

BEST'S RATING REPORT



Berkshire Hathaway
GUARD Insurance
Companies

BERKSHIRE HATHAWAY GUARD INSURANCE COMPANIES

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

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



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 21, 2019

AMB#	Company		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

- Berkshire Hathaway GUARD Insurance Companies (GUARD) is owned by National Indemnity Company (NICO), which in turn is owned by Berkshire Hathaway Inc., which may provide capital flexibility if needed.
- Risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR) is in the strongest range at the 99.6% VaR.
- No dividend requirement from the immediate or ultimate parent companies.
- Investments are allocated to liquid stocks and bonds and are managed at the ultimate parent company, Berkshire Hathaway Inc., which has demonstrated a long-term track record of positive returns.

Operating Performance: Strong

- Strong operating performance evidenced by relatively low loss & LAE ratios in the last five years, especially in the workers' compensation industry.
- Growth in both existing and new lines; improving geographical and business diversification.
- Investment portfolio has been a steady contributor to earnings over the years.
- Increasing market share in lines with higher loss ratios may 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

- While methodically diversifying its product lines across the U.S., GUARD uses several channels as its premium sources: retail, wholesale, and payroll processors.
- GUARD aims to provide a "one-stop shop" solution to business owners, writing workers' compensation, property and liability via business owner's policy, 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.

Enterprise Risk Management: Appropriate

- Conservative reserving philosophy has resulted in prior accident year favorable loss reserve developments for over 10 years.
- Board-approved, strict risk tolerance levels with low catastrophe net exposure.
- Direct support of National Indemnity Company through a 50% quota share agreement.

Rating Lift/Drag

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

Outlook

The stable outlooks reflect AM Best's view that the members of GUARD will continue to maintain their current rating fundamentals in the short to medium term.

Rating Drivers

AM Best believes the members of Berkshire Hathaway GUARD Insurance Companies are well positioned at the current rating levels. 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, which has a significant allocation to equity holdings.

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

Financial Statements:

Balance Sheet:

Consolidated Balance Sheet

Admitted Assets	Year End - December 31			
	2018 (\$000)	2017 (\$000)	2018 (%)	2017 (%)
Bonds	218,698	221,870	7.5	7.7
Preferred Stock	959	1,384	...	...
Common Stock	420,989	288,221	14.5	10.0
Cash and Short-term Invest	714,121	694,625	24.5	24.1
Real Estate, Investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	6,053	7,643	0.2	0.3
Investments in Affiliates	25,169	...	0.9	...
Real Estate, Offices	10,788	9,120	0.4	0.3
Total Invested Assets	1,396,778	1,222,863	48.0	42.5
Premium Balances	1,224,670	1,453,560	42.1	50.5
Accrued Interest	2,130	1,723	0.1	0.1
All Other Assets	287,480	202,293	9.9	7.0
Total Assets	2,911,057	2,880,440	100.0	100.0
Liabilities & Surplus	Year End - December 31			
	2018 (\$000)	2017 (\$000)	2018 (%)	2017 (%)
Loss and LAE Reserves	777,396	628,490	26.7	21.8
Unearned Premiums	326,765	273,921	11.2	9.5
Derivatives	...	...	...	...
Conditional Reserve Funds	...	466	...	...
All Other Liabilities	1,138,672	1,364,206	39.1	47.4
Total Liabilities	2,242,832	2,267,083	77.0	78.7
Surplus notes	...	...	...	...
Capital and Assigned Surplus	418,978	418,978	14.4	14.5
Unassigned Surplus	249,246	194,379	8.6	6.7
Total Policyholders' Surplus	668,225	613,357	23.0	21.3
Total Liabilities and Surplus	2,911,057	2,880,440	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.

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