



**Best's Credit Rating Effective Date**

February 03, 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](#).

**National Indemnity Group**

**AMB #:** 004917

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

**Best's Credit Ratings - for the Rating Unit Members**

**Financial Strength Rating (FSR)**

<b>A++</b> <b>Superior</b>
Outlook: <b>Stable</b> Action: <b>Affirmed</b>

**Issuer Credit Rating (ICR)**

<b>aaa</b> <b>Exceptional</b>
Outlook: <b>Stable</b> Action: <b>Affirmed</b>

**Assessment Descriptors**

Balance Sheet Strength	<b>Strongest</b>
Operating Performance	<b>Very Strong</b>
Business Profile	<b>Very Favorable</b>
Enterprise Risk Management	<b>Appropriate</b>

**Rating Unit - Members**

**Rating Unit: National Indemnity Group | AMB #: 004917**

AMB #	Rating Unit Members
004784	Berkshire Hathaway Direct Ins
000864	Berkshire Hathaway Spec Ins Co
004330	Columbia Insurance Company
002428	National Fire & Marine Ins Co

AMB #	Rating Unit Members
004406	National Indem Co of Mid-Amer
001824	National Indem Co of the South
002429	National Indemnity Company
000481	National Liab & Fire Ins Co

## Rating Rationale

### Balance Sheet Strength: **Strongest**

- National Indemnity Group's (NICO) balance sheet strength benefits from its solid risk-adjusted capitalization, which is typically maintained at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR), but it fell to the very strong level as of September 30, 2022, following statutory surplus declines resulting from unrealized investment losses in the group's sizable public equity portfolio.
- The overall balance sheet strength assessment of strongest also reflects the sheer size of the balance sheet, ample liquidity and consistently robust operating cash flows, as well as capital fungibility that enables the group to efficiently deploy capital to the market to address opportunities.
- The group has demonstrated strong organic surplus growth despite paying significant dividends to its publicly traded parent, Berkshire Hathaway Inc. (Berkshire). While favorable underwriting results have contributed to capital generation, investment returns have driven the majority of NICO's surplus growth over time.
- The group has considerably higher asset risk relative to peers due to its preferred and common equity portfolio; potential concerns about investment volatility are mitigated by the group's excellent liquidity.
- The group benefits from significant financial flexibility afforded by Berkshire. While NICO's stand-alone balance sheet strength is viewed as being at the strongest level, Berkshire is also viewed to have a positive impact on the group.

### Operating Performance: **Very Strong**

- Over time, NICO consistently outperforms the reinsurance composite in terms of underwriting results, overall operating performance and total return metrics.
- The group's historical very strong operating results have been supported by the outstanding long-term performance of its investment portfolio.
- The group's overall profitability is subject to occasional volatility related to the performance of its investment portfolio, which has a significant allocation to equities.

### Business Profile: **Very Favorable**

- NICO has a very favorable business profile based on a wide range of product offerings, geographic reach, as well as an unrivaled ability to bring large amounts of capital to the market.
- The group has the expertise and capacity to execute large and unique retroactive reinsurance transactions that distinguish it from any other player in the market.
- With over \$238 billion in surplus as of September 30, 2022, the group is able to capitalize on the property/casualty insurance cycle. NICO grows when market conditions support it, and it shrinks when necessary.

### Enterprise Risk Management: **Appropriate**

- The broader risk culture at NICO is viewed favorably, and overall financial strength has historically been viewed as among the strongest in the industry.
- The investment approach, which focuses on buy and hold, has delivered strong results through the years and has been a consistent contributor to capital generation, although with occasional periods of volatility.
- Enterprise risk management has historically been done with a limits-based approach and is less reliant on modeling than is typically seen in the reinsurance space.

### Outlook

- The stable outlooks reflect the expectation that the group's rating fundamentals will remain unchanged over the intermediate term. AM Best anticipates that the group will maintain an overall balance sheet strength assessment at the strongest level, with consistently ample liquidity that will offset occasional volatility in capital levels, due to fluctuations in the value of the group's sizable equity portfolio. Although occasionally volatile, investments are expected to continue to contribute to operating performance and to surplus growth in the intermediate term.

## Rating Drivers

- Negative rating actions could occur if there were a series of operating losses over several years that exceed AM Best's expectations and that would negatively impact the group's operating performance and stance in the market.
- Negative rating actions could occur if a material change in financial strength and flexibility were to occur at the ultimate parent, Berkshire Hathaway Inc.
- Negative rating actions could also occur if the group's risk-adjusted capitalization remained at levels that were not supportive of its overall strongest level of balance sheet assessment for an extended period.

## Key Financial Indicators

### Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	46.9	27.4	19.9	18.3

Source: Best's Capital Adequacy Ratio Model - P/C, US

Key Financial Indicators USD (000)	9-Months		Year End - December 31				
	2022	2021	2021	2020	2019	2018	2017
Premiums Written:							
Direct	10,479,675	9,178,732	12,031,005	10,226,445	9,144,473	8,533,315	7,008,346
Assumed*	31,833,916	32,463,910	32,359,380	28,604,344	25,058,056	23,118,485	22,908,805
Ceded*	7,664,800	6,845,918	571,146	371,835	362,537	350,246	250,675
Net	34,648,791	34,796,723	43,819,239	38,458,953	33,839,992	31,301,554	29,666,476
Net Operating Income	19,804,094	7,265,238	9,434,765	9,791,114	8,699,203	10,180,799	839,839
Net Income	23,542,557	9,307,050	11,683,047	14,478,645	11,477,234	12,671,509	4,605,232
Total Admitted Assets	414,954,262	427,919,911	464,004,005	382,876,543	347,243,966	276,992,507	285,800,590
Policyholders' Surplus	238,403,968	250,650,635	284,559,574	223,508,482	202,570,513	149,196,169	158,863,139

Source: BestLink® - Best's Financial Suite

\*Quarterly premiums include affiliated reinsurance premiums that are eliminated in annual assumed and ceded values.

Key Financial Ratios (%)	9-Months		Year End - December 31					Weighted Average
	2022	2021	2021	2020	2019	2018	2017	
Profitability:								
Combined Ratio	100.6	97.3	96.7	96.7	98.0	96.8	102.7	97.9
Reserve Development Combined Ratio Impact	-8.3	2.4	-0.1	0.9	-3.9	-4.2	-3.8	-1.9
Net Investment Yield	6.6	2.6	2.1	2.7	3.3	3.8	3.6	3.0
Pre-Tax Operating Return on Net Earned Premiums	64.0	25.0	25.5	29.1	29.0	36.6	-2.9	24.4
Net Income Return on Policyholders' Surplus	12.0	5.2	4.6	6.8	6.5	8.2	3.2	5.8
Total Return on Policyholders' Surplus	-24.3	20.3	28.5	18.6	38.7	-2.2	29.1	23.2
Leverage:								
Net	0.9	0.9	0.8	0.9	0.9	1.1	1.0	...
Gross	...	...	0.8	0.9	0.9	1.1	1.0	...
Non-affiliated Investment	94.2	79.1	83.1	84.9	87.0	86.2	77.2	...

Source: BestLink® - Best's Financial Suite

## Credit Analysis

### Balance Sheet Strength

The overall balance sheet strength of National Indemnity Group is viewed as strongest by A.M. Best.

## Balance Sheet Strength (Continued...)

### Capitalization

National Indemnity Group typically maintains the strongest risk-adjusted capitalization, as measure by the Best Capital Adequacy Ratio (BCAR), but the group's BCAR score dipped to the very strong level as of Sept. 30 2022, following a \$46.2 billion (16%) drop in statutory surplus during the first nine months of 2022, due to \$71.2 billion of unrealized investment losses, primarily on the group's sizable equity portfolio. AM Best recognizes that the group's capital levels are susceptible to occasional volatility stemming from fluctuations in investment values and views this volatility as mitigated by the group's ample liquidity and vast financial resources, not only at the group level, but also at National Indemnity Group's ultimate parent, Berkshire Hathaway Inc.

The group's overall balance sheet strength assessment otherwise reflects its conservative premium leverage and relatively low liability leverage when assessing the total carried loss reserves and the additional retroactive liabilities as a percentage of surplus. The group has nominal reinsurance dependence which drives a low exposure to credit risk and well managed exposures to man-made and natural catastrophes.

The size of the group's balance sheet and its ability to write very large complex transactions gives the company a unique position in the market.

Capital Generation Analysis USD (000)	9-Months		Year End - December 31				
	2022	2021	2021	2020	2019	2018	2017
Beginning Policyholders' Surplus	284,559,574	223,538,482	223,538,482	202,570,513	149,196,169	158,863,139	125,511,263
Net Operating Income	19,804,094	7,265,238	9,434,765	9,791,114	8,699,203	10,180,799	839,839
Net Realized Capital Gains (Losses)	3,738,463	2,041,813	2,248,282	4,687,531	2,778,030	2,490,709	3,765,394
Net Unrealized Capital Gains (Losses)	-71,219,276	26,719,942	60,624,608	25,148,580	56,653,047	-15,995,731	36,751,771
Net Change in Paid-In Capital and Surplus	...	-25,000	-12,000	...	...	640,503	-1,513,869
Stockholder Dividends	-8,854,133	-6,400,000	-7,400,000	-19,234,000	-11,725,000	-8,130,000	-3,800,000
Other Changes in Capital and Surplus	10,375,247	-2,489,839	-3,874,564	544,744	-3,030,937	1,146,749	-2,691,258
Net Change in Policyholders' Surplus	-46,155,605	27,112,152	61,021,091	20,937,969	53,374,344	-9,666,970	33,351,876
<b>Ending Policyholders' Surplus</b>	<b>238,403,968</b>	<b>250,650,635</b>	<b>284,559,574</b>	<b>223,508,482</b>	<b>202,570,513</b>	<b>149,196,169</b>	<b>158,863,139</b>
Net Change in Policyholders' Surplus (%)	-16.2	12.1	27.3	10.3	35.8	-6.1	26.6
Net Change in Policyholders' Surplus (5 yr CAGR)	...	...	17.8	...	...	...	...

Source: BestLink® - Best's Financial Suite

Liquidity Analysis	9-Months		Year End - December 31				
	2022	2021	2021	2020	2019	2018	2017
Net Operating Cash Flow USD (000)	21,350,254	12,321,446	17,875,780	14,044,074	13,690,783	14,754,753	15,442,859
Current Liquidity (%)	158.5	155.4	172.4	140.9	149.4	127.1	132.1

Source: BestLink® - Best's Financial Suite

### Asset Liability Management - Investments

The National Indemnity Group maintains high investment leverage relative to most of its peers due largely to its concentration in unaffiliated common stocks. Management's long-standing strategy has been to maximize its long-term returns through a buy-and-hold strategy. Investments are diversified with well-established and stable corporations that are anticipated to consistently achieve above average returns. While the group maintains considerable investment leverage, this is largely mitigated by its lower underwriting and manageable catastrophe leverage. A.M. Best does not anticipate that management would be forced to liquidate its holdings to meet claims obligations even under very remote probability catastrophe scenarios.



## Balance Sheet Strength (Continued...)

Composition of Cash and Invested Assets	9-Months		Year End - December 31				
	2022	2021	2021	2020	2019	2018	2017
Total Cash and Invested Assets USD (000)	394,561,234	407,868,377	448,658,791	366,185,310	334,215,431	264,565,931	271,637,611
<b>Composition Percentages (%)</b>							
Unaffiliated:							
Cash and Short Term Investments	9.6	13.1	12.2	9.5	11.5	13.4	17.0
Bonds	1.3	0.6	0.5	0.8	1.0	1.5	2.3
Stocks	60.9	54.7	57.3	52.1	53.2	47.7	44.0
Other Invested Assets	1.1	1.0	0.8	1.1	1.3	1.7	1.9
<b>Total Unaffiliated</b>	<b>72.8</b>	<b>69.4</b>	<b>70.8</b>	<b>63.5</b>	<b>67.0</b>	<b>64.4</b>	<b>65.2</b>
Investments in Affiliates	30.2	36.5	34.8	42.5	39.6	41.9	42.1
Non-Admitted	-3.0	-5.9	-5.6	-6.0	-6.6	-7.2	-7.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: BestLink® - Best's Financial Suite

Bonds and Short Term Investments - Distribution by Maturity (%)	Years					Average (Years)
	0-1	1-5	5-10	10-20	20+	
Government Bonds	92.5	1.0	0.1	0.1	0.1	0.6
Government Agencies and Municipal Bonds	...	0.1	...	...	...	5.0
Industrial and Miscellaneous Bonds	0.4	0.8	0.5	0.2	...	5.3
Hybrid Securities	...	...	...	...	...	15.3
Affiliated Bonds	...	1.9	2.4	...	...	5.5
<b>Total Bonds</b>	<b>92.9</b>	<b>3.7</b>	<b>2.9</b>	<b>0.3</b>	<b>0.1</b>	<b>0.9</b>

Source: BestLink® - Best's Financial Suite

## Reserve Adequacy

The group's reserves have historically been adequate, with considerable favorable loss reserve development recorded during the past several accident years. In addition, the group has conservative reserve levels for emerging asbestos and environmental claims.

In addition to statutory reserves reported under Schedule P, the group has also established reserves for retroactive reinsurance contracts, which includes A&E liabilities and latent injury losses that are believed to be concentrated under various retroactive reinsurance agreements. However, relative to the group's total surplus, overall reserve leverage remains low, which provides ample cushion for any potential adverse development. In addition, most retroactive covers are written with aggregate limits to cap ultimate claims liability.

Loss and Loss Adjustment Expense Reserves and Development - Calendar Year	9-Months		Year End - December 31				
	2022	2021	2021	2020	2019	2018	2017
Loss and ALAE* Reserves USD (000)	67,801,669	62,084,531	61,017,247	52,808,124	48,828,470	44,887,845	40,482,744
Loss and ALAE* Reserves Development USD (000)	-2,646,720	763,197	...	159,397	1,217,311	781,626	-14,690
Development to:							
Original Reserves (%)	...	...	...	0.3	2.6	1.8	...
Prior Year End Reserves(%)	-4.2	1.4	...	...	...	...	...
Prior Year End Surplus (%)	-0.9	0.3	...	0.1	0.6	0.5	...

Source: BestLink® - Best's Financial Suite

\* Interim LAE reserves balances displayed include Adjusting and Other Unpaid as well as Defense and Cost Containment Unpaid. Year End LAE balances include Defense and Cost Containment Unpaid only.

## Balance Sheet Strength (Continued...)

Year End - December 31

Loss and Loss Adjustment Expense Reserves and Development - Accident Year	2021	2020	2019	2018	2017
Original Loss and ALAE Reserves USD (000)	19,691,226	17,086,348	15,392,390	14,350,026	13,870,279
Loss and ALAE Reserves Developed thru Latest Year End USD (000)	19,691,226	16,339,781	14,652,055	13,903,959	12,822,136
Development to Original Reserves (%)	...	-4.4	-4.8	-3.1	-7.6
Accident Year Loss and LAE Ratio (%)	79.2	74.8	80.7	81.0	85.7
Accident Year Combined Ratio (%)	96.8	93.6	99.6	99.1	102.4

Source: BestLink® - Best's Financial Suite

## Operating Performance

The group's operating performance has been at the top of its peers group over the long term (ten years or more).

While the reinsurance market has been under pressure from an underwriting perspective, the group has de-emphasized property catastrophe reinsurance in recent years, which has been under the most pressure, and has put resources toward building its primary speciality capability. This is an example of the company's adherence to a disciplined cycle management approach.

Net investment income has been a significant driver of pretax operating income over the past few years and is considered a core strength of the group's operating performance.

The group's historical pre-tax net investment yields reflect management's investment philosophy to maximize long-term investment returns through a buy and hold strategy of common stocks. As a result, the group has produced considerably higher total return on investments (i.e., including all realized and unrealized capital gains) in most years than its peers.

Operating and Financial Performance Ratios (%) - Company	9-Months		Year End - December 31					Weighted Average
	2022	2021	2021	2020	2019	2018	2017	
Calendar Year Loss and LAE Ratio	83.6	80.1	79.1	78.0	79.2	78.6	86.0	79.9
Expense and Policyholder Dividend Ratio	17.1	17.1	17.6	18.8	18.8	18.2	16.7	18.0
Combined Ratio	100.6	97.3	96.7	96.7	98.0	96.8	102.7	97.9
Reserve Development Ratio Impact	-8.3	2.4	-0.1	0.9	-3.9	-4.2	-3.8	-1.9
Net Investment Yield	6.6	2.6	2.1	2.7	3.3	3.8	3.6	3.0
Pre-Tax Operating Return on Net Earned Premiums	64.0	25.0	25.5	29.1	29.0	36.6	-2.9	24.4
Net Income Return on Policyholders' Surplus	12.0	5.2	4.6	6.8	6.5	8.2	3.2	5.8
Total Return on Policyholders' Surplus	-24.3	20.3	28.5	18.6	38.7	-2.2	29.1	23.2

Source: BestLink® - Best's Financial Suite

Operating and Financial Performance Ratios (%) - Composite	9-Months		Year End - December 31					Weighted Average
	2022	2021	2021	2020	2019	2018	2017	
Calendar Year Loss and LAE Ratio	79.1	78.9	77.2	76.1	75.7	80.2	85.0	78.4
Expense and Policyholder Dividend Ratio	22.6	22.2	23.1	25.0	24.9	24.6	24.1	24.3
Combined Ratio	101.7	101.1	100.3	101.1	100.6	104.8	109.1	102.6
Reserve Development Ratio Impact	-3.8	7.0	4.0	-1.0	-1.5	3.1	-3.3	0.7
Net Investment Yield	5.7	2.6	2.2	2.6	3.3	3.5	3.3	2.9
Pre-Tax Operating Return on Net Earned Premiums	34.3	12.8	14.0	16.0	19.1	14.7	-7.0	12.6
Net Income Return on Policyholders' Surplus	9.6	4.4	4.1	6.1	6.3	5.1	1.2	4.7
Total Return on Policyholders' Surplus	-22.1	17.7	24.8	16.3	33.6	-3.3	23.2	19.6

Source: BestLink® - Best's Financial Suite

Industry Composite: Reinsurance Composite - BestLink® - Best's Financial Suite



**Business Profile**

National Indemnity Group is primarily engaged in the underwriting of specialized reinsurance covers for primary insurers and reinsurers. The group also underwrites specialty coverages and standard commercial insurance through National Indemnity Company and other strategically related subsidiaries. The group's very favorable business profile assessment reflects its a wide range of product offerings and geographic reach, as well as an unmatched industry reputation for its ability to provide capital relief for companies that may be in need.

The group has historically been opportunistic in its approach to third-party reinsurance business, seeking new business opportunities where market demand and its superior financial strength provide a clear advantage in setting contract terms and conditions. The group's reinsurance segment specializes in individual risk, non-traditional covers such as retroactive reinsurance arrangements, property catastrophe reinsurance, and other multi-line reinsurance that include other contracts that are written on both a quota share and excess of loss basis. Business is solicited both on a direct and broker market basis.

The group's retroactive reinsurance business indemnifies the ceding company with respect to past loss events previously insured or reinsured by the cedant. Although these contracts are typically subject to an aggregate limit, it is generally expected that the ultimate losses paid under these agreements will exceed the original premium by a wide margin. The loss margin plus any profit is derived from the investment income earned on the underwriting "float". As it is anticipated that claim payments relative to this type of reinsurance contracts will be made over an extended period of time, "float" is created by the investment of the original premium, which is the discounted value of assumed loss reserves, based on net present value calculations. Therefore the estimation of the ultimate loss, pay-out pattern (tail) of losses and investment yield are critical to the pricing and ultimate profitability of each transaction. Recorded retroactive reinsurance reserves are not discounted; consequently the initial loss upon inception of the contract is recorded as other expense and is not included in net underwriting income.

The group maintains a unique position in the market for its ability to execute one-time large complex transactions, which don't occur regularly due to their scale and complexity. The most recent, high profile third-party deal of this sort took place in January 2017, when National Indemnity Group entered into a retroactive reinsurance deal with AIG. Under the terms of the transaction, National Indemnity indemnifies AIG for 80% of up to \$25 billion, excess of \$25 billion retained by AIG, of losses and allocated loss adjustment expenses with respect to certain commercial lines of business occurring in years prior to 2016 for a premium of approximately \$10 billion.

It is expected that National Indemnity will remain in a unique position as the selected partner in these types of deals going forward and that its ability to provide relief to certain cedants allows the company to have a place of its own within the market.

In addition to acting as a third-party reinsurer, a substantial portion of the group's premium volume is derived from other Berkshire Hathaway affiliates to which National Indemnity Group provides substantial quota share, excess of loss, and/or retroactive reinsurance support, on a case by case basis.

Premium Composition and Growth	9-Months		Year End - December 31					5 Year CAGR
	2022	2021	2021	2020	2019	2018	2017	
Direct Premiums Written USD (000)	10,479,675	9,178,732	12,031,005	10,226,445	9,144,473	8,533,315	7,008,346	...
% Change	14.2	17.6	17.6	11.8	7.2	21.8	15.3	14.6
Reinsurance Premiums Assumed USD (000)*	31,833,916	32,463,910	32,359,380	28,604,344	25,058,056	23,118,485	22,908,805	...
% Change	-1.9	14.5	13.1	14.2	8.4	0.9	20.1	11.1
Reinsurance Premiums Ceded USD (000)*	7,664,800	6,845,918	571,146	371,835	362,537	350,246	250,675	...
% Change	12.0	8.6	53.6	2.6	3.5	39.7	25.0	23.3
Net Premiums Written USD (000)	34,648,791	34,796,723	43,819,239	38,458,953	33,839,992	31,301,554	29,666,476	...
% Change	-0.4	16.6	13.9	13.6	8.1	5.5	18.9	11.9

Source: BestLink® - Best's Financial Suite

\*Quarterly premiums include affiliated reinsurance premiums that are eliminated in annual assumed and ceded values.

## Business Profile (Continued...)

2021 By Line Business	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written		Business Retention
	USD (000)	%	USD (000)	%	USD (000)	%	USD (000)	%	%
Other Liab Claims made	1,955,556	16.3	891,676	2.8	1,962	0.3	2,845,270	6.5	99.9
Workers Comp	1,927,849	16.0	73,442	0.2	112,021	19.6	1,889,270	4.3	94.4
Comm Auto Liab	1,227,948	10.2	203,774	0.6	63,715	11.2	1,368,007	3.1	95.5
Med Mal Claims made	1,100,654	9.1	234,199	0.7	6,868	1.2	1,327,986	3.0	99.5
Other Liab Occurrence	1,072,892	8.9	721,575	2.2	3,100	0.5	1,791,367	4.1	99.8
Top 5	7,284,900	60.6	2,124,667	6.6	187,666	32.9	9,221,901	21.0	98.0
All Other	4,746,105	39.4	30,234,713	93.4	383,480	67.1	34,597,338	79.0	98.9
Total	12,031,005	100.0	32,359,380	100.0	571,146	100.0	43,819,239	100.0	235.6

Source: BestLink® - Best's Financial Suite

### Year End - December 31

Geographic Breakdown by Direct Premiums Written USD (000)	2021	2020	2019	2018	2017
California	2,532,237	2,360,637	1,896,201	2,105,922	1,599,407
New York	1,361,634	1,210,423	1,186,083	1,127,764	1,027,823
Texas	1,067,943	664,672	583,326	543,733	378,645
Florida	801,041	688,215	637,784	554,772	445,735
Aggregate Alien	582,042	478,588	333,559	220,140	154,967
Top 5 States	6,344,897	5,402,536	4,636,954	4,552,331	3,606,576
All Other	5,686,108	4,823,908	4,507,519	3,980,984	3,401,809
Total	12,031,004	10,226,444	9,144,473	8,533,315	7,008,385
<b>Geographic Concentration Index</b>	0.08	...	...	...	...

Source: BestLink® - Best's Financial Suite

## Enterprise Risk Management

National Indemnity Group generally uses a limits approach to achieve comfort in risk taking. The group estimates its aggregate exposure by considering the aggregate per occurrence limits of each direct policy it writes and reinsurance contract it assumes by catastrophe zone and event. Using an aggregate limits approach has proven successful for the group. In effect, Berkshire Hathaway Inc. will not risk more than one year of earnings to one single event and the National Indemnity Group manages to not expose any underlying legal entity to the remote risk of failing to meet policyholder obligations. Risk management, regarding investments and their correlation to the reinsurance business, is overseen by Berkshire Hathaway Inc. executive management, significantly by Mr. Buffett in his Chief Executive Officer role. Mr. Buffett's reputation and ability to manage capital and exposure throughout the organization is well documented by his performance and reputation over an extended period of time.

## Reinsurance Summary

The group generally does not utilize external retrocession covers, choosing instead to spread its losses with internal reinsurance arrangements among its member companies. The National Indemnity Group's tremendous capital position comfortably protects it from exposures related to mega-catastrophes and other risks.

## Environmental, Social & Governance

AM Best considers National Indemnity Group's exposure to material environmental, social and corporate governance (ESG) risks to be significant but manageable. The company operates in an environment where its underwriting activities have meaningful exposure to climate risk and issues related to social inflation, although its diversified underwriting portfolio and large capital base help to insulate it from the risk of capital erosion to one or more of these factors. As a subsidiary of publicly traded Berkshire Hathaway, Inc., National



## Enterprise Risk Management (Continued...)

Indemnity Group is subject to its parent's sound corporate governance practices. At present, AM Best views ESG factors as unlikely to impact the credit quality of the group over the short-term.

## Rating Lift/Drag

Berkshire Hathaway Inc. (Berkshire) is an American multinational conglomerate headquartered in Nebraska. According to Forbes Global 2000 list, Berkshire Hathaway is the third largest public company in the world. From an AM Best perspective it is considered a non-insurance ultimate parent being that many of its subsidiaries are outside the insurance industry.

At the holding company level, Berkshire maintained \$18.8 billion of cash and an additional \$9.7 billion of short term investments in U.S. treasury bills at year end 2021. These assets provide significant potential liquidity and capital support to National Indemnity Group and the rest of Berkshire's affiliates, if necessary. On a consolidated basis, at September 30, 2022, Berkshire maintained \$28.9 billion of cash and \$76.3 billion of short-term investments .

Due to Berkshire's significant equity investments, it's net earnings typically fluctuate from year to year, depending on Investment and derivative contract gains/losses in a given period. At September 20, 2022, Berkshire's GAAP equity totaled \$463.7 billion, a \$51.2 billion decrease from year-end 2021, primarily reflecting unrealized losses on the company's sizable investment portfolio. Despite occasional earnings volatility, operating cash flows have been consistently robust, totaling \$39.4 billion in 2021, \$39.8 billion in 2020, \$38.7 billion in 2019, and \$37.4 billion in 2018. Operating cash flows were \$27.0 billion for the first nine months of 2022. Overall, Berkshire's liquidity and financial flexibility remains excellent, and the enterprise continues to represent a material positive rating factor when assessing the insurance and reinsurance operations that it owns.



## Financial Statements

	9-Months		Year End - December 31			
	2022		2021		2020	
<b>Balance Sheet</b>	USD (000)	%	USD (000)	%	USD (000)	%
Cash and Short Term Investments	37,874,057	9.1	54,534,928	11.8	34,934,618	9.1
Bonds	6,246,990	1.5	4,664,023	1.0	6,601,777	1.7
Preferred and Common Stock	293,864,162	70.8	323,761,031	69.8	247,282,227	64.6
Other Invested Assets	56,576,024	13.6	65,698,810	14.2	77,366,687	20.2
<b>Total Cash and Invested Assets</b>	<b>394,561,234</b>	<b>95.1</b>	<b>448,658,791</b>	<b>96.7</b>	<b>366,185,310</b>	<b>95.6</b>
Premium Balances	15,483,749	3.7	11,759,885	2.5	10,861,021	2.8
Net Deferred Tax Asset	19,992	...	11,925	...	56,226	...
Other Assets	4,889,287	1.2	3,573,404	0.8	5,773,986	1.5
<b>Total Assets</b>	<b>414,954,262</b>	<b>100.0</b>	<b>464,004,005</b>	<b>100.0</b>	<b>382,876,543</b>	<b>100.0</b>
Loss and Loss Adjustment Expense Reserves:						
Net Reported Loss Reserves*	28,931,059	7.0	25,976,166	5.6	22,141,800	5.8
Net IBNR Loss Reserves*	38,870,610	9.4	28,284,902	6.1	24,223,145	6.3
Net LAE Reserves	...	...	8,544,540	1.8	8,070,131	2.1
Total Net Loss and LAE Reserves	67,801,669	16.3	62,805,608	13.5	54,435,076	14.2
Net Unearned Premiums	20,994,653	5.1	18,102,376	3.9	16,400,201	4.3
Other Liabilities	87,753,971	21.1	98,536,448	21.2	88,532,785	23.1
<b>Total Liabilities</b>	<b>176,550,294</b>	<b>42.5</b>	<b>179,444,432</b>	<b>38.7</b>	<b>159,368,061</b>	<b>41.6</b>
Capital Stock	19,363	...	19,363	...	19,363	...
Paid-In and Contributed Surplus	28,118,496	6.8	28,118,496	6.1	28,118,496	7.3
Unassigned Surplus	210,248,109	50.7	256,403,715	55.3	195,370,623	51.0
Other Surplus	18,000	...	18,000	...	...	...
<b>Total Policyholders' Surplus</b>	<b>238,403,968</b>	<b>57.5</b>	<b>284,559,574</b>	<b>61.3</b>	<b>223,508,482</b>	<b>58.4</b>
<b>Total Liabilities and Surplus</b>	<b>414,954,262</b>	<b>100.0</b>	<b>464,004,005</b>	<b>100.0</b>	<b>382,876,543</b>	<b>100.0</b>

Source: BestLink® - Best's Financial Suite

\* Interim reserves balances include LAE.

<b>Income Statement USD (000)</b>	9-Months		Year End - December 31	
	2022	2021	2021	2020
Net Premiums Earned	31,756,514	31,985,724	42,117,064	37,056,148
Net Losses and LAE Incurred:				
Current Accident Year	29,182,212	24,860,949	33,353,001	28,556,412
Prior Accident Years	-2,646,720	763,197	-49,788	336,760
Underwriting Expenses Incurred	5,912,510	5,966,241	7,719,967	7,217,557
Dividends to Policyholders	1,048	1,198	1,282	1,807
<b>Net Underwriting Income</b>	<b>-692,537</b>	<b>394,139</b>	<b>1,092,602</b>	<b>943,613</b>
Net Investment Income	20,992,339	7,523,139	8,578,535	9,604,900
Other Income (Expense)	9,151	69,890	1,071,181	234,454
<b>Pre-Tax Operating Income</b>	<b>20,308,953</b>	<b>7,987,168</b>	<b>10,742,319</b>	<b>10,782,967</b>
Income Taxes Incurred	504,859	721,930	1,307,554	991,854
<b>Net Operating Income</b>	<b>19,804,094</b>	<b>7,265,238</b>	<b>9,434,765</b>	<b>9,791,114</b>
Net Realized Capital Gains (Losses)	3,738,463	2,041,813	2,248,282	4,687,531
<b>Net Income</b>	<b>23,542,557</b>	<b>9,307,050</b>	<b>11,683,047</b>	<b>14,478,645</b>

Source: BestLink® - Best's Financial Suite



Statement of Operating Cash Flows USD (000)	9-Months		Year End - December 31	
	2022	2021	2021	2020
Net Premiums Collected	31,640,803	29,953,501	43,123,571	37,805,010
Net Losses Paid	18,984,756	15,076,559	21,024,332	20,473,685
Expenses Paid	8,411,243	8,469,784	10,933,543	10,322,870
Dividends to Policyholders	1,116	956	1,267	1,754
Net Underwriting Cash Flow	4,243,688	6,406,202	11,164,430	7,006,701
Net Investment Income	18,175,952	7,233,860	8,508,398	9,513,216
Other Income (Expense)	-70,069	-28,647	-128,215	-81,683
Income Taxes Paid (Recovered)	999,317	1,289,970	1,668,833	2,394,160
Net Operating Cash Flow	21,350,254	12,321,446	17,875,780	14,044,074

Source: BestLink® - Best's Financial Suite

## Related Methodology and Criteria

[Best's Credit Rating Methodology, 11/13/2020](#)

[Catastrophe Analysis in A.M. Best Ratings, 10/13/2017](#)

[Available Capital & Holding Company Analysis, 10/13/2017](#)

[Evaluating U.S. Surplus Notes, 10/13/2017](#)

[Scoring and Assessing Innovation, 03/05/2020](#)

[Understanding BCAR for U.S. Property/Casualty Insurers, 05/26/2022](#)

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