARD has generated a strong operating performance in the last ten years, driven by favorable underwriting results related to focused underwriting guidelines, expense management, conservative reserving practices, and steady investment income. Underwriting performance, as measured by the five-year average combined ratio, significantly outperforms the commercial casualty composite average. The superior combined ratio is driven by a 6.4-point advantage in the expense ratio against the composite 10-year average. Investment yield is stable but lower than the composite 10-year average, following Berkshire Hathaway's strategy to focus on short-term liquidity to support loss reserves and accumulate unrealized earnings in the common stock portfolio. GUARD's underwriting combined with Berkshire's investment strategy led to a group produced 10-year average ROE measure that exceeded the composite average.

In recent years, GUARD has intentionally diversified the line of business mix, which could ultimately pressure underwriting income over the near-term. However, performance should be positive given management's disciplined underwriting approach and commitment to maintain conservative reserving practices. In more recent years, the group's expansion into new product lines and workers comp rate reductions have somewhat dampened performance ratios. However, as the group gains experience in these lines they have implemented corrective actions and anticipates profitability ratios will start to improve in the near-term.

The group continues to operate under a 50% quota share with the parent company, NICO. Future net retained operating performance, while less than what it would be without the quota share, should remain profitable and demonstrates a reasonable level of growth as the company continues to expand its product and geographic distribution capability. The company's underwriting performance has benefited largely due to prudent growth, relatively low catastrophe losses, and favorable prior-year loss reserve development; however, in 2021/2020 GUARD was negatively impacted by catastrophic events and the COVID-19 pandemic, recording adverse reserve development for the first time in years. Overall, the group's expense position has remained favorable and in line with composite averages.

The group's net investment performance had historically been relatively stable, producing average yield of about 2% (on a 5 and 10-year basis) on a portfolio comprised largely of short duration, highly liquid fixed income securities. Berkshire Hathaway manages GUARD's investment portfolio, which has a higher than the industry average allocation to common stocks, generating a significant amount of unrealized capital gains over the years.

Business Profile

Berkshire Hathaway GUARD Insurance Companies 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. The wide range of coverages enables

Business Profile (Continued...)

the company to feature "One-Stop Insurance Shopping" for small-to mid-sized businesses. Small to medium size business accounts for 99% of GUARD's policies and 97% of the premiums. GUARD's book of small business has been steadily increasing 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.

Since 2021, GUARD has been able to write Business Owners and Commercial Umbrella/Excess policies in 49 states, Commercial Auto in 48 states, Professional Liability in 33, Homeowners in 23, and personal umbrella in 22 states. The wide range of coverages enables the company to feature service a wide range of small-to mid-sized businesses. The personal lines coverages include high-value homes in a variety of states. In 2019, GUARD established AZGUARD Insurance Company to write non-admitted and surplus lines on a mutually exclusive basis, so as to increase flexibility in the product offering.

Business is produced through a network of over 2,800 agency groups totaling almost 7,000 points of sale at year-end 2022. Agency production has consistently grown over the years starting from about 1,000 agency groups in 2007. Independent agents and brokers, accounts for 61% of the production, wholesale agents and MGUs with 26%, as well as supplemental methods of distribution that include independent payroll processors, accounting for 13% 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, online claims reporting, professional claims handling, and a managed care approach to contain claim costs.

With 1,082 employees as of the end of 2022, GUARD is among Berkshire's mid-sized primary insurers, in terms of work force.

Enterprise Risk Management

GUARD has historically utilized traditional risk management and planning functions, and it has been supportive of the rating. While a variety of systems have been in place for some time, the group formalized an Enterprise Risk Management (ERM) plan, which has since been revised from time to time, that includes formulation of (1) an ERM committee, (2) a written policy with guidelines for administration, and (3) a plan for risk identification, assessment, control, and mitigation.

Activities are executed by an ERM committee, which is chaired by the Senior Vice President of Strategy and Business Analytics and includes senior officers in charge of the group's key operational functions. GUARD's ERM committee reports on ERM activities to the chief executive officer (CEO) on a quarterly basis. On an annual basis, the group formally re-evaluates all major elements of its ERM activities and prepares a report for Board approval that reflects the input of management and incorporates considerations such as evaluation of past steps to limit, transfer, or otherwise manage identified risks; identification of new significant risks and reassessment of those previously targeted; prioritization of recommendations (and subsequent action plans) to rectify significant flaws; quantification of exposures and evaluation of their potential impact; and estimation of the financial capital required to implement recommendations. The group has identified and quantified its largest potential risks that include market, credit, underwriting, operational, strategic, liquidity, cybersecurity, and catastrophe risks. If tolerances are exceeded, the information is reviewed and evaluated by the ERM committee. The result will either be a re-evaluation of the tolerance level or mitigation of the risk.

Reinsurance Summary

GUARD maintains a quota share reinsurance agreement with National Indemnity Company for 50% of the net exposure (after all other reinsurance) for all lines on in-force, new, and renewal policies. Additionally, GUARD purchases a multi-line excess of loss/catastrophic combined reinsurance program reinsured with National Indemnity Company. The program is structured with an occurrence retention of $2.0 million and is subject to an annual aggregate deductible and limit that are determined as a percentage of Gross Net Earned Premium for the treaty period. At current premium levels, this amount equates to $217.6 million coverage above a $65.0 million annual aggregate deductible for the current treaty period.

Environmental, Social & Governance

AM Best believes that there is low to moderate risk to credit quality as the insurer has limited exposure to ESG factors, and the market is in its early stages of adopting ESG principles. The company operates in States with exposure to weather-related events, and the effects of changing climate trends are expected to have low to moderate impact on products being offered. The company has a

Enterprise Risk Management (Continued...)

seasoned governance approach; however GUARD has exposure to the oil and gas sector in its investment activities. Nonetheless, these securities are issued by company(ies) with several carbon emissions offsetting initiatives.

Rating Lift/Drag

Berkshire Hathaway GUARD Insurance Companies (GUARD) is 100% owned by National Indemnity Company (NICO). The ultimate parent is Berkshire Hathaway Inc.

While GUARD is largely operating independent of NICO, NICO has provided substantial implicit and explicit financial and operational support to GUARD. NICO has provided substantial explicit financial support through its 50% Loss Portfolio Transfer (LPT) and 50% Quota-Share agreements with GUARD, which provide capacity for GUARD to continue its expansion plans. Also, NICO provided additional capital in the past.

GUARD is easily identified with Berkshire Hathaway, with its name and logo carrying the Berkshire Hathaway brand name.

NICO provides intellectual support in such areas as investment management, actuarial expertise and strategic discussions relating to growth, pricing, and new lines of business.

Financial Statements

	3-Months		Year End - December 31			
	2023		2022		2021	
Balance Sheet	**USD (000)**	**%**	**USD (000)**	**%**	**USD (000)**	**%**
Cash and Short Term Investments	1,770,619	33.6	1,681,504	33.3	1,520,722	30.3
Bonds	239,428	4.5	237,823	4.7	203,253	4.1
Preferred and Common Stock	602,346	11.4	582,483	11.5	771,138	15.4
Other Invested Assets	9,070	0.2	9,362	0.2	11,686	0.2
Total Cash and Invested Assets	2,621,462	49.7	2,511,172	49.8	2,506,799	50.0
Premium Balances	1,906,998	36.1	1,823,573	36.1	1,819,421	36.3
Net Deferred Tax Asset	2,833	0.1	8,047	0.2	2,101	...
Other Assets	744,761	14.1	703,999	13.9	688,070	13.7
Total Assets	5,276,053	100.0	5,046,791	100.0	5,016,391	100.0
Loss and Loss Adjustment Expense Reserves:						
Net Reported Loss Reserves*	497,012	9.4	419,051	8.3	414,599	8.3
Net IBNR Loss Reserves*	975,472	18.5	812,094	16.1	772,378	15.4
Net LAE Reserves	...	...	227,208	4.5	220,658	4.4
Total Net Loss and LAE Reserves	1,472,484	27.9	1,458,353	28.9	1,407,635	28.1
Net Unearned Premiums	510,347	9.7	482,877	9.6	476,392	9.5
Other Liabilities	2,203,949	41.8	2,083,731	41.3	2,059,820	41.1
Total Liabilities	4,186,781	79.4	4,024,962	79.8	3,943,847	78.6
Capital Stock	3,000	0.1	3,000	0.1	3,000	0.1
Paid-In and Contributed Surplus	415,978	7.9	415,978	8.2	415,978	8.3
Unassigned Surplus	670,294	12.7	602,851	11.9	653,566	13.0
Total Policyholders' Surplus	1,089,272	20.6	1,021,829	20.2	1,072,545	21.4
Total Liabilities and Surplus	5,276,053	100.0	5,046,791	100.0	5,016,391	100.0

Source: BestLink® - Best's Financial Suite

* Interim reserves balances include LAE.

Last Update
August 12, 2023

Identifiers
AMB #: 018331

This company is a data record that AM Best utilizes to represent the AM Best Consolidated financials for the Property/Casualty business of AMB#: 058334 Berkshire Hathaway Inc..

AMB#: 010009 WestGUARD Insurance Company has been assigned as the AMB Group Lead for this consolidation and should be used to access name, address, or other contact information for this AM Best Consolidated Group.

Financial Data Presented

See LINK for details of the entities represented by the data presented in this report.

Berkshire Hathaway GUARD Insurance Companies

Operations

Date Incorporated: August 12, 1987

Domiciled: Pennsylvania, United States

Business Type: Property/Casualty
Organization Type: Stock
Marketing Type: Independent Agency

Best's Credit Ratings

Rating Relationship

This group represents an AM Best Rating Unit. In our opinion, companies under this Rating Unit have a Superior ability to meet their ongoing insurance obligations and a Superior ability to meet their ongoing senior financial obligations.

Best's Credit Rating Effective Date: July 26, 2023

Rating rationale and credit analysis can be found in the Best's Credit Report for AMB# 018331 - Berkshire Hathaway GUARD Insurance Companies.

		Best's Credit Ratings	
AMB#	**Rating Unit Members**	**Financial Strength Rating**	**Long-Term Issuer Credit Rating**
020650	AZGUARD Insurance Company	A+	aa-
000293	AmGUARD Insurance Company	A+	aa-
000665	EastGUARD Insurance Company	A+	aa-
010643	NorGUARD Insurance Company	A+	aa-
010009	WestGUARD Insurance Company	A+	aa-

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.