BEST'S COMPANY REPORT

CORE SPECIALTY INSURANCE HOLDINGS, INC.

Domiciliary Address: c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801 United States
Administrative Office: 221 Dawson Road, Columbia, South Carolina 29223 United States

AMB #: 044864	**NAIC #:** N/A	**FEIN #:** N/A
Phone: +1-201-743-7700	**Fax:**	**Website:** www.corespecialty.com

StarStone National Ins Co	A-
StarStone Specialty Ins Co	A-

Best's Credit Rating Effective Date
August 04, 2022

Analytical Contacts
Dan Hofmeister, CFA, FRM, CAIA, CPCU, ARe, AIS, AIAF
Senior Financial Analyst
Dan.Hofmeister@ambest.com
+1(908) 439-2200 Ext. 5385

Steven M. Chirico, CPA
Director
Steven.Chirico@ambest.com
+1(908) 439-2200 Ext. 5087

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.

Core Specialty Insurance Holdings, Inc.

AMB #: 044864
Ultimate Parent: AMB # 044864 - Core Specialty Insurance Holdings, Inc.

Best's Credit Ratings - for the Rating Unit Members

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
A-	**a-**
Excellent	**Excellent**
Outlook: **Positive**	Outlook: **Positive**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

Balance Sheet Strength	**Very Strong**
Operating Performance	**Adequate**
Business Profile	**Limited**
Enterprise Risk Management	**Appropriate**

Rating Unit - Members
Rating Unit: Core Specialty Ins Hldgs, Inc. | AMB #: 044864

AMB #	Rating Unit Members	AMB #	Rating Unit Members
002512	StarStone National Ins Co	011432	StarStone Specialty Ins Co

Rating Rationale - for the Rating Unit Members

The Issuer Credit Ratings and Financial Strength Ratings of the member operating companies of the rating unit are determined in accordance with Best's building block rating methodology as applied to the consolidated group's financial statements, and the supporting analytics and results are described in the following sections of this report.

Balance Sheet Strength: Very Strong

- Strongest level of risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR) at the VaR 99.6%, following its merger with Lancer Insurance Group.
- Conservative investment allocations, consisting primarily of high-quality fixed-income issuances.
- Reserves benefit from the lack of legacy reserves related to Core Specialty's operations. However, historical reserves at Lancer Insurance Group have displayed some historical volatility. In more recent years, the group's reserves have stabilized as a result of management initiatives and reserve strengthening.

Operating Performance: Adequate

- The group's operating performance assessment is currently in flux, as a new management team started in 2020 following the group's recapitalization. The group also recently merged with Lancer Insurance Group, further expanding on the new business plans. Underwriting returns over the prior five-year period, for the legacy StarStone and Lancer operations, have been in line with the composite averages. In 2021, the group's underwriting performance improved substantially over prior years.
- Premium growth outpacing initial business plan projections. This growth is attributable to enhanced opportunities in the agricultural reinsurance market, as well as the group's merger with Lancer Insurance Group.
- New management team has strong track records in regarding long-term operating performance.

Business Profile: Limited

- Core Specialty was created through a carve out of the former StarStone organization and subsequent recapitalization process. The new group plans to expand upon existing lines of business to offer a variety of specialty property and casualty lines of business.
- New executives recently added to the group, most importantly at the CEO and executive chairman positions. The new executive staff brings a wealth of knowledge in the industry, as well as strong operating track records at prior organizations.
- Recent merger with Lancer Insurance Group brings a seasoned book of commercial auto business to the group and experienced management. Core Specialty will retain the Lancer brand as a division of Core Specialty.
- Although the business plan was revised and has some level of execution risk, the group does benefit from a partially seasoned book of business and existing distribution network.

Enterprise Risk Management: Appropriate

- Core Specialty's ERM is supported by a comprehensive risk management framework.
- A three lines of defense system is utilized, which is overseen by the Board Risk Committee and Enterprise Risk Committee.
- ERM capabilities and functions are adapting with the growth in the overall business.

Outlook

- The positive outlooks reflect the improvement in the group's business profile in recent years through enhanced and profitable product and geographical diversification.

Rating Drivers

- Positive rating action could occur due to the continued execution of key business initiatives outlined post-recapitalization.
- Negative rating action could occur due to a material decline in risk-adjusted capitalization.
- Negative rating action could occur due to a sustained adverse trend in operating performance metrics.

Key Financial Indicators

Best's Capital Adequacy Ratio (BCAR) Scores (%)				
Confidence Level	**95.0**	**99.0**	**99.5**	**99.6**
BCAR Score	66.2	49.6	43.0	40.9

Source: Best's Capital Adequacy Ratio Model - Global

Key Financial Indicators	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018	2017
Net Premium Written:					
Non-Life	1,218,828	322,079	355,905	...	...
Composite	1,218,828	322,079	355,905	...	...
Net Income	14,677	-16,145	7,226	...	...
Total Assets	4,004,045	2,163,241	1,470,298	...	...
Total Capital and Surplus	1,153,465	899,053	259,366	...	...

Source: BestLink® - Best's Financial Suite

Key Financial Ratios (%)	2021	2020	2019	2018	2017	Weighted 5 Year Average
Profitability:						
Net Income Return on Revenue	1.4	-4.7	1.9	...	...	...
Net Income Return on Capital and Surplus	1.4	-2.8	...	...	...	...
Balance on Non-Life Technical Account	40,719	-20,609	-33,614	...	...	...
Non-Life Combined Ratio	97.9	106.4	109.6	...	...	...
Net Investment Yield	1.3	1.3	...	...	...	...
Leverage:						
Net Premium Written to Capital and Surplus	105.7	35.8	137.2	...	...	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

The group's balance sheet strength is assessed at very strong. This position is driven by the group's conservative investment allocations and extensive equity funding.

Capitalization

The group projects to maintain the strongest level of risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR) at the VAR 99.6%, following its merger with Lancer Insurance Group. Prior to the merger, both groups had risk-adjusted capital positions in the strongest range. Core Specialty's position prior to the merger was driven by the new capital generated through Dragoneer, SkyKnight and Aquiline. Lancer's capitalization was driven by low underwriting leverage and conservative investment allocations.

Capital Generation Analysis	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018	2017
Beginning Capital and Surplus	899,054	259,366	207,923	...	...
Net Income after Non-Controlling Interests	14,677	-16,145	7,226	...	...
Unrealized Capital Gains (Losses)	...	4,464	-783	...	...
Change in Paid-In Capital	239,734	917,651	45,000	...	...
Other Changes in Capital and Surplus	...	-652	...	...	...
Net Change in Capital and Surplus	254,411	905,318	51,443	...	...
Ending Capital and Surplus	1,153,465	1,164,684	259,366	...	...
Net Change in Capital and Surplus (%)	28.3	349.1	24.7	...	...

Source: BestLink® - Best's Financial Suite

Balance Sheet Strength (Continued...)

Liquidity Analysis	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018	2017
Net Operating Cash Flow	382,468	-305,506	55,632	...	...
Liquid Assets to Total Liabilities (%)	66.8	78.6	55.5	...	...

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

Core Specialty maintains a very conservative investment portfolio, which is comprised primarily of long-term bonds (84% at year-end 2021). The remainder of the portfolio is cash and equivalents. The portfolio in total has an average credit quality of AA- and is managed in coordination with Goldman Sachs Asset Management. The overall portfolio duration is 3.0.

Composition of Cash and Invested Assets	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018	2017
Total Cash and Invested Assets	1,912,849	999,327	672,148	...	...
Composition Percentages (%):					
Unaffiliated:					
Cash and Short Term Investments	15.5	14.1	12.6	...	...
Bonds	84.1	85.3	86.0	...	...
Stocks	...	...	1.4	...	...
Other Invested Assets	0.4	0.6	...	...	...
Total Unaffiliated Cash and Invested Assets	100.0	100.0	100.0	...	...
Total Cash and Invested Assets	100.0	100.0	100.0	...	...

Source: BestLink® - Best's Financial Suite

Reserve Adequacy

Core Specialty had $698 million of net reserves at year-end 2021. The bulk of these reserves relate to legacy Lancer reserves, which comprise of 43% of the total new reserve level. As the Core Specialty business continues to season, it is anticipated that the Lancer reserves will account for a smaller portion of the total reserve level.

Core Specialty began operations with a clean balance sheet from a reserve perspective. Prior to the completion of the new capital raise, the group was able to remove the impact of existing reserves through an existing stop-loss, a ground-up LPT, and an adverse development cover provided by Enstar. The LPT assumes 100% of the net loss & LAE reserves on all policies written up to the month-end before the November 2020 closing. Additionally, the adverse development cover provided by Enstar covers $130 million above the carried reserves.

Lancer Insurance Group had concerns with the adequacy of the group's loss reserves following adverse reserve development starting in accident-year 2011 and calendar-year 2012. Adverse development increased substantially the following year and remained significant through 2015. Almost all of this came from the commercial auto liability line. A thorough review of bodily injury claim outcomes occurring in adverse years revealed that certain types of injuries and the resulting medical and surgical procedures were becoming more difficult to settle at historic levels. Case reserve and IBNR levels were adjusted to reflect those findings and drove the substantial loss reserve strengthening in 2015. Adverse loss reserve development continued in the subsequent years on a calendar-year basis but has been much more subdued. Development has been favorable on an accident-year basis since 2016, and on a calendar year basis since 2019.

Holding Company Assessment

The ultimate parent is the holding company, Core Specialty Insurance Holdings, Inc, which wholly owns the intermediate holding companies Starstone US Holdings, Inc. and Lancer Financial Group, LLC. It holds roughly $1.15 billion in equity at year-end 2021. The company holds a small number of preferred shares ($165million), which relate to its merger with Lancer Insurance Group. These preferred shares convert into common shares upon completion of an initial public offering or other specific events.

Balance Sheet Strength (Continued...)

Financial Leverage Summary - Holding Company	
Financial Leverage Ratio (%)	14.30
Adjusted Financial Leverage Ratio (%)	14.30
Interest Coverage (x)	16,430.70

Holding Company Analytics	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018	2017
Debt to Capital and Surplus (%)	5.2	...	...	...	...
Liquid Assets to Total Liabilities (%)	66.8	78.6	55.5	...	...
Interest Expense	3	...	...	...	...

Source: BestLink® - Best's Financial Suite

Operating Performance

In 2020, the group announced the completion of the recapitalization of StarStone US, now rebranded as Core Specialty. This recapitalization included the addition of Jeff Consolino as CEO and Ed Noonan as Executive Chairman. Both of these individuals bring strong track-records and introduced plans to improve on the historical operating trends of the former StarStone entities. Additionally, the group completed a merger with the former Lancer Insurance Group in 2021, bringing on Dave Delaney (former CEO and Co-Founder of Lancer) as a new member for the Core Specialty Board. As such, the operating performance assessment is somewhat in flux, as a new business plan is currently in the process of being implemented. This new plan includes expansion of the group's specialty lines, more specifically expansions into E&S property and multi-peril crop reinsurance.

In 2021, the group's first full year of operations under the new management team, the group continued to adapt to market conditions and opportunities that arose. Aside from the merger with Lancer Insurance Group, the group's gross premiums exceeded plans by 36% ($487 million) through 2021. This exceedence is mostly due to opportunities in the agricultural reinsurance space, which resulted in roughly $490 million in premium over the plan as well as $90 million more than planned in E&S property lines. These figures were somewhat offset by lower than planned premium in excess casualty, workers comp, D&O and E&O totaling $86m. The increased exposure in agriculture does have a moderate impact on mid-year combined ratios as well, as the group books conservative loss estimates throughout the year and revises it once crop price and yield information is finalized.

Although the mix of business varied slightly from the initial plan, the group still produced generally favorable results. The group's GAAP combined ratio of 96 included $71million in CAT losses, driven mainly by losses related to Hurricane Ida. These losses were offset by stronger underlying performance in the group's agriculture, property (ex-cat) and workers comp business.

In prior years, StarStone US had operating performance trends supportive of a 'marginal' assessment. StarStone's five-year average CR to December 2018 was 109.3% and its 2019 CR was 109.8%. Recent performance had been disappointing and the longer-term record suggested the quality of the existing book of business was poor. However, retroactive reinsurance provided by Enstar has provided some alleviation from further deterioration and StarStone acted to run-off problematic lines of business and focused on its 'core' book of business. As such, Core Specialty was carved out of the StarStone group and infused with new capital to support a new expanded business plan.

At Lancer Insurance Group, the operating performance had been much more aligned with adequate performers. Five and ten-year combined ratios were essentially at break-even levels, with ROE's in the high single-digit range. However, the group's expense ratio was roughly 6 points higher than the composite over that same period, which could see some relief as part of a much larger organization.

Financial Performance Summary	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018	2017
Pre-Tax Income	17,992	-20,471	-1,214	...	...
Net Income (after Non-Controlling Interests)	14,677	-16,145	7,226	...	...

Source: BestLink® - Best's Financial Suite

Operating Performance (Continued...)

Operating and Performance Ratios (%)	2021	2020	2019	2018	2017
Overall Performance:					
Return on Assets	0.5	-0.9	...	...	...
Return on Capital and Surplus	1.4	-2.8	...	...	...
Non-Life Performance:					
Loss and LAE Ratio	74.7	71.9	73.8	...	...
Expense Ratio	23.3	34.5	35.8	...	...
Combined Ratio	97.9	106.4	109.6	...	...

Source: BestLink® - Best's Financial Suite

Business Profile

Core Specialty is a newly recapitalized carve out of StarStone. StarStone built scale following its launch in 2008 primarily through a wide-ranging acquisition program along with accompanying team recruitment. Since Enstar and Stone Point acquired control in 2014, they sought to upgrade the franchise by leveraging opportunities available through Enstar's operations, such as M&A related transactions and skills relating to casualty claims management, and by exiting poor performing lines.

Core Specialty was launched in December 2020, following an extensive expansion of equity funding and hiring of new executives. The business plan going forward includes expansion into new lines of business, namely agriculture reinsurance and commercial property. The new leadership plans to grow Core Specialty into a best-in-class specialty insurer. As a new market entrant during a period of market dislocation, the group expects to capitalize on the current pricing momentum and leverage the expertise of the new management team.

The new executive staff is headlined by CEO Jeff Consolino and Executive Chairman Ed Noonan. Ed and Jeff both have extensive backgrounds in the insurance industry, most notably at Validus Group. During their time at Validus, the group was able to grow roughly 3.7x from their initial public offering and roughly 6x from the initial private equity investments. Over the eleven-year period from launch to sale, Validus only recorded a loss in one year.

In 2021, Core Specialty merged with Lancer Insurance Group. This merger formed the commercial auto division of Core Specialty, retaining Lancer's management team and brand. The merger agreement was a stock and cash transaction and helps to turn Core Specialty into a more diversified company, with a clean balance sheet and over USD 1.1 billion in equity capital. Dave Delaney, Lancer's CEO, has a seat on the Board of Core Specialty and will work closely with senior members of the Lancer and Core Specialty teams to integrate the businesses. Matthew Jenkins, Lancer's President & Chief Operating Officer, will serve as President of Core Specialty's Commercial Auto Division, continuing to utilize the Lancer brand.

Enterprise Risk Management

The company has in place a comprehensive and reasonably sophisticated ERM framework with defined risk appetites and active monitoring. Core Specialty has an internal risk and capital model that is used for capital adequacy assessments, to support the risk appetite framework and risk-adjusted performance measures.

Sustained past underwriting losses called into question the group's historical risk culture. Furthermore, major decisions to either discontinue or remediate problematic lines of business appear to have been reactive (both behind the market and after significant loss trends arose in StarStone) rather than proactive. Management turnover has been an issue in the past and current underperformance appears to relate largely to 'legacy' issues.

Many members of the current management team have been in place for the past two years and, along with the new executive staff, continue to be aligned with the strategy of repositioning the company's underwriting to restore profitability and establishing operational independence from Enstar.

Reinsurance Summary

The group was able to secure a loss portfolio transfer and adverse development cover from Enstar to cover all legacy reserves at the time of closing the recapitalization. Those coverages, along with the existing stop loss cover, shield the group from any adverse development related to legacy claims.

Enterprise Risk Management (Continued...)

Environmental, Social & Governance

AM Best views the group's core ESG exposures to be both climate risk and social inflation trends. The group has an expanding property book of business, which could be subject to elevated catastrophe losses related to higher frequency and severity of weather events in recent years. Additionally, the group has a large commercial casualty book of business which could be impacted by social inflation trends in the North American market. The group recognizes these exposures and has taken steps to mitigate future losses where applicable, and adequately compensate for the risk where mitigation is more restricted.

Financial Statements

	12/31/2021		12/31/2020
Balance Sheet	**USD (000)**	**%**	**USD (000)**
Cash and Short Term Investments	295,681	7.4	141,337
Bonds	1,608,533	40.2	852,496
Other Invested Assets	8,635	0.2	5,494
Total Cash and Invested Assets	1,912,849	47.8	999,327
Reinsurers' Share of Reserves	1,178,655	29.4	861,965
Debtors / Amounts Receivable	566,083	14.1	172,583
Other Assets	346,458	8.6	129,366
Total Assets	4,004,045	100.0	2,163,241
Gross Technical Reserves:			
Unearned Premiums	710,553	17.8	231,247
Non-Life Reserves	1,674,290	41.8	840,228
Total Gross Technical Reserves	2,384,843	59.6	1,071,475
Debt / Borrowings	60,348	1.5	...
Other Liabilities	405,389	10.1	192,713
Total Liabilities	2,850,580	71.2	1,264,188
Capital Stock	165,098	4.1	92
Paid-in Capital	992,287	24.8	917,559
Retained Earnings	-3,920	-0.1	-18,598
Total Capital and Surplus	1,153,465	28.8	899,053
Total Liabilities, Mezzanine Items and Surplus	4,004,045	100.0	2,163,241

Source: BestLink® - Best's Financial Suite

Income Statement	Non-Life USD (000)	Life USD (000)	Other USD (000)	12/31/2021 Total USD (000)	12/31/2020 Total USD (000)
Gross premiums written	1,826,930	...	...	1,826,930	457,324
Net Premiums Earned	1,031,440	...	...	1,031,440	322,882
Net Investment Income	...	...	19,094	19,094	10,523
Net realized gains/(losses)	...	...	-755	-755	12,956
Net unrealized gains/(losses)	...	...	-30,542	-30,542	373
Other income	19,474	...	...	19,474	49
Total Revenue	1,050,914	...	-12,203	1,038,711	346,783
Losses and Benefits	770,424	...	...	770,424	232,168
Net Operating Expense	239,771	...	10,521	250,292	135,086
Total Losses, Benefits, and Expenses	1,010,195	...	10,521	1,020,716	367,254
Earnings before interest & taxes (EBIT)	40,719	...	-22,724	17,995	-20,471
Interest Expense	...	...	...	3	...
Income Taxes Incurred	...	...	...	3,315	-4,326
Net income before Non-Controlling interests	...	...	...	14,677	-16,145
Net income/(loss) from continuing operations	...	...	...	14,677	-16,145
Net Income	...	...	...	14,677	-16,145

Source: BestLink® - Best's Financial Suite

Statement of Cash Flows	12/31/2021 USD (000)	12/31/2020 USD (000)
Net cash provided/(used) in Operating Activities	382,468	-305,506
Net cash provided/(used) in Investing Activities	-268,093	-165,317
Net cash provided/(used) in Financing Activities	39,968	667,244
Total increase (decrease) in cash	154,343	196,421
Cash, beginning balance	141,337	84,428
Cash, ending balance	295,680	280,849

Source: BestLink® - Best's Financial Suite

Last Update
August 18, 2022

Identifiers
AMB #: 044864

Contact Information
Administrative Office:
221 Dawson Road, Columbia,
South Carolina 29223
United States

Domiciliary Address:
c/o The Corporation Trust Company,
Corporation Trust Center,
1209 Orange Street, Wilmington,
Delaware 19801
United States

Web: www.corespecialty.com
Phone: +1-201-743-7700

Financial Data Presented

The financial data in this report reflects the most current data available at the time the report was printed.

Core Specialty Insurance Holdings, Inc.

Operations

Date Incorporated: May 22, 2020

Domiciled: Delaware, United States

Business Type: Property/Casualty

Best's Credit Ratings

Rating Relationship

AM Best Rating Unit: **044864 - Core Specialty Insurance Holdings, Inc.**

Refer to the Best's Credit Report for AMB# 044864 - Core Specialty Insurance Holdings, Inc. for details regarding the rating rationale, credit analysis, and financial exhibits available at the time the credit analysis was performed.

Corporate Structure

Ultimate Parent: AMB # 044864 - Core Specialty Insurance Holdings, Inc.

Based on AM Best's analysis, AMB# 044864 Core Specialty Insurance Holdings, Inc. is the AMB Ultimate Parent and identifies the topmost entity of the corporate structure. Access in BestLink this company's current Corporate Structure.

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do 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.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, AM Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, AM Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

Visit https://www.ambest.com/ratings/index.html for additional information or https://www.ambest.com/terms.html for details on the Terms of Use. For current ratings visit www.ambest.com/ratings

Copyright © 2022 A.M. Best Company, Inc. and/or its affiliates. All rights reserved.
No portion of this content may be reproduced, distributed, or stored in a database or retrieval system, or transmitted in any form or by any means without the prior written permission of AM Best. While the content was obtained from sources believed to be reliable, its accuracy is not guaranteed. For additional details, refer to our Terms of Use available at AM Best website: www.ambest.com/terms.