

Best's Rating Report



AmTrust
FINANCIAL

AMTRUST GROUP

	Best's	
	FSR	FSC
AmTrust International Ins Ltd	A	XIV
Technology Insurance Co., Inc	A	XIV
Rochdale Insurance Company	A	XIV
ARI Insurance Company	A	XIV
AmTrust Europe Limited	A	XIV
AmTrust Insurance Co of Kansas	A	XIV
AmTrust Intl Underwriters DAC	A	XIV
Associated Industries Ins Co	A	XIV
CorePointe Insurance Company	A	XIV
Heritage Indemnity Company	A	XIV
Milwaukee Casualty Ins Co	A	XIV
NV Nationale Borg-Maatschappij	A	XIV
Nationale Borg Reinsurance NV	A	XIV
Republic Underwriters Ins Co	A	XIV

	Best's	
	FSR	FSC
Security National Ins Co	A	XIV
Wesco Insurance Company	A	XIV
AmTrust Captive Solutions Ltd	A	XIV
AmTrust Insurance Luxembourg	A	XIV
Developers Surety & Indem Co	A	XIV
First Nonprofit Insurance Co	A	XIV
Indemnity Co of California	A	XIV
Republic Fire and Casualty Ins	A	XIV
Republic Lloyds	A	XIV
Republic-Vanguard Ins Co	A	XIV
Sequoia Indemnity Company	A	XIV
Sequoia Insurance Company	A	XIV
Southern County Mutual Ins Co	A	XIV
Southern Insurance Company	A	XIV
Southern Underwriters Ins Co	A	XIV



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 affiliate companies, which operate through intercompany quota share reinsurance arrangements and make up the AmTrust Group (AmTrust). The ratings reflect the consolidated group's supportive 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 sup-

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port AmTrust's expanding operations. AmTrust has been successful in executing its business plan, which is focused on growth through the acquisition of companies and renewal rights offerings, as well as expanding established books of business at appropriate rates, terms and conditions. This enables AmTrust to further leverage its scalable underwriting platform to drive expense savings.

Partially offsetting these positive rating factors is AmTrust's continued significant growth in both premium volume and associated liabilities over the current five-year period, primarily achieved through policy renewal rights transactions and acquisitions, as well as organic growth through rate increases and new policies. The acquisitions have the inherent risk associated with expansion into new markets and integrating new business. While the group has historically executed acquisitions of companies and renewal rights transactions favorably, and the group appears to be applying discipline in its underwriting and controls, considerable risk associated with the recent growth remains. AmTrust's more recent acquisitions will benefit from the expense controls associated with the implementation of AmTrust's underwriting platform, but will also need to utilize that platform to improve underwriting selection and loss ratios. Concerns with growth in the group's workers' compensation business are somewhat mitigated by the focus on target lower hazard niche classes and smaller accounts.

The negative outlooks reflect A.M. Best's concerns with respect to the material weakness in internal controls disclosed by AFSI on February 27, 2017.

AFSI's adjusted debt-to-total capital (excluding accumulated other comprehensive income -- AOCI) of 25.6% and its adjusted debt-to-tangible capital (excluding AOCI) of 33.2% as of September 30, 2016, were within A.M. Best's expectations. The group's goodwill and intangible assets of \$1.085 billion as of that date account for approximately 23.0% of GAAP equity. In addition, the company's access to corporate credit facility and non-operating company dividend capacity provides additional liquidity to meet corporate obligations. AFSI maintains a strong interest coverage ratio that is well within A.M. Best's guidelines.

The outlooks may be revised to stable from negative upon resolution of the material weakness in internal controls identified in the year-end 2016 audit of AFSI, so long as no further material weaknesses are identified and there are no material changes in either the group's or AFSI's financial condition that would drive negative rating action.

Negative action could be taken on the ratings should there be a change in the financial performance or a decline in risk-adjusted capitalization, whether due to an event, emergence of adverse development of loss reserves or other factors. Negative rating action could also occur if the financial results disclosed in AFSI's year-end 2016 Form 10-K are materially different than those in its February 27, 2017 news release or by the disclosure of further material weaknesses prior to the resolution of those disclosed in AFSI's Form 10-K for the year ending December 31, 2016.

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
000376	ARI Insurance Company	A	
087400	AmTrust Europe Limited	A	
004778	AmTrust Insurance Co of Kansas	A	
057399	AmTrust Intl Underwriters DAC	A	
011693	Associated Industries Ins Co	A	
000237	CorePointe Insurance Company	A	
002771	Heritage Indemnity Company	A	
003548	Milwaukee Casualty Ins Co	A	
090159	NV Nationale Borg-Maatschappij	A	
092564	Nationale Borg Reinsurance NV	A	
002422	Republic Underwriters Ins Co	A	
002522	Security National Ins Co	A	
002468	Wesco Insurance Company	A	
093455	AmTrust Captive Solutions Ltd	A	
093205	AmTrust Insurance Luxembourg	A	
011752	Developers Surety & Indem Co	A	
010856	First Nonprofit Insurance Co	A	
004048	Indemnity Co of California	A	
012097	Republic Fire and Casualty Ins	A	
002011	Republic Lloyds	A	
004070	Republic-Vanguard Ins Co	A	
013076	Sequoia Indemnity Company	A	
002281	Sequoia Insurance Company	A	
003382	Southern County Mutual Ins Co	A	
002012	Southern Insurance Company	A	
012098	Southern Underwriters Ins Co	A	

KEY FINANCIAL INDICATORS (\$000)

Year	Net Premiums Written	Pre-tax Operating Income	Total Admitted Assets	Policyholders' Surplus	Comb. Ratio
2011	1,043,346	-38,609	3,439,519	1,146,228	109.6
2012	1,154,053	18,419	3,954,278	1,274,200	102.6
2013	1,076,919	126,731	4,835,770	1,409,575	95.0
2014	1,570,067	179,684	5,786,629	1,659,639	91.9
2015	2,241,776	225,178	7,205,588	1,780,533	89.8

(* 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.

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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 acquiring companies, producer networks, underwriting teams and renewal rights with established books of specialty insurance business. The group's business is currently focused on three business segments: Small Commercial Business; Specialty Risk and Extended Warranty; and Specialty Program.

The Small Commercial Business segment includes workers' compensation products for small businesses classified as low to medium hazard operations. Other products offered to small business customers include commercial package and other property and casualty lines, including property, general liability and commercial auto. The segment accounted for approximately 45.4% of AFSI's net premiums written (NPW) on a US GAAP basis in 2015. Customers in the Small Commercial segment had an average annual premium of \$8,500 in 2015. The segment writes business in all 50 states, with California the largest state on a direct basis. The business is produced through a network of over 8,000 retail and wholesale agents.

The Specialty Risk and Extended Warranty segment accounted for approximately 31.3% of AFSI's US GAAP NPW in 2015. Coverages offered in this segment include custom designed coverages offered in connection with the sale of consumer and commercial goods in the United States and Europe, as well as niche specialty risks, also in the United States and Europe. This segment includes the business of Lloyd's property and casualty syndicates owned by AFSI. Among the products covered under the extended warranty programs are automobiles, consumer electronics and appliances, commercial equipment and recreational vehicles and power sports equipment. Extended warranty products typically cover manufacturer or retailer obligations to repair or replace products to end purchasers of the warranty. The coverage terms have durations ranging from one month to 120 months, with the average contract term 57 months in the United States and 43 months in Europe. AmTrust generally has the ability to increase prices should loss experience exceed projections and, in Europe, the policies can be cancelled prior to the end of the term due to unusually high loss frequency or severity. The segment's non-warranty business includes general liability, employer's liability and professional and medical liability programs. Over half of the segment's business on a gross basis is produced outside the United States.

The Specialty Program business represented 17.4% of AFSI's 2015 US GAAP NWP. The segment wrote 122 programs in 2015 through 41 independent wholesale and managing general agents. Programs written in the segment include a variety of commercial coverages for customers operating in narrowly-defined, homogenous groups that require specialized knowledge of the insured operations and business model to properly underwrite, price

and manage the associated risk. The placing agents will generally have an at-risk position in the business they write with AmTrust. Workers' compensation is the largest line of business covered in this segment, accounting for approximately 41% of the business in 2015.

Consolidated results presented herein include the statutory financial results of members of the group which are domiciled in the United States. AmTrust International Insurance Ltd. is a Bermuda-based reinsurer that assumes approximately 50% of the direct business underwritten by the US statutory members of the group.

2015 BY-LINE BUSINESS (\$000)

Product Line	—DPW—		Reinsurance —Prem Assumed—	
	(\$000)	(%)	(\$000)	(%)
Workers' Comp	2,972,901	50.3	66,882	20.6
Warranty	641,421	10.8	9,911	3.1
Comm'l Auto Liab	533,138	9.0	82,724	25.5
Oth Liab Occur	471,981	8.0	80,586	24.8
Com'l MultiPeril	225,962	3.8	38,779	12.0
Homeowners	101,292	1.7	7,277	2.2
Allied Lines	94,125	1.6	30,959	9.5
Auto Physical	238,131	4.0	-20,660	-6.4
Priv Pass Auto Liab	148,585	2.5
All Other	488,306	8.3	27,957	8.6
Total	5,915,841	100.0	324,415	100.0

Product Line	Reinsurance —Prem Ceded—		—NPW—		Business Retention (%)
	(\$000)	(%)	(\$000)	(%)	
Workers' Comp	1,989,329	49.8	1,050,453	46.9	34.6
Warranty	422,848	10.6	228,484	10.2	35.1
Comm'l Auto Liab	410,501	10.3	205,360	9.2	33.3
Oth Liab Occur	347,901	8.7	204,666	9.1	37.0
Com'l MultiPeril	164,298	4.1	100,442	4.5	37.9
Homeowners	36,438	0.9	72,132	3.2	66.4
Allied Lines	60,958	1.5	64,126	2.9	51.3
Auto Physical	164,673	4.1	52,798	2.4	24.3
Priv Pass Auto Liab	107,762	2.7	40,823	1.8	27.5
All Other	293,771	7.3	222,492	9.9	43.1
Total	3,998,480	100.0	2,241,776	100.0	35.9

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Consolidated Balance Sheet Admitted Assets (\$000)

	YE 2015	%
Bonds	\$3,297,780	45.8
Preferred stock	5,321	0.1
Common stock	76,810	1.1
Cash and short-term invest	705,364	9.8
Real estate, investment	158	0.0
Other non-affil inv asset	67,436	0.9
Investments in affiliates	177,112	2.5
Real estate, offices	<u>5,789</u>	<u>0.1</u>
Total invested assets	\$4,335,770	60.2
Premium balances	1,822,932	25.3
Accrued interest	27,411	0.4
All other assets	<u>1,019,476</u>	<u>14.1</u>
Total assets	\$7,205,588	100.0

Liabilities & Surplus (\$000)

Loss & LAE reserves	\$1,801,176	25.0
Unearned premiums	1,247,321	17.3
Conditional reserve funds	10,557	0.1
All other liabilities	<u>2,366,000</u>	<u>32.8</u>
Total liabilities	\$5,425,055	75.3
Surplus notes	6,500	0.1
Capital & assigned surplus	1,068,177	14.8
Unassigned surplus	<u>705,856</u>	<u>9.8</u>
Total policyholders' surplus	<u>\$1,780,533</u>	<u>24.7</u>
Total liabilities & surplus	\$7,205,588	100.0



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

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

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

The company information appearing in this pamphlet is an extract from the complete AMB Credit Report. You may obtain the complete report by contacting Customer Service at +1(908)439-2200 or customer_service@ambest.com. Please reference the company's identification number (AMB#) listed on this rating report.

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