BEST'S RATING REPORT

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+

Financial Strength Rating
A+ Superior

Best's Credit Rating Effective Date
April 20, 2021

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Information

Best's Credit Rating Methodology

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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	**Strong**
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) is owned 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 in recent years through capital contributions, expanded reinsurance coverage and loss portfolio transfers.
- 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 continues with the long-term, value-driven investment strategy, and cash and short-term fixed income investments with low duration continue to more than cover net loss reserves.
- Investments are allocated to high-quality liquid stocks and bonds, which are managed at the ultimate parent company, Berkshire Hathaway Inc. The investment managers have demonstrated a remarkably long-term track record of positive returns.
- The company historically has reported favorable reserve development on an accident and calendar year basis. However, in 2020 GUARD reported some adverse development in its main lines for the first time in a decade.

Operating Performance: Strong

- In 2020, operating performance was impacted by COVID-19, catastrophic events, and civil unrest, as evidenced by the higher loss & LAE ratio. Nevertheless, GUARD's underwriting results have continued to outperform the commercial casualty composite over the last five years. AM Best expects GUARD's operating performance to return to pre-pandemic levels in the short term.
- GUARD has reported growth in both existing and new lines in recent years, although the COVID-19 crisis and competitive market conditions caused workers' compensation premiums to fall in 2020. Geographical and business diversification trends continue.
- The investment portfolio 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.
- Pricing remains a challenge in the workers' compensation line of business across the U.S., including in GUARD's key states, leading the line to lose weight in GUARD's book of business.

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 is also expanding into personal lines via homeowners and personal umbrella.
- GUARD carries the Berkshire Hathaway 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.

Outlook

- The stable outlooks reflect AM Best's expectation that the members of GUARD will maintain a balance sheet assessment in the strongest range over the intermediate term, with strong operating results contributing to surplus growth supporting the expansion of the group's book of business.

Rating Drivers

- 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 that no longer outperform their peers.
- Negative rating pressure could occur if Berkshire Hathaway Inc. ceased to provide adequate financial and operational support.
- Negative rating pressure could occur due to a significant, sudden reduction in surplus results from losses in their 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 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 high-quality reinsurance partners.

Asset Liability Management - Investments

The investment portfolio is primarily allocated towards cash and short-term investments, comprising over half (62%) of invested assets, followed by common stocks with 28% of the total. Long-term bonds represented 10% of the total, 96% of which were government bonds. The bond portfolio is high-quality and liquid, consisting of 98% 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 just under 1 year.

The common stock portfolio is managed by Warren Buffett, Charles Munger, Todd Combs, and Ted Weschler, respectively the CEO and Chairman, Vice-Chairman, and Portfolio Managers at Berkshire Hathaway Inc. The largest positions in the common stocks in GUARD's portfolio at the end of 2020 were Apple, US Bancorp, Occidental Petroleum Corp, Globe Life Inc, and American Express Co. The allocation of the portfolio is determined by Berkshire Hathaway, following exposure limits and asset liability management guidelines determined by GUARD. These can be considered highly credible and liquid companies.

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 49% of total loss & alae reserves; however, in 2020 there was unfavorable reserve development coming from business owners (commercial multi peril) and commercial auto lines, despite the favorable reserve development recorded in the workers' comp line. The reserves are opined on by their internal Chief Actuary. Additionally, the group's reserving practices are supported and reviewed by NICO's staff actuaries, KPMG LLP, and Deloitte.

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 claims

Balance Sheet Strength (Continued...)

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 in 2012. 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 $246 billion at the end of 2020, with $451 billion in surplus and $874 billion in total assets.

Operating Performance

GUARD has generated a strong operating performance in the last 5 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 7-point advantage in the expense ratio against the composite average. When combined with the group's stable investment earnings, the group produced five-year average pre-tax and total ROE measures that exceed the composite averages.

In recent years, the group 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 anticipate they start to improve profitability ratios 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 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 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 the company to feature "One-Stop Insurance Shopping" for small-to mid-sized businesses. Small to medium size business accounts for 99% of their policies and 97% of their premium. 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.

In 2020 GUARD was 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, personal umbrella in 22 states. The wide range of coverages enables the company to feature "One-Stop Insurance Shopping" for small-to mid-sized businesses. The personal lines coverages include high valued 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 independent agents and brokers, accounting for 67% of the production, as well as supplemental methods of distribution that include independent payroll processors, accounting for 14% of the production. The group's producer management process, which monitors results against a variety of quantitative and qualitative performance standards, is used

Business Profile (Continued...)

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.

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 $1.5 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 $194.8 million coverage above a $44.3 million annual aggregate deductible for the current treaty period.

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

	Year End - December 31			
	2020		2019	
Balance Sheet	**USD (000)**	**%**	**USD (000)**	**%**
Cash and Short Term Investments	1,332,545	29.8	986,683	25.0
Bonds	204,014	4.6	200,127	5.1
Preferred and Common Stock	602,181	13.5	619,185	15.7
Other Invested Assets	12,711	0.3	12,926	0.3
Total Cash and Invested Assets	2,151,451	48.1	1,818,920	46.1
Premium Balances	1,724,815	38.6	1,645,610	41.7
Net Deferred Tax Asset	40,287	0.9	8,484	0.2
Other Assets	552,260	12.4	474,019	12.0
Total Assets	4,468,813	100.0	3,947,033	100.0
Loss and Loss Adjustment Expense Reserves:				
Net Reported Loss Reserves	348,242	7.8	253,865	6.4
Net IBNR Loss Reserves	703,928	15.8	587,524	14.9
Net LAE Reserves	183,181	4.1	129,492	3.3
Total Net Loss and LAE Reserves	1,235,351	27.6	970,882	24.6
Net Unearned Premiums	447,171	10.0	427,081	10.8
Other Liabilities	1,865,521	41.7	1,677,447	42.5
Total Liabilities	3,548,042	79.4	3,075,409	77.9
Capital Stock	3,000	0.1	3,000	0.1
Paid-In and Contributed Surplus	415,978	9.3	415,978	10.5
Unassigned Surplus	501,793	11.2	452,646	11.5
Total Policyholders' Surplus	920,771	20.6	871,624	22.1
Total Liabilities and Surplus	4,468,813	100.0	3,947,033	100.0

Source: BestLink® - Best's Financial Suite

Last Update
April 20, 2021

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: April 20, 2021

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.

Best's Credit Rating Methodology | Disclaimer | Best's Credit Rating Guide