

Best's Rating Report



GUIDEONE INSURANCE COMPANIES

GuideOne Mutual Insurance Co	A
GuideOne Prop & Cas Ins Co	A
GuideOne Specialty Mutual Ins	A
GuideOne America Insurance Co	A
GuideOne Elite Insurance Co	A
GuideOne Lloyds Insurance Co	A
GuideOne National Insurance Co	A



Associated With:

GuideOne Mutual Insurance Company GUIDEONE INSURANCE COMPANIES

1111 Ashworth Road
West Des Moines, IA 50265-3538
Web: www.guideone.com

Tel: 515-267-5000

AMB#: 003918

Associated Ultimate Parent#: 002404

Fax: 515-267-5730

RATING RATIONALE

Rating Rationale: The ratings apply to the three members of the inter-company pool and four reinsured affiliates, collectively referred to as

GuideOne Insurance Companies (GuideOne). The ratings are based on the consolidated financial results of GuideOne's property and casualty companies and further reflect the group's strong capitalization, established presence in its core niche church market and the ongoing efforts by management to improve operating outcomes. These positive factors are somewhat offset by GuideOne's exposure to weather and natural catastrophe losses that have negatively impacted results in recent years, the group's competitive market niche and the execution risk associated with its product expansion efforts. While operating earnings have been volatile over a five-year period on increased weather-related losses, the company has posted positive operating returns in four of the past five years. The outlooks reflect the group's solid level of risk-adjusted capital that is expected to continue to support the current rating level.

Best's Rating Report

The ratings further acknowledge the group's experienced management team and the growing use of sophisticated predictive analytic modeling tools to achieve sustainable competitive advantages due to its prominent position within its niche market, particularly in terms of pricing, claims adjusting and loss control. GuideOne's positive attributes are derived from a largely disciplined underwriting approach, conservative investment strategy, long-standing relationships with its agents and strong franchise recognition among the religious community. GuideOne's excellent reputation, along with its dedicated service capabilities, has enabled it to sustain strong market penetration and maintain high policyholder retention rates. Furthermore, the group maintains a solid geographic diversification strategy, as no single state represented more than 9% of total direct premiums written at year-end 2014. The ratings also recognize the added balance sheet protection provided by reinsurance agreements, which minimize the potential impact from severe underwriting losses. While the group's operating results have historically been in-line with its peer composite, in more recent years results have fallen short of composite norms. Earnings have benefited from consistently favorable reserve development, although such gains may decrease going forward given the modest adverse development on the past two accident years.

The group continues to have exposure to catastrophe and other weather-related events. Catastrophe-related losses added 14.5 points and 16.5 points to the combined ratio in 2014 and 2013, respectively. Management has taken an active role in monitoring its catastrophe exposures, mitigating this risk through underwriting that includes geographic aggregation monitoring, applying wind deductibles and rate management. Reinsurance programs limit the group's net probable maximum losses (PML) to a modest level relative to surplus. Nonetheless, loss experience in 2013 and 2014 indicated that operating results remain subject to the impact of storm losses. Such losses in recent years have been regional in nature such as tornadoes and winter storms. Although the bulk of GuideOne's storm losses have been generated by its core church property programs, its excess and surplus lines as well as homeowners program have also experienced weather losses.

Underwriting results on the group's personal lines products have remained unprofitable over the past eight years on competitive market conditions, property losses on the homeowners book and (in more recent years) liability-related losses on the personal auto program. As a result, management has launched a personal line initiative focused on improving results through the increased use of technology to achieve price adequacy, a revised marketing strategy and exiting of unprofitable states. In 2015, the group increased its reinsurance protection on this

program via a contract that assumes losses above a given threshold. This structure is expected to remain in place until the loss experience stabilizes.

The ratings or outlooks could be negatively impacted by sustained unfavorable operating performance or a material drop in risk-adjusted capitalization.

Outlook: Stable

RATING UNIT MEMBERS

GuideOne Insurance Companies		(AMB# 003918):	
AMB#	Company	Best's FSR	Pool %
002404	GuideOne Mutual Insurance Co	A	64.00
011577	GuideOne Prop & Cas Ins Co	A	20.00
002403	GuideOne Specialty Mutual Ins	A	16.00
001854	GuideOne America Insurance Co	A	
001870	GuideOne Elite Insurance Co	A	
001871	GuideOne Lloyds Insurance Co	A	
014334	GuideOne National Insurance Co	A	

KEY FINANCIAL INDICATORS (\$000)

Year	Net Premiums Written	Pre-tax Operating Income	Total Admitted Assets	Policy- holders' Surplus	Comb. Ratio
2010	441,480	50,072	1,464,871	494,448	99.9
2011	441,060	24,947	1,496,786	493,781	104.8
2012	462,049	51,074	1,576,595	514,713	96.4
2013	523,071	-13,864	2,575,152	553,400	104.5
2014	554,653	20,843	2,401,145	537,947	101.9

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

BUSINESS PROFILE

GuideOne is one of the leading insurers of churches in the United States, insuring over 43,000 houses of worship across the country. The group is also a leading insurer of senior living communities, comprising of nursing homes, assisted living facilities and independent living apartments. In addition, GuideOne insures schools and colleges, focusing on the small to mid-sized faith-based educational institutions. Both insured senior living communities and schools and colleges are generally affiliated with religious institutions.

The group's commercial line products include commercial multiple peril, workers' compensation, general liability, excess liability, com-

Best's Rating Report

mercial auto, allied lines, and fire; insuring over 80,000 commercial policyholders.

GuideOne also offers personal lines products which includes homeowner's coverage and a personal automobile coverage that is marketed as the "FaithGuard" auto. This product offers protection for activities, travel and lifestyles of churchgoers and includes coverages not found in ordinary insurance policies such as: waived deductibles if your auto is involved in an accident while driving to a church service; and coverage for your tithing or donations if you're disabled in an accident in your covered auto. The FaithGuard auto endorsement, which is offered at no extra charge, aims to leverage the affinity that churchgoers have toward GuideOne, given its strong brand and reputation in the church insurance market. GuideOne insures over 70,000 policyholders on the personal lines side.

GuideOne is licensed in all 50 states and business is produced through approximately 1,900 captive and independent agents. Sales directors are responsible for selecting the product, managing the agency delivery system and servicing the business in their territory. The emphasis placed on customer services is evidenced by the group's consistently high customer retention levels. GuideOne also offers its policyholders access to the GuideOne Center for Risk Management, which is nationally recognized as a leader in providing training, seminars and resources on crucial safety and security issues.

The group has begun to increase its premium base through a number of different programs. These programs include third-party reinsurance assumptions, partnership with managing general agents and acting as a service provider (front) for a multi-peril crop insurance (MPCI) program. All risks under the crop program are serviced by the administrator. The program fully inceptioned in 2013 at which time all policies were 100% reinsured. Beginning in 2014, the group began to retain a small portion (less than 5%) of the risk under this program. Earnings under this program are largely generated through fronting fees. The administrator of this program has begun issuing the majority of their policies through an affiliated admitted insurance company. As such, direct written premiums will decline sharply in 2015 before fully terminating at year-end 2016.

The group has also expanded its senior living center program offering it to an expanded insured base and writing workers compensation coverage to both new and existing insureds. While the group expects these programs will increase its current premium volume over the next five years, management remains committed to maintaining strict underwriting discipline with each of its new programs. Management is in the early stages of developing a program to service the insurance needs of non-profit organizations. In late 2014, GuideOne hired a full time

manager with an extensive background in the coverage to develop and oversee this program.

GuideOne's property/casualty subsidiaries participate in an inter-company reinsurance pooling agreement that provides for the allocation of premiums, losses, loss adjustment expenses and underwriting expenses. The agreement cedes all insurance business to GuideOne Mutual Insurance Company. That company then retains 64% of the business (after third-party reinsurance) and cedes 20% to GuideOne Property & Casualty Company and 16% to GuideOne Specialty Mutual Insurance. Companies within the group share common facilities, personnel and services as provided by Mutual. Actual expenses are allocated to companies within the group pursuant to an approved, inter-company operating agreement using various metrics and intercompany pooling percentages.

Territory: The individual member companies of the group collectively operate in all states.

2014 BY-LINE BUSINESS (\$000)

Product Line	—DPW—		Reinsurance —Prem Assumed—	
	(\$000)	(%)	(\$000)	(%)
Com'l MultiPeril	321,385	42.7	1,187	0.3
Workers' Comp	55,823	7.4	1,125	0.3
Homeowners	39,092	5.2	7,911	1.9
Oth Liab Occur	35,808	4.8	3,947	1.0
Priv Pass Auto Liab	34,489	4.6
Auto Physical	29,116	3.9
Oth Liab CM	16,365	2.2	5,402	1.3
Comm'l Auto Liab	20,705	2.8
Allied Lines	183,222	24.4	387,232	94.1
All Other	16,156	2.1	4,822	1.2
Total	752,161	100.0	411,626	100.0

Product Line	Reinsurance —Prem Ceded—		—NPW—		Business Retention (%)
	(\$000)	(%)	(\$000)	(%)	
Com'l MultiPeril	38,120	6.3	284,452	51.3	88.2
Workers' Comp	6,297	1.0	50,651	9.1	88.9
Homeowners	1,552	0.3	45,451	8.2	96.7
Oth Liab Occur	2,351	0.4	37,404	6.7	94.1
Priv Pass Auto Liab	-264	0.0	34,753	6.3	100.8
Auto Physical	192	0.0	28,924	5.2	99.3
Oth Liab CM	889	0.1	20,879	3.8	95.9
Comm'l Auto Liab	805	0.1	19,899	3.6	96.1
Allied Lines	551,845	90.6	18,609	3.4	3.3
All Other	7,347	1.2	13,631	2.5	65.0
Total	609,134	100.0	554,653	100.0	47.7

Best's Rating Report

HISTORY

On April 1, 1947, GuideOne Mutual Insurance Company (then known as Preferred Risk Mutual Insurance Company) became licensed to operate in Iowa and initially set out to create an auto insurance company that would insure only non-drinkers. The company gained a loyal following among religious leaders and went on to launch the country's first multiple peril package policy specifically for churches in 1962. By 1978, GuideOne was licensed in 38 states and had approximately 2,000 agents. In the mid-1990s, the company's mutual ownership structure was simplified and a common name was adopted to create a unified, identifiable product and a strong national brand. During the early 2000s, GuideOne's life insurance business was sold as part of an alliance established with Kansas City Life (KCL) Insurance Company.

MANAGEMENT

Administration of the group's affairs has been under the direction of insurance executives headed by James Wallace, chairman, president and chief executive officer, since June 4, 2001.

While there is no direct ownership link between GuideOne Mutual and GuideOne Specialty Mutual, the inter-locking boards of the two companies include leading experts in various industry fields.

Consolidated Balance Sheet Admitted Assets (\$000)

	12/31/2014	%
Bonds	\$1,085,090	45.2
Common stock	132,466	5.5
Cash & short-term invest	50,191	2.1
Real estate, investment	3,994	0.2
Derivatives	514	0.0
Other non-affil inv asset	36,940	1.5
Investments in affiliates	2,301	0.1
Real estate, offices	<u>7,722</u>	<u>0.3</u>
Total invested assets	\$1,319,218	54.9
Premium balances	719,914	30.0
Accrued interest	7,218	0.3
All other assets	<u>354,795</u>	<u>14.8</u>
Total assets	\$2,401,145	100.0

Liabilities & Surplus (\$000)

Loss & LAE reserves	\$ 580,750	24.2
Unearned premiums	270,054	11.2
Conditional reserve funds	14	0.0
All other liabilities	<u>1,012,381</u>	<u>42.2</u>
Total liabilities	\$1,863,199	77.6
Surplus notes	55,000	2.3
Capital & assigned surplus	2,500	0.1
Unassigned surplus	<u>480,447</u>	<u>20.0</u>
Total policyholders' surplus	\$ 537,947	<u>22.4</u>
Total liabilities & surplus	\$2,401,145	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.

For the latest Best's Financial Strength Ratings along with their definitions and A.M. Best's Terms of Use, visit the A.M. Best website at www.ambest.com. You may also obtain AMB Credit Reports by visiting our site or calling our Customer Service department at +1-908-439-2200, ext. 5472. To expedite your request, please provide the company's identification number (AMB#).