

**Credit Opinion: W.R. Berkley Corporation**

**W.R. Berkley Corporation**

*Greenwich, Connecticut, United States*

**Ratings**

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

**Contacts**

<b>Analyst</b>	<b>Phone</b>
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]**

	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
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 in 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



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

[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

© Copyright 2008, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist

between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at [www.moody.com](http://www.moody.com) under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."