Moody's Investors Service

Global Credit Research
Credit Opinion
10 SEP 2008

Credit Opinion: W.R. Berkley Corporation

W.R. Berkley Corporation

Greenwich, Connecticut, United States

Ratings

Category	Moody's Rating
Rating Outlook	STA
Senior Unsecured	Baa2
Rated Intercompany Pool Members	
Rating Outlook	STA
Insurance Financial Strength	A2
W.R. Berkley Capital Trust II	
Rating Outlook	STA
W. R. Berkley Capital Trust III	
Rating Outlook	STA
Berkley Insurance Company	
Rating Outlook	STA
Insurance Financial Strength	A2

Contacts

Analyst	Phone
Paul Bauer/New York	1.212.553.1653
Kevin Lee/New York	
Robert Riegel/New York	
Adim K. Offurum/New York	

Key Indicators

W.R. Berkley Corporation[1]

	2007	2006	2005	2004	2003
Total Assets ($ Mil.)	$ 16,832	$ 15,656	$ 13,896	$ 11,451	$ 9,335
Equity ($ Mil.)	$ 3,570	$ 3,335	$ 2,567	$ 2,110	$ 1,683
Net Income ($ Mil.)	$ 744	$ 700	$ 545	$ 438	$ 337
Gross Premiums Written ($ Mil.)	$ 5,053	$ 5,277	$ 5,088	$ 4,724	$ 4,243
Net Premiums Written ($ Mil.)	$ 4,576	$ 4,819	$ 4,605	$ 4,266	$ 3,671
Gross Underwriting Leverage	3.8x	3.9x	4.6x	4.8x	5.0x
Return on Equity (1 yr.)	21.5%	23.7%	23.3%	23.1%	22.3%
Sharpe Ratio of Growth in Net Income (5 yr.)	110.5%	-100.0%	-100.0%	---	---
Financial Leverage	29.4%	26.7%	37.0%	34.1%	35.9%
Earnings Coverage (1 yr.)	12.0x	11.0x	9.4x	9.9x	9.0x
Cashflow Coverage (1 yr.)	7.4x	6.6x	3.6x	4.1x	3.6x
High Risk Assets % Invested Assets	14.2%	16.5%	12.6%	11.3%	11.9%
Reinsurance Recoverable % Equity	25.3%	27.8%	37.2%	40.3%	47.8%
Goodwill % Equity	2.9%	2.0%	2.6%	2.8%	3.5%
Adv/(Fav) Dev. % Beg. Reserves (1 yr.)	-1.5%	0.5%	4.0%	8.4%	10.5%
A&E Net Funding Ratio (1 yr.)	14.3x	12.6x	14.1x	13.7x	22.9x

[1] Information based on GAAP financial statements

Opinion

SUMMARY RATING RATIONALE

Moody's A2 insurance financial strength ratings on W. R. Berkley's primary insurance operating subsidiaries and Baa2 rating on its senior debt reflect the company's strong franchise within the specialty commercial insurance segment, its diversified revenue streams, disciplined approach to underwriting, and high quality investment portfolio. It also encompasses the expectation that the company's operating profitability will continue to be strong over the near to medium term in spite of a softening pricing environment in the property and casualty insurance and reinsurance markets. Somewhat offsetting these positive factors are the company's exposure to long tail and potentially volatile lines of business such as excess workers' compensation and reinsurance as well as a history of somewhat higher gross and net operating leverage relative to many similarly rated peers.

W. R. Berkley Corporation [NYSE: WRB] is an insurance holding company that conducts business in many segments of the property & casualty insurance market through its operating subsidiaries. WRB is subdivided into five businesses - specialty (37% of 2007 NPW), alternative markets (14%), reinsurance (15%), regional (28%), and international operations (6%). Berkley's underwriting companies operate on an independent and autonomous basis with local management "owning" the individual subsidiary results.

Credit Strengths

- Diversified revenue streams in many property & casualty insurance segments

- Disciplined underwriting approach, making use of specialized insurance expertise

- High quality investment portfolio

- Strong long term operating profitability

Credit Challenges

- Exposure to certain volatile and long-tail lines of business

- Highly competitive market conditions in many of the lines of business

- History of relatively high gross and net operating leverage

- Potential for adverse reserve development on business written in older accident years

- Focus on underwriting-intensive facultative lines

Rating Outlook

The outlook for the ratings is stable.

What Could Change the Rating - Up

- Moody's adjusted financial leverage in the mid to low 20's

- Gross underwriting leverage of 3x or lower

- Consistent profitability through the insurance cycle

- Greater conservatism in setting reserves

What Could Change the Rating - Down

- Financial leverage over 35%

- Interest coverage below 4x

- Gross underwriting leverage above 5x

- Adverse reserve development (more than 4% of reserves)

Notching Considerations

The spread between Berkley's Baa2 senior debt rating and the A2 IFS ratings of its lead operating subsidiaries is three notches, which is consistent with Moody's typical notching practices for property/casualty insurers.

Recent Results

For the first half of 2008, WRB reported net premiums written and net income of $2.1 billion and $269 million, respectively, compared to net premiums and net income of $2.4 billion and $379 million, respectively, for the first half of 2007. As of June 30, 2008, shareholders' equity was $3.3 billion.

DETAILED RATING CONSIDERATIONS

Moody's rates W.R. Berkley Corporation's lead insurance operating companies A2 for insurance financial strength, which is in line with the adjusted rating indicated by the Moody's insurance financial strength rating scorecard.

Insurance Financial Strength Rating

Key factors currently influencing the rating and outlook are:

Factor 1: Market Position, Brand and Distribution - A

W. R. Berkley ranks among the top 20 property & casualty companies in the US offering products through five core segments. Berkley's specialty lines segment is the group's largest, and has benefited from strong underwriting and an established niche, though competitive pressures have increased substantially in recent periods. The regional segment writes commercial lines coverages for small and mid-sized business firms and governmental entities, as well as surety coverages. The company's alternative market segment specializes in insuring, reinsuring, and administering self-insurance programs and other alternative risk transfer mechanisms contributing fee-based income, as well as hospital excess liability and medical stop loss insurance. WRB's reinsurance business is focused on specialized reinsurance and away from commodity treaty reinsurance and is among the larger broker market reinsurers in the US. We expect that W. R. Berkley will continue to use an opportunistic underwriting approach, de-emphasizing certain markets as pricing becomes more competitive. Berkley distributes its product through brokers and independent agents, and has a somewhat higher than average expense structure.

Factor 2: Product Focus and Diversification - A

W. R. Berkley tends to focus on complex, specialized niches within the insurance industry eschewing the commoditization of insurance products. This approach requires consistent underwriting discipline and a willingness to reduce business in markets in which pricing no longer provides adequate compensation for risk. Moody's believes that the company's exposure base is well diversified along product, geographic, and customer lines.

Some lines of business that the company operates in such as workers' compensation and excess workers' compensation are long tail in nature and subject to significant reserve risk. Management seeks to minimize risk concentrations, such as limiting its aggregate exposure to California workers' compensation business to less than 5% of the portfolio.

Berkley also offers low risk, fee-based risk management services such as third party administration of self-insured entities and captive insurance companies.

Factor 3: Asset Quality - A

Berkley maintains a high-quality, highly liquid fixed income portfolio, which the company actively manages. However, the company's investment portfolio also includes a meaningful amount of higher risk assets, some of which are relatively illiquid, including limited partnerships, a merger arbitrage portfolio, and various public and private real estate funds, together accounting for approximately 12% of the total portfolio at December 31, 2007. In addition, the company has a large exposure to the financial sector it its preferred stock investments, including about $217 million in book value to Fannie Mae and Freddie Mac preferred stock. Moody's believes that the large position in these shares raises questions regarding the risk management practices of the company's investment portfolio.

Reinsurance recoverable as a percentage of equity has trended down over the past several years, and Moody's believes that the credit quality of the company's reinsurance panel is adequate. Goodwill as a percentage of equity is minimal at about 3% as of year end 2007. Overall, Moody's considers the company's asset quality to be consistent with A-rated peers.

Factor 4: Capital Adequacy - A

Moody's considers Berkley's economic capital cushion relative to its risks to be consistent with its current rating. Gross underwriting leverage, which captures the degree of risk or stress that is being placed on the company's capital base, at approximately 3.8x at year end 2007 is in line with A-rated peers. However, leverage has trended up during 2008 due to a diminished capital base as a result of investment write downs and an aggressive share buyback program.

Berkley manages its aggregate catastrophe exposures through prudent underwriting and constant monitoring. Its largest natural catastrophe exposure stems from hurricanes, where a 1-in-250 year event results in a gross and net PML of less than 10% of surplus, which Moody's believes is conservative. The company does have exposure to terrorism risk, and has a TRIA deductible of $611 million.

Factor 5: Profitability - A

The specialty lines of business in which W. R. Berkley operates tend to be highly cyclical to a degree that is greater than that of standard commercial lines insurance. As a result, specialty carriers tend to produce very strong results during a "hard" insurance market environment, but are also susceptible to greater downwards volatility when market conditions deteriorate. W. R. Berkley's results have followed this pattern, with strong earnings performance since 2002 when the company rebounded from several years of weak and volatile operating results. Berkley's long term performance is predicated on the company's success in its casualty segments which tend to be more judgment-dependent, expertise-based classes of business.

Moody's notes that near term earnings and capital generation are likely to be weaker given the deteriorating commercial lines pricing environment, expected investment write downs, and the potential that the company's release of prior year reserves (which have accounted for almost 30% of pretax earnings for the first six months of 2008) could slow in the future. We expect that as market conditions continue to soften, the company will maintain its discipline, including reducing business volume in cases where rates are not adequate. Overall, Moody's believes that the company's earnings profile is consistent with our expectations for an A-rated company.

Factor 6: Reserve Adequacy - A

Moody's believes that Berkley's reserves fall within a reasonable range; however, we note that the company has had a history of adverse development, with about $1 billion of adverse reserve development since 2001, for accident years 1997-2001. The strong pricing of recent years however has helped improve the company's reserve position significantly, with reserve releases for recent years likely to more than offset any continuing adverse development from older years, Berkley appears to have limited exposure to asbestos and environmental claims as a result of a low exposure to large industrial risks. Moody's considers the company's reserve adequacy to be consistent with A-rated peers.

Factor 7: Financial Flexibility - A

Moody's considers W. R. Berkley's use of financial leverage to be in line with similarly rated peers, with a debt-to-capital ratio that has tended to fluctuate around the mid-30% range, though double leverage that has historically been above peer medians. Adjusted debt-to-capital is at about 30% (as of June 30, 2008). Interest coverage over the last few years has been strong, and for the year-ended 2007 was approximately 12x. Cash dividends available from the company's regulated subsidiaries have increased significantly over the past several years and are $653 million for 2008, providing about 7x coverage of interest expense. The company's capital base has declined during 2008, due to a fairly aggressive stock repurchase program, with $490 million in shares purchased during the first half of the year. .

Other Considerations

Founder, CEO and Chairman of the Board William R. Berkley owns approximately 19% of the shares of W. R. Berkley Corporation. Mr. Berkley also functions as the company's President and Chief Operating Officer. Moody's believes that Mr. Berkley has been a highly effective executive, and has been instrumental in building the company into a large, successful insurance operation; however, we also note that Mr. Berkley's dominate presence creates a degree of key-man risk. In addition, there is longer term uncertainty regarding changes that may take place as leadership is transferred to Mr. Berkley's son, Robert Berkley, Jr. We also believe that Mr. Berkley's role and high ownership percentage could negatively impact board independence and the overall quality of corporate governance at the company.

Rating Factors

W.R. Berkley Corporation

Financial Strength Rating Scorecard [1]	**Aaa**	**Aa**	**A**	**Baa**	**< Baa**	**Score**	[2]**Adjusted Score**
Business Profile						**A**	**A**

Market Position, Brand and Distribution (25%)						**A**	**A**
Market Share Ratio				**X**			
Relative Market Share Ratio		**X**					
Expense Ratio % NPW				**X**			
Product Focus and Diversification (10%)						**A**	**A**
Product Focus				**X**			
P&C Product Diversification	**X**						
Geographic Diversification		**X**					
Financial Profile						**Aa**	**A**
Asset Quality (5%)						**Aaa**	**A**
High Risk Assets % Invested Assets		**14.2%**					
Reinsurance Recoverable % Equity	**25.3%**						
Goodwill % Equity	**2.9%**						
Capital Adequacy (15%)						**A**	**A**
Gross Underwriting Leverage			**3.8x**				
Profitability (15%)						**Aaa**	**A**
Return on Equity (5 yr. avg.)	**22.8%**						
Sharpe Ratio of Growth in Net Income (5 yr.)	**110.5%**						
Reserve Adequacy (10%)						**Aa**	**A**
Adv/(Fav) Reserve Dev. % Beg. Reserves (5 yr. avg.)			**4.4%**				
A&E Net Funding Ratio (5 yr. avg.)	**16.3x**						
Financial Flexibility (20%)						**Aa**	**A**
Financial Leverage		**29.4%**					
Earnings Coverage (5 yr. avg.)		**10.3x**					
Cashflow Coverage (5 yr. avg.)		**5.1x**					
Aggregate Profile						**Aa3**	**A2**

[1] Insert appropriate footnote regarding accounting (see below) [2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis