

Best's Rating Report



AmTrust
FINANCIAL

AMTRUST GROUP

AmTrust International Ins Ltd
Technology Insurance Co., Inc
Rochdale Insurance Company
AmTrust Europe Limited
AmTrust Insurance Co of Kansas
AmTrust Intl Underwriters Ltd
Associated Industries Ins Co
Comp Options Insurance Co
CorePointe Insurance Company
Milwaukee Casualty Ins Co
Security National Ins Co
Wesco Insurance Company
AmTrust Insurance Luxembourg
Developers Surety & Indem Co
First Nonprofit Insurance Co
Indemnity Co of California
Sequoia Indemnity Company
Sequoia Insurance Company

Best's	
FSR	FSC
A	XIII
A	XIII
A	XIII
A	XIII
A	XIII
A	XIII
A	XIII
A	XIII
A	XIII
A	XIII
A	XIII
A	XIII
A	XIII
A	XIII
A	XIII
A	XIII
A	XIII
A	XIII



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Associated With:

AmTrust Financial Services, Inc
AMTRUST GROUP
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New York, NY 10038
Web: www.amtrustgroup.com

Tel: 212-220-7120

AMB#: 018533

Associated Ultimate Parent#: 051002

RATING RATIONALE

Rating Rationale: The ratings are based on the consolidated results of AmTrust International Insurance, Ltd. (Bermuda) (AII), and its eighteen affiliate companies, which operate through an intercompany quota share reinsurance arrangement and make up the AmTrust Group (AmTrust). The ratings reflect the consolidated group's solid balance sheet strength, strong underwriting and operating performance within its niche market segments as well as implicit and explicit support from its parent, AmTrust Financial Services, Inc. (AFSI), if needed to support AmTrust's expanding operations. AmTrust has been successful in executing its business plan, which is focused on growth through the acquisition of companies, renewal rights offerings and established books of business at appropriate rates, terms and conditions. This enables AmTrust to further benefit from its expandable underwriting platform to drive expense savings.

Partially offsetting these positive rating factors are AmTrust's continued significant growth in both premium volume and associated liabilities over the current five-year period, primarily achieved through rate increases, policy count, acquisitions that are either renewal rights transactions or outright purchases of companies. These acquisitions have the inherent risk associated with expansion into new markets and integrating new business, such as the Tower cut-through transaction that closed in the first quarter of 2014. Even though the group has historically executed these types of transactions in the past, and the group appears to be applying discipline in its underwriting and controls, there remains a considerable amount of risk associated with the amount of growth over the past five years. Concerns around growth within its workers' compensation line of business are somewhat mitigated by the group's focus on target niche classes which have historically been lower hazard and small accounts where claims trends within its niches have historically been of shorter duration with a good percentage of its claims being classified as medical only or temporary injury.

AFSI's adjusted debt-to-total capital, excluding accumulated other comprehensive income (AOCI) of 17.4% and its adjusted debt-to-

tangible capital (excluding AOCI) of 22.4% as of March 31, 2015 (the group continues to maintain a sizable amount of equity in goodwill and intangible assets of nearly 30%), which were within A.M. Best's expectations. In addition, the company's access to a \$350 million credit facility and non-operating company dividend capacity, provides ample liquidity to meet any corporate obligations. AFSI maintains a strong interest coverage ratio that is well within A.M. Best's guidelines.

Key rating factors that may lead to future positive rating actions include the organization outperforming its peers for an extended period while maintaining a sound balance sheet and solid risk-adjusted capitalization. However, negative rating actions could result if the group's operating performance falls markedly short of A.M. Best's expectations, there is deterioration in its loss reserve position or if risk-adjusted capitalization significantly declines.

Outlook: Stable

RATING UNIT MEMBERS

AmTrust Group		(AMB# 018533):	
AMB#	Company	Best's FSR	Pool %
050300	AmTrust International Ins Ltd	A	70.00
011234	Technology Insurance Co., Inc	A	20.00
003120	Rochdale Insurance Company	A	10.00
087400	AmTrust Europe Limited	A	
004778	AmTrust Insurance Co of Kansas	A	
057399	AmTrust Intl Underwriters Ltd	A	
011693	Associated Industries Ins Co	A	
012095	Comp Options Insurance Co	A	
000237	CorePointe Insurance Company	A	
003548	Milwaukee Casualty Ins Co	A	
002522	Security National Ins Co	A	
002468	Wesco Insurance Company	A	
093205	AmTrust Insurance Luxembourg	A	
011752	Developers Surety & Indem Co	A	
010856	First Nonprofit Insurance Co	A	
004048	Indemnity Co of California	A	
013076	Sequoia Indemnity Company	A	
002281	Sequoia Insurance Company	A	

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KEY FINANCIAL INDICATORS (\$000)

Year	Net Premiums Written	Pre-tax Operating Income	Total Admitted Assets	Policy- holders' Surplus	Comb. Ratio
2010	525,246	49,664	1,942,698	723,633	94.4
2011	591,650	14,796	2,376,150	766,416	100.5
2012	748,038	28,355	2,895,645	875,904	97.0
2013	672,651	109,317	3,746,099	996,252	88.0
2014	1,218,929	181,259	4,791,529	1,319,445	85.5

(* Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

AmTrust Group's consolidated financial data excludes AmTrust International Insurance Ltd, AmTrust Europe limited and AmTrust International Underwriters, Ltd as they are domiciled in Bermuda, UK and Ireland, respectively, and are not required to file an NAIC statement.

The data presented within these tables includes the consolidated historical results of AmTrust North American Group operations.

BUSINESS PROFILE

AmTrust Financial Services Inc. (AFSI) is a multinational specialty property and casualty insurance holding company with operations in the United States, Europe and Bermuda, focused on generating consistent underwriting profits. The group provides insurance coverage for small businesses and products with high volumes of insureds and loss profiles more predictable. The group targets lines of insurance that they believe are generally underserved by larger insurance carriers. AmTrust has grown by hiring teams of underwriters with expertise in specialty lines and through acquisitions of producer networks and renewal rights to established books of specialty insurance business. Since the current majority stockholders acquired AmTrust in 1998, the group has focused on four business segments:

Small commercial business insurance (49% of the total NPW), including workers' compensation, commercial package and other commercial lines produced by retail agents and brokers in the United States.

This segment insures small businesses (average policy size \$8K and has 8 to 10 employees) in low and medium hazard classes, such as restaurants, retail stores and physicians and other professional offices consisting of mono-line workers' compensation and commercial package policies. Under commercial package, AmTrust provides coverage to small businesses, with coverage including commercial property, general liability, inland marine, automobile, workers' compensation, umbrella and farm and ranch owners. AmTrust feels small business owners can be profitably underwritten given its scalable technology platform which permits individual account underwriting for a large number of small risks. Given the relatively small policy size, the small business segment tends to be less competitive than the general workers' compensation or commercial package markets. As a result, retentions and renewal rates are typically higher than the

general market. Products are distributed through over 7,500 retail and wholesale agents with geographic reach throughout California, Mid-Atlantic, Southeast and the Midwest.

Specialty risk and extended warranty coverage (33% of the total NPW) for consumer and commercial goods and custom designed coverages, such as accidental damage plans and payment protection plans offered in connection with the sale of consumer and commercial goods, in the United States, United Kingdom and certain other European Union countries.

AmTrust's specialty risk and extended warranty segment provides coverage to manufacturers, service providers, retailers and third party warranty administrators providing coverage for accidental damage and mechanical breakdown for consumer and commercial goods. This segment is written in both Europe (65%) and in the United States (35%). Management has demonstrated that these risks can be profitably underwritten by managing the frequency and severity of losses through careful selection of administrators and coverage plans, use of restrictive, risk-specific coverage terms, proactive claims management, and premium adjustments as required. Coverage is distributed through warranty administrators and brokers, as well as directly to manufacturers, service providers and retailers. Specialty risk and extended warranty business primarily covers selected consumer and commercial goods and other risks including: personal computers; consumer electronics, such as televisions and home theater components; consumer appliances, such as refrigerators and washing machines; automobiles (no liability coverage); cellular telephones furniture; heavy equipment, homeowner's latent defects warranty; hand tools; credit payment protection in the European Union; GAP insurance, commercial and residential properties, legal expenses and Italian hospital liability.

Within the specialty risk and extended warranty segment, policies are issued with a term of 12 to 18 months. The policies insure the insured's contractual liability under contracts which have terms ranging from one month to 120 months. The weighted average term is 23 months. Should results not perform as anticipated, AmTrust generally has the right to increase premium rates during the term of the contract and, in Europe, the right to cancel prior to the end of the term. Management strongly believes the profitability of each coverage plan is largely dependent upon management review and oversight. To ensure success, management reviews claim data to forecast future claims trends on a continuing basis.

Specialty middle-market property and casualty insurance (18% of the total NPW). AmTrust provides commercial insurance for homogeneous, narrowly defined classes of insureds in classes of business requiring in-depth knowledge of the insured's industry segment.

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Through this segment, AmTrust insures narrowly defined, homogeneous, commercial property and casualty insureds. The group reviews and provides customized coverage, loss control and claims services and risk sharing mechanisms. The group partners with wholesale agents and claims administrators to originate and manage each book of business targeting small and middle-market businesses. Coverages primarily include workers' compensation, general liability, commercial auto liability and commercial property insurance.

Coverage is offered through agents, with the placing agents generally sharing a portion of the risk. Policyholders in this segment primarily include the following types of industries: retail; wholesale; service operations; artisan contracting; light and medium manufacturing; and habitational.

Within this segment, workers' compensation comprised approximately 40%, generally covering risks similar to those insured in the small commercial business segment, but also covering certain higher risk businesses. The general liability and commercial auto lines represent approximately 45% and 15%, respectively. Exposure is generally limited through coverage limits of \$1.0 million per occurrence on a net basis. Claims for this segment are administered by third parties. Management closely monitors the performance of third party administrators through the review and analysis of monthly claim data and periodic audits.

Personal lines reinsurance segment - The group had participated in a 10% quota share agreement with Integon National Insurance Company (old GMAC personal lines business) which was subsequently placed in run-off.

AmTrust writes business through 18 insurance company subsidiaries: Technology Insurance Company, Inc. ("TIC"), Rochdale Insurance Company (RIC), Wesco Insurance Company (WIC), Associated Industries Insurance Company, Inc. (AIIC), Milwaukee Casualty Insurance Company (MCIC), Security National Insurance Company (SNIC), AmTrust Insurance Company of Kansas, First Nonprofit Insurance Company, Sequoia Insurance Company, Sequoia Indemnity Company, CorePointe Insurance Company, Indemnity Company of California, Developers Surety & Indemnity Company, CompOptions Insurance Company, AmTrust International Insurance Ltd. (AII), AmTrust International Underwriters Limited ("AIU"), AmTrust Insurance Luxembourg S.A., and AmTrust Europe Ltd. (formerly IGI Insurance Company).

Consolidated results include the results of the holding company inclusive of wholly-owned subsidiaries. AmTrust writes in all 50 states and D.C. through a network of approximately 7,000 independent wholesale and retail agents and 49 managing general agents.

2014 BY-LINE BUSINESS (\$000)

Product Line	—DPW—		Reinsurance —Prem Assumed—	
	(\$000)	(%)	(\$000)	(%)
Workers' Comp	2,337,043	57.8	174,486	27.3
Warranty	462,079	11.4	9,253	1.4
Oth Liab Occur	362,441	9.0	37,467	5.9
Comm'l Auto Liab	276,672	6.8	68,816	10.8
Excess Workers' Comp	57,309	1.4	90,242	14.1
Auto Physical	69,670	1.7	34,867	5.5
Surety	60,351	1.5	400	0.1
Credit	6,784	0.2	8	0.0
Com'l MultiPeril	131,401	3.3	200,343	31.4
All Other	277,088	6.9	22,436	3.5
Total	4,040,837	100.0	638,318	100.0

Product Line	Reinsurance —Prem Ceded—		—NPW—		Business Retention (%)
	(\$000)	(%)	(\$000)	(%)	
Workers' Comp	1,856,438	53.7	655,090	53.7	26.1
Warranty	349,900	10.1	121,432	10.0	25.8
Oth Liab Occur	288,885	8.3	111,023	9.1	27.8
Comm'l Auto Liab	254,155	7.3	91,333	7.5	26.4
Excess Workers' Comp	102,085	3.0	45,466	3.7	30.8
Auto Physical	72,027	2.1	32,509	2.7	31.1
Surety	28,834	0.8	31,918	2.6	52.5
Credit	-19,745	-0.6	26,537	2.2	390.7
Com'l MultiPeril	311,360	9.0	20,384	1.7	6.1
All Other	216,286	6.3	83,238	6.8	27.8
Total	3,460,226	100.0	1,218,929	100.0	26.1

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Consolidated Balance Sheet Admitted Assets (\$000)

	12/31/2014	%
Bonds	\$2,053,708	42.9
Preferred stock	2,428	0.1
Common stock	91,163	1.9
Cash & short-term invest	380,405	7.9
Other non-affil inv asset	18,963	0.4
Investments in affiliates	<u>29,750</u>	<u>0.6</u>
Total invested assets	\$2,576,417	53.8
Premium balances	1,469,314	30.7
Accrued interest	17,489	0.4
All other assets	<u>728,310</u>	<u>15.2</u>
Total assets	\$4,791,529	100.0

Liabilities & Surplus (\$000)

Loss & LAE reserves	\$ 988,065	20.6
Unearned premiums	700,926	14.6
Conditional reserve funds	4,893	0.1
All other liabilities	<u>1,778,201</u>	<u>37.1</u>
Total liabilities	\$3,472,085	72.5
Surplus notes	6,500	0.1
Capital & assigned surplus	740,546	15.5
Unassigned surplus	<u>572,399</u>	<u>11.9</u>
Total policyholders' surplus	<u>\$1,319,445</u>	<u>27.5</u>
Total liabilities & surplus	\$4,791,529	100.0

Best's Rating Report

Why is this *Best's® Rating Report* important to you?

A Best's Rating Report from the A.M. Best Company showcases the **opinion** from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders, as well as its relative credit risk.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of the insurance companies since 1899.

A Best's Financial Strength Rating is an **independent opinion** of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations.

The Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. The rating is not assigned to specific insurance policies or contracts and does 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. The 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.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company or A.M. Best Europe – Rating Services Limited.

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