

Best's Rating Report



UNITED STATES LIABILITY INSURANCE GROUP A BERKSHIRE HATHAWAY COMPANY

UNITED STATES LIABILITY INSURANCE GROUP

Wayne, Pennsylvania



A++

UNITED STATES LIABILITY INSURANCE GROUP

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AMB#: 00936

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the group's Financial Strength, it is assigned a Best's Financial Strength Rating of A++ (Superior). The group's Financial Size Category is Class IX.

RATING UNIT MEMBERS

United States Liability Insurance Group (AMB# 00936):

AMB #	Company	Best's FSR
02540	Mount Vernon Fire Ins Co	A++ gu
03736	U S Underwriters Insurance Co	A++ gu
02541	United States Liability Ins Co	A++ gu

RATING RATIONALE

Under Review Rating Rationale: A.M. Best Co. has placed the ratings of the domestic and international property/casualty and life/health subsidiaries of Berkshire Hathaway Inc. (BRK) (Omaha, NE) [NYSE: BRK.A and BRK.B] under review with negative implications. Concurrently, A.M. Best has placed the ratings of United States Liability Insurance Group and its members under review with negative implications.

These rating actions follow the recent announcement that BRK intends to acquire for \$100 per share in cash and common stock the remaining outstanding shares of Burlington Northern Santa Fe Corporation (BNSF) [NYSE: BNI], which would increase BRK's holdings to 100%. This transaction is valued at \$44 billion and includes the assumption of \$10 billion of BNSF debt.

Additionally, A.M. Best is concerned with the liquidity and concen-

tration risk pertaining to a single large investment as a substantial portion of BRK's portfolio, since a majority of BRK's equity investments are held at the insurance and reinsurance entities. A.M. Best will assess the under review status over the near term as more details regarding the capitalization and liquidity of the insurance and reinsurance operations are presented by management.

Rating Rationale: The rating applies to United States Liability Insurance Company and its two subsidiaries: Mount Vernon Fire Insurance Company and U.S. Underwriters Insurance Company, which together form the United States Liability Insurance Group. The rating reflects the group's strong capitalization, outstanding long-term operating profitability and the advantages derived from management's proven underwriting discipline. The rating also recognizes the implicit and explicit financial support provided by its ultimate parent, Berkshire Hathaway, Inc. (BRK), and the added financial flexibility afforded by its insurance affiliate as demonstrated in 2007. These strengths are partially offset by the group's high investment leverage exhibited by the level of unrealized losses reported in 2008 and first-quarter 2009 due to the global financial crisis, and the group's dependence on a single method of distribution, the professional wholesaler.

As of January 1, 2007, each member of the group entered into a 50% loss portfolio transfer agreement and a 50% quota share reinsurance agreement with an affiliate, National Indemnity Company (NICO), an indirectly owned subsidiary of BRK. The effect of these transactions led to a substantial reduction in the group's underwriting leverage, which then helped to facilitate the extraordinary stockholder dividend taken that year.

Over the years, the group has consistently generated strong operating results which far exceed composite norms. This significant advantage stems from the group's commitment to low premium, low hazard business; stable product offerings; management's strict underwriting and price discipline; customer-centric philosophy; and wholesale broker orientation. The group also benefits from the oper-

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ating flexibility afforded through its use of admitted and non-admitted paper, its continued focus on service, and its effective sales and marketing strategy. The rating further recognizes management's historically conservative loss reserving strategy as well as prudent catastrophe management philosophy, which is modeled to a 1-in 100-year net probable maximum loss (PML) event equal to less than 2% of reported policyholders' surplus.

Best's Financial Strength Rating: A++

Implication: Negative

KEY FINANCIAL INDICATORS (\$000)

Year	Net Premiums Written	Pretax Operating Income	Total Admitted Assets	Policy- holders' Surplus	Comb. Ratio
2004	321,784	64,502	1,041,946	367,588	84.4
2005	320,408	84,885	1,165,533	419,617	83.3
2006	332,221	116,038	1,313,789	479,353	81.6
2007	-207,837	109,146	750,070	296,095	167.5
2008	177,881	73,180	743,261	281,505	70.1

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

BUSINESS REVIEW

Founded in 1951, United States Liability Insurance Group is a leading specialty lines insurer. Its operations are conducted throughout the United States. The group's overall split between admitted and non-admitted business is maintained at 45%/55%, respectively. All business is written through approximately 175 professional wholesale brokers with roughly 325 locations throughout the U.S. The group consists of three companies: United States Liability Insurance Company, Mount Vernon Fire Insurance Company and U.S. Underwriters Insurance Company. The three companies are utilized to write business on either an admitted or a surplus lines basis, depending on the jurisdiction and the particular company licensed.

The group's operations are classified under 11 distinct underwriting teams. These teams include: seven regional teams (each of which write all 72 general liability, property and package products), professional liability, personal lines, non-profit package and liquor liability. Within these profit centers, there are 114 products with an average policy premium less than \$1,700. The two largest components of the group's business are professional liability and general liability. The professional liability segment offers various errors & omissions (E&O) coverage for specified professions, as well as directors & officers (D&O) liability coverage and employment practices liability coverage. The group offers a variety of general liability coverages for specialized exposures including child care, artisan contractors, vacant buildings, bars and taverns and janitorial services. The group offers a broad range of property coverages that include habitational, other buildings and premises business, builder's risk for commercial and residential properties and inland marine. Package coverage is offered on various exposures including habitational, vacant buildings, bars & taverns, child care and lessor's risk. The liquor liability team is focused on providing liability coverage for bars, taverns, restaurants and retail stores. The liquor liability coverage may be packaged with general liability coverage. The group provides personal lines coverage in the form of personal umbrella, dwelling liability and fire, excess personal auto, excess personal liability, and excess watercraft and recreational vehicles. The group also provides non-profit package policy coverage for nonprofit entities such as foundations and community associations.

United States Liability Insurance Company, Mount Vernon Fire Insurance Company and U.S. Underwriters Insurance Company entered into loss portfolio agreements of reinsurance effective January

1, 2007 with an affiliate, National Indemnity Company (NICO). Under these agreements, NICO assumed 50% of the companies' outstanding net loss and loss adjustment expense reserves at December 31, 2006, equaling \$112.5 million, \$112.8 million, and \$70.9 million, respectively. The consideration of these amounts were paid on March 15, 2007. The aggregate limit on the loss portfolio cessions are three times the consideration paid by the companies. The companies also entered into quota share agreements of reinsurance effective January 1, 2007 with NICO. Under these agreements, NICO assumed 50% of the companies' unearned premium reserves as of December 31, 2006 and NICO assumed 50% of all premiums written and earned thereafter in return for assuming 50% of all losses and loss adjustment expenses incurred after December 31, 2006 by the companies and all underwriting expenses associated with the ceded subject premium. The ceded premiums net of paid losses and loss adjustment expenses and associated underwriting expenses are settled quarterly in arrears. The agreements are subject to an aggregate ceded limit for each calendar accident year equal to three times the earned premium ceded by the companies for that calendar accident year.

2008 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Oth Liab Occur	168,106	77,754	43.7	24.2	203,022
Oth Liab CM	152,133	71,697	40.3	5.8	93,718
Fire	84,170	24,531	13.8	31.1	6,386
All Other	8,370	3,899	2.2	-2.2	6,365
Totals	412,779	177,881	100.0	17.9	309,490

HISTORY

The United States Liability Insurance Company was incorporated on April 12, 1867 under Pennsylvania laws as the United States Plate Glass Insurance Company of Philadelphia. The title was changed in 1939 to the United States Plate Glass and Liability Insurance Company and in 1941 to the United States Liability Insurance Company of Philadelphia. The words "Of Philadelphia" were deleted from the name on May 8, 1951. The company was dormant from 1941 to May 17, 1951. Active operations were resumed when the Berry family acquired control of the company's charter in 1950. Mount Vernon Fire Insurance Company was organized on September 18, 1958, also under the laws of Pennsylvania. It began business on December 15, 1958. U.S. Underwriters Insurance Company was incorporated under the laws of Delaware on January 10, 1972. It began business on December 27, 1977. On October 22, 1992, the company re-domesticated from Delaware to North Dakota.

MANAGEMENT

Financial control of United States Liability Insurance Company since May 27, 1971 has rested with U.S. Investment Corporation, a Pennsylvania holding company. On August 8, 2000, 100% of the stock of U.S. Investment Corporation was acquired by Berkshire Hathaway, Inc. All of the outstanding capital stock of Mount Vernon Fire Insurance Company is owned by United States Liability Insurance Company. All of the outstanding capital stock of U.S. Underwriters Insurance Company is held by Mount Vernon Fire Insurance Company. The three insurers maintain joint administrative offices and administration of the companies' affairs are under the direction of the same management.

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Consolidated Balance Sheet		
Admitted Assets (\$000)		
	12/31/2008	%
Bonds	\$172,422	23.2
Common stock	192,672	25.9
Cash & short-term invest	<u>274,336</u>	<u>36.9</u>
Total invested assets	\$639,429	86.0
Premium balances	58,879	7.9
Accrued interest	5,194	0.7
All other assets	<u>39,759</u>	<u>5.3</u>
Total assets	\$743,261	100.0
Liabilities & Surplus (\$000)		
Loss & LAE reserves	\$309,490	41.6
Unearned premiums	93,295	12.6
All other liabilities	<u>58,970</u>	<u>7.9</u>
Total liabilities	\$461,756	62.1
Capital & assigned surplus	5,150	0.7
Unassigned surplus	<u>276,355</u>	<u>37.2</u>
Total policyholders' surplus	<u>\$281,505</u>	<u>37.9</u>
Total liabilities & surplus	\$743,261	100.0

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

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

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. 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. 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.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Rating is assigned after an extensive quantitative and qualitative evaluation of a company's financial strength, operating performance and market profile.

Best's Ratings are assigned according to the following scale:

Secure Best's Ratings

A++ and A+	Superior
A and A-	Excellent
B++ and B+	Good

Vulnerable Best's Ratings

B and B-	Fair
C++ and C+	Marginal
C and C-	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Rating Suspended

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