

BEST'S RATING REPORT



Berkshire Hathaway **GUARD** Insurance Companies

Berkshire Hathaway GUARD Insurance Companies

Domicile: 16 South River Street, Wilkes-Barre, Pennsylvania, United States 18702

Mailing Address: P.O. Box A-H, Wilkes-Barre, Pennsylvania, United States 18703-0020

AMB #: 018331

NAIC #: N/A

FEIN #: N/A

Phone: 570-825-9900

Fax: 570-823-5930

Website: www.guard.com

NorGUARD Insurance Company

A+

Domicile: 16 South River Street, Wilkes-Barre, Pennsylvania, United States 18702

Mailing Address: P.O. Box A-H, Wilkes-Barre, Pennsylvania, United States 18703-0020

AMB #: 010643

NAIC #: 31470

FEIN#: 23-2459204

Phone: 570-825-9900

Fax: 570-823-5930

Website: www.guard.com

AmGUARD Insurance Company

A+

Domicile: 16 South River Street, Wilkes-Barre, Pennsylvania, United States 18702

Mailing Address: P.O. Box A-H, Wilkes-Barre, Pennsylvania, United States 18703-0020

AMB #: 000293

NAIC #: 42390

FEIN#: 23-2240321

Phone: 570-825-9900

Fax: 570-823-5930

Website: www.guard.com

EastGUARD Insurance Company

A+

Domicile: 16 South River Street, Wilkes-Barre, Pennsylvania, United States 18702

Mailing Address: P.O. Box A-H, Wilkes-Barre, Pennsylvania, United States 18703-0020

AMB #: 000665

NAIC #: 14702

FEIN#: 01-0125870

Phone: 570-825-9900

Fax: 570-823-5930

Website: www.guard.com

WestGUARD Insurance Company

A+

Domicile: 16 South River Street, Wilkes-Barre, Pennsylvania, United States 18702

Mailing Address: P.O. Box A-H, Wilkes-Barre, Pennsylvania, United States 18703-0020

AMB #: 010009

NAIC #: 11981

FEIN#: 06-1678760

Phone: 570-825-9900

Fax: 570-823-5930

Website: www.guard.com



Berkshire Hathaway GUARD Insurance Companies

Disclosure Information: Refer to rating unit members for each company's Rating Disclosure Form

Associated Ultimate Parent: [058334 - Berkshire Hathaway Inc.](#)

A.M. Best Rating Unit: 018331 - Berkshire Hathaway GUARD Insurance Co

Best's Credit Ratings for Group Members:

Rating Effective Date: March 27, 2018

AMB#	Company	Rating Unit	Best's Financial Strength Ratings			Best's Issuer Credit Ratings		
			Rating	Outlook	Action	Rating	Outlook	Action
018331	Berkshire Hathaway GUARD Cos	<i>Rating Unit</i>						
010643	NorGUARD Insurance Company		A+	Stable	Affirmed	aa-	Stable	Affirmed
000293	AmGUARD Insurance Company		A+	Stable	Affirmed	aa-	Stable	Affirmed
000665	EastGUARD Insurance Company		A+	Stable	Affirmed	aa-	Stable	Affirmed
010009	WestGUARD Insurance Company		A+	Stable	Affirmed	aa-	Stable	Affirmed

Rating Rationale:

Balance Sheet Strength: Strongest

- Being part of Berkshire Hathaway Inc. provides capital flexibility in case there are strong headwinds.
- Risk-adjusted capitalization in the strongest range, with BCAR scoring 34.3% at the 99.6% VaR.
- No dividend requirement from the parent company.

Operating Performance: Strong

- Strong operating performance evidenced by relatively low expense ratios.
- Growth in both existing and new lines, improving geographical and business diversification.
- Investment portfolio - managed by Warren Buffett and his team - contributing to surplus growth.
- Increasing market share in lines with higher loss ratios could become a pressure point in the near to medium term.
- Pricing could be a challenge in the workers' compensation line of business across the U.S., including in GUARD's key states.

Business Profile: Neutral

- Methodically diversifying its product lines across the U.S.
- Carries the Berkshire Hathaway brand name.
- Despite concentration in workers' compensation product, performance is better than the composite.

Enterprise Risk Management: Appropriate

- Conservative reserving philosophy has resulted in favorable reserve developments.
- Board-approved, strict risk tolerance levels with low catastrophe net exposure.
- Direct support of National Indemnity Company, if needed.

Rating Lift/Drag

- Explicit financial support from National Indemnity Company, which is owned by Berkshire Hathaway Inc., through significant reinsurance transactions and capital.
- Implicit support through Berkshire Hathaway Inc. name brand.

Outlook

The stable outlooks reflect A.M. Best's view that the members of Berkshire Hathaway GUARD Insurance Companies will continue to maintain their current rating fundamentals in the short to medium term.

Rating Drivers

A.M. Best believes GUARD's members are well positioned at the current rating levels and the possibility of an upgrade is remote. However, the ratings could come under pressure should softer market conditions in their new product lines and expansion initiatives result in a decline in underwriting and overall profitability to levels underperforming their peers, or a significant, sudden reduction in surplus results from losses in their investment portfolio comprised of a large block of equity holdings.

In addition, the ratings could be under pressure should Berkshire cease to provide adequate financial and operational support.

Financial Statements:

Balance Sheet:

Consolidated Balance Sheet

Admitted Assets	Year End - December 31			
	2017 (\$000)	2016 (\$000)	2017 (%)	2016 (%)
Bonds	221,870	237,972	7.7	11.5
Preferred Stock	1,384	1,340	...	0.1
Common Stock	288,193	363,790	10.0	17.6
Cash and Short-term Invest	694,625	370,653	24.1	17.9
Real Estate, Investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	7,643	9,369	0.3	0.5
Investments in Affiliates	29	...	...	...
Real Estate, Offices	9,120	5,255	0.3	0.3
Total Invested Assets	1,222,863	988,379	42.5	47.8
Premium Balances	1,453,560	967,958	50.5	46.8
Accrued Interest	1,723	1,982	0.1	0.1
All Other Assets	202,293	110,750	7.0	5.4
Total Assets	2,880,440	2,069,070	100.0	100.0
Liabilities & Surplus	Year End - December 31			
	2017 (\$000)	2016 (\$000)	2017 (%)	2016 (%)
Loss and LAE Reserves	628,490	506,334	21.8	24.5
Unearned Premiums	273,921	214,173	9.5	10.4
Derivatives	...	...	...	...
Conditional Reserve Funds	466	1,250	...	0.1
All Other Liabilities	1,364,206	838,123	47.4	40.5
Total Liabilities	2,267,083	1,559,881	78.7	75.4
Surplus notes	...	...	...	...
Capital and Assigned Surplus	418,978	418,978	14.5	20.2
Unassigned Surplus	194,379	90,211	6.7	4.4
Total Policyholders' Surplus	613,357	509,189	21.3	24.6
Total Liabilities and Surplus	2,880,440	2,069,070	100.0	100.0

Source: Bestlink - Best's Statement File - P/C, US

Company History:

Date Incorporated: 08/12/1987

Date Commenced: N/A

Domicile: United States: Pennsylvania

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.

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do 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. A Financial Strength Rating 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.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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