

## W. R. Berkley Corporation Reports First Quarter Results

Released : 04/24/2018

**Net Income Increased 35% to \$166 Million; Return on Equity of 12.3%**

GREENWICH, Conn.-(BUSINESS WIRE)--

**W. R. Berkley Corporation (NYSE:WRB)** today reported net income for the first quarter of 2018 of \$166 million, or \$1.30 per share.

### Summary Financial Data

(Amounts in thousands, except per share data)

|                                   | First Quarter |              |
|-----------------------------------|---------------|--------------|
|                                   | 2018          | 2017         |
| Gross premiums written            | \$ 1,979,421  | \$ 1,936,207 |
| Net premiums written              | 1,665,338     | 1,646,838    |
| Net income to common stockholders | 166,396       | 123,447      |
| Net income per diluted share      | 1.30          | 0.96         |
| Return on equity (1)              | 12.3 %        | 9.8 %        |

(1) Return on equity represents net income expressed on an annualized basis as a percentage of beginning of year stockholders' equity.

First quarter highlights included:

- We reported annualized pre-tax return on equity of 15.5%, which adjusted for accounting changes for equity securities effective January 1, 2018 would have been 22.5%.
- The combined ratio was 94.6%, inclusive of 0.5 loss ratio points from catastrophes and an additional 0.7 loss ratio points from non-catastrophe weather.
- Total catastrophe losses were \$7 million.
- Investment income increased 17.2%. Investment income attributable to the core investment portfolio increased 11.3%<sup>(1)</sup>.
- Net realized pre-tax gains and net unrealized pre-tax gains on equity securities of \$44 million, net of performance-based compensatory costs<sup>(2)</sup>.

The Company commented:

Our performance in the first quarter of 2018 was strong, resulting from our ongoing strategy to minimize volatility in our underwriting results, combined with robust investment income. Our 12.3% annualized ROE is a reflection of our focus on delivering superior risk-adjusted returns to our shareholders.

Net premiums written in the Insurance segment grew by 3.3% in the quarter, with steady price improvement in each month. This growth was partially offset by a decline of 20% in net premiums written in the Reinsurance segment, where the pricing environment remained exceptionally competitive. Similar to others, we experienced a higher level of non-catastrophe weather-related property losses in the quarter. However, the net impact of catastrophe losses was relatively modest, and our accident year loss ratio excluding catastrophe losses was stable. We remain optimistic that slow but steady improvements in pricing, along with growth in the economy benefiting from recent tax reform, will enable our underwriting results to improve.

Net investment income was particularly strong this quarter as investment funds performed notably well. Investment funds have wide variations in income from quarter to quarter, but they continue to provide us with an enhanced overall long-term return. Recurring income from the core portfolio grew primarily due to an increase in invested assets. We realized gains on sales of investments of \$142 million, before consideration of the change in accounting for unrealized gains on equity securities.

Our first quarter results have provided a solid start to the year. The market is slowly moving in the right direction, and we anticipate that these trends, and consequently our results, will improve further during the remainder of the year. Changes in the tax code and accounting rules have made it more challenging to compare our current results with prior periods. We remain focused on creating shareholder value over the long-term.

(1) Core portfolio includes fixed maturity securities, equity securities, cash and cash equivalents, real estate and loans receivable.

(2) Net realized pre-tax gains and net unrealized pre-tax gains on equity securities before performance-based compensatory costs were \$48 million.

#### Webcast Conference Call

The Company will hold its quarterly conference call with analysts and investors to discuss its earnings and other information on April 24, 2018, at 5:00 p.m. eastern time. The conference call will be webcast live on the Company's website at <http://www.wrberkley.com/investor-relations/events-and-presentations.aspx>. Please log on at least ten minutes early to register and download and install any necessary software. A replay of the webcast will be available on the Company's website approximately two hours after the end of the conference call.

#### About W. R. Berkley Corporation

Founded in 1967, W. R. Berkley Corporation is an insurance holding company that is among the largest commercial lines writers in the United States and operates worldwide in two segments of the property casualty business: Insurance and Reinsurance.

#### Forward Looking Information

This is a "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995. Any forward-looking statements contained herein, including statements related to our outlook for the industry and for our performance for the year 2018 and beyond, are based upon the Company's historical performance and on current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. They are subject to various risks and uncertainties, including but not limited to: the cyclical nature of the property casualty industry; the impact of significant competition, including new alternative entrants to the industry; the long-tail and potentially volatile nature of the insurance and reinsurance business; product demand and pricing; claims development and the process of estimating reserves; investment risks, including those of our portfolio of fixed maturity securities and investments in equity securities, including investments in financial institutions, municipal bonds, mortgage-backed securities, loans receivable, investment funds, including real estate, merger arbitrage, energy related and private equity investments; the effects of emerging claim and coverage issues; the uncertain nature of damage theories and loss amounts; natural and man-made catastrophic losses, including as a result of terrorist activities; general economic and market activities, including inflation, interest rates, and volatility in the credit and capital markets; the impact of the conditions in the financial markets and the global economy, and the potential effect of legislative, regulatory, accounting or other initiatives taken in response, on our results and financial condition; foreign currency and political risks (including those associated with the United Kingdom's withdrawal from the European Union, or "Brexit") relating to our international operations; our ability to attract and retain key personnel and qualified employees; continued availability of capital and financing; the success of our new ventures or acquisitions and the availability of other opportunities; the availability of reinsurance; our retention under the Terrorism Risk Insurance Program Reauthorization Act of 2015; the ability of our reinsurers to pay reinsurance recoverables owed to us; other legislative and regulatory developments, including those related to business practices in the insurance industry; credit risk related to our policyholders, independent agents and brokers; changes in the ratings assigned to us or our insurance company subsidiaries by rating agencies; the availability of dividends from our insurance company subsidiaries; potential difficulties with technology and/or data security; the effectiveness of our controls to ensure compliance with guidelines, policies and legal and regulatory standards; and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission. These risks and uncertainties could cause our actual results for the year 2018 and beyond to differ materially from those expressed in any forward-looking statement we make. Any projections of growth in our revenues would not necessarily result in commensurate levels of earnings. Forward-looking statements speak only as of the date on which they are made, and the Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

#### Consolidated Financial Summary

(Amounts in thousands, except per share data)

|                                                      | First Quarter |              |
|------------------------------------------------------|---------------|--------------|
|                                                      | 2018          | 2017         |
| <b>Revenues:</b>                                     |               |              |
| Net premiums written                                 | \$ 1,665,338  | \$ 1,646,838 |
| Change in unearned premiums                          | (97,930 )     | (76,796 )    |
| Net premiums earned                                  | 1,567,408     | 1,570,042    |
| Net investment income                                | 174,518       | 148,858      |
| Net realized and unrealized gains on investments (1) | 48,464        | 52,348       |
| Revenues from non-insurance businesses               | 70,171        | 65,390       |
| Insurance service fees                               | 30,675        | 33,280       |
| Other income                                         | 11            | 500          |
| Total revenues                                       | 1,891,247     | 1,870,418    |
| <b>Expenses:</b>                                     |               |              |
| Losses and loss expenses                             | 963,219       | 979,603      |
| Other operating costs and expenses                   | 610,439       | 603,700      |
| Expenses from non-insurance businesses               | 69,543        | 66,019       |

|                                            |                   |                   |
|--------------------------------------------|-------------------|-------------------|
| Interest expense                           | 37,056            | 36,799            |
| Total expenses                             | 1,680,257         | 1,686,121         |
| Income before income taxes                 | 210,990           | 184,297           |
| Income tax expense                         | (43,417 )         | (59,623 )         |
| Net income before noncontrolling interests | 167,573           | 124,674           |
| Noncontrolling interests                   | (1,177 )          | (1,227 )          |
| Net income to common stockholders          | <u>\$ 166,396</u> | <u>\$ 123,447</u> |

Net income per share:

|         |         |         |
|---------|---------|---------|
| Basic   | \$ 1.32 | \$ 1.01 |
| Diluted | \$ 1.30 | \$ 0.96 |

Average shares outstanding (2):

|         |         |         |
|---------|---------|---------|
| Basic   | 126,375 | 121,893 |
| Diluted | 128,125 | 128,453 |

(1) Includes net realized gains on investment sales of \$142 million reduced by a change in unrealized gains on equity securities of \$94 million. The change in unrealized gains on equity securities commenced January 1, 2018 due to our adoption of ASU 2016-01.

(2) Basic shares outstanding consist of the weighted average number of common shares outstanding during the period (including shares held in a grantor trust). Diluted shares outstanding consist of the weighted average number of basic and common equivalent shares outstanding during the period.

## Business Segment Operating Results

(Amounts in thousands, except ratios) (1)

|                        | First Quarter |              |
|------------------------|---------------|--------------|
|                        | 2018          | 2017         |
| <b>Insurance:</b>      |               |              |
| Gross premiums written | \$ 1,837,971  | \$ 1,769,405 |
| Net premiums written   | 1,543,052     | 1,494,135    |
| Premiums earned        | 1,432,337     | 1,413,170    |
| Pre-tax income         | 229,028       | 199,994      |
| Loss ratio             | 60.6 %        | 60.9 %       |
| Expense ratio          | 32.8 %        | 32.9 %       |
| GAAP combined ratio    | 93.4 %        | 93.8 %       |

## Reinsurance:

|                        |            |            |
|------------------------|------------|------------|
| Gross premiums written | \$ 141,450 | \$ 166,802 |
| Net premiums written   | 122,286    | 152,703    |
| Premiums earned        | 135,071    | 156,872    |
| Pre-tax income         | 14,592     | 4,594      |
| Loss ratio             | 69.9 %     | 75.9 %     |
| Expense ratio          | 37.5 %     | 37.0 %     |
| GAAP combined ratio    | 107.4 %    | 112.9 %    |

## Corporate and Eliminations:

|                                                  |           |           |
|--------------------------------------------------|-----------|-----------|
| Net realized and unrealized gains on investments | \$ 48,464 | \$ 52,348 |
| Interest expense                                 | (37,056 ) | (36,799 ) |
| Other revenues and expenses                      | (44,038 ) | (35,840 ) |
| Pre-tax loss                                     | (32,630 ) | (20,291 ) |

**Consolidated:**

|                        |              |              |
|------------------------|--------------|--------------|
| Gross premiums written | \$ 1,979,421 | \$ 1,936,207 |
| Net premiums written   | 1,665,338    | 1,646,838    |
| Premiums earned        | 1,567,408    | 1,570,042    |
| Pre-tax income         | 210,990      | 184,297      |
| Loss ratio             | 61.4 %       | 62.4 %       |
| Expense ratio          | 33.2 %       | 33.3 %       |
| GAAP combined ratio    | 94.6 %       | 95.7 %       |

- (1) Loss ratio is losses and loss expenses incurred expressed as a percentage of premiums earned. Expense ratio is underwriting expenses expressed as a percentage of premiums earned. GAAP combined ratio is the sum of the loss ratio and the expense ratio.

**Supplemental Information**

**(Amounts in thousands)**

|                              | First Quarter       |                     |
|------------------------------|---------------------|---------------------|
|                              | 2018                | 2017                |
| <b>Net premiums written:</b> |                     |                     |
| Other liability              | \$ 468,840          | \$ 436,446          |
| Workers' compensation        | 419,258             | 426,557             |
| Short-tail lines (1)         | 291,118             | 287,078             |
| Commercial automobile        | 214,645             | 204,200             |
| Professional liability       | 149,191             | 139,854             |
| Total Insurance              | 1,543,052           | 1,494,135           |
| Casualty reinsurance         | 82,335              | 93,541              |
| Property reinsurance         | 39,951              | 59,162              |
| Total Reinsurance            | 122,286             | 152,703             |
| Total                        | <u>\$ 1,665,338</u> | <u>\$ 1,646,838</u> |

**Losses from catastrophes:**

|             |                 |                  |
|-------------|-----------------|------------------|
| Insurance   | \$ 7,131        | \$ 14,304        |
| Reinsurance | 257             | 194              |
| Total       | <u>\$ 7,388</u> | <u>\$ 14,498</u> |

**Net investment income:**

|                           |                   |                   |
|---------------------------|-------------------|-------------------|
| Core portfolio (2)        | \$ 128,973        | \$ 115,849        |
| Investment funds          | 40,354            | 26,649            |
| Arbitrage trading account | 5,191             | 6,360             |
| Total                     | <u>\$ 174,518</u> | <u>\$ 148,858</u> |

**Net realized and unrealized gains on investments:**

|                                                     |                  |                  |
|-----------------------------------------------------|------------------|------------------|
| Net realized gains on investment sales              | \$ 142,669       | \$ 52,348        |
| Change in unrealized gains on equity securities (3) | (94,205 )        | —                |
| Total                                               | <u>\$ 48,464</u> | <u>\$ 52,348</u> |

**Other operating costs and expenses:**

|                                                     |                   |                   |
|-----------------------------------------------------|-------------------|-------------------|
| Policy acquisition and insurance operating expenses | \$ 520,231        | \$ 523,409        |
| Insurance service expenses                          | 32,712            | 29,933            |
| Net foreign currency losses                         | 13,484            | 5,508             |
| Other costs and expenses                            | 44,012            | 44,850            |
| Total                                               | <u>\$ 610,439</u> | <u>\$ 603,700</u> |

|                                  |                     |                  |
|----------------------------------|---------------------|------------------|
| <b>Cash flow from operations</b> | <u>\$ (20,035 )</u> | <u>\$ 75,472</u> |
|----------------------------------|---------------------|------------------|

- (1) Short-tail lines include commercial multi-peril (non-liability), inland marine, accident and health, fidelity and surety, boiler and machinery and other lines.
- (2) Core portfolio includes fixed maturity securities, equity securities, cash and cash equivalents, real estate and loans receivable.
- (3) The change in unrealized gains on equity securities commenced January 1, 2018 due to our adoption of ASU 2016-01.

**Selected Balance Sheet Information**

**(Amounts in thousands, except per share data)**

|                                       | March 31,<br>2018 | December 31,<br>2017 |
|---------------------------------------|-------------------|----------------------|
| Net invested assets (1)               | \$ 18,532,423     | \$ 18,508,646        |
| Total assets                          | 24,587,832        | 24,299,917           |
| Reserves for losses and loss expenses | 11,784,895        | 11,670,408           |
| Senior notes and other debt           | 1,782,139         | 1,769,052            |
| Subordinated debentures               | 897,426           | 728,218              |
| Common stockholders' equity (2)       | 5,451,776         | 5,411,344            |
| Common stock outstanding (3)          | 121,544           | 121,515              |
| Book value per share (4)              | 44.85             | 44.53                |
| Tangible book value per share (4)     | 42.84             | 42.51                |

- (1) Net invested assets include investments, cash and cash equivalents, trading accounts receivable from brokers and clearing organizations, trading account securities sold but not yet purchased and unsettled purchases, net of related liabilities.
- (2) As of March 31, 2018, reflected in common stockholders' equity are after-tax unrealized investment gains of \$35 million and unrealized currency translation losses of \$294 million. As of December 31, 2017, after-tax unrealized investment gains were \$375 million and unrealized currency translation losses were \$307 million. The decrease in unrealized investment gains in the first quarter 2018 was primarily attributable to the change in accounting treatment of equity securities.
- (3) During the three months ended March 31, 2018, the Company repurchased 101,000 shares of its common stock for \$6.8 million. The number of shares of common stock outstanding excludes shares held in a grantor trust.

- (4) Book value per share is total common stockholders' equity divided by the number of common shares outstanding. Tangible book value per share is total common stockholders' equity excluding the after-tax value of goodwill and other intangible assets divided by the number of common shares outstanding.

## Investment Portfolio

March 31, 2018

(Amounts in thousands)

|                                                  | Carrying<br>Value | Percent<br>of Total |
|--------------------------------------------------|-------------------|---------------------|
| <b>Fixed maturity securities:</b>                |                   |                     |
| United States government and government agencies | \$ 479,909        | 2.6 %               |
| State and municipal:                             |                   |                     |
| Special revenue                                  | 2,676,724         | 14.4 %              |
| Pre-refunded                                     | 467,758           | 2.5 %               |
| State general obligation                         | 450,878           | 2.4 %               |
| Local general obligation                         | 408,745           | 2.2 %               |
| Corporate backed                                 | 373,878           | 2.1 %               |
| Total state and municipal                        | 4,377,983         | 23.6 %              |
| Mortgage-backed securities:                      |                   |                     |
| Agency                                           | 827,309           | 4.4 %               |
| Commercial                                       | 335,284           | 1.8 %               |
| Residential - Prime                              | 218,183           | 1.2 %               |
| Residential - Alt A                              | 18,993            | 0.1 %               |
| Total mortgage-backed securities                 | 1,399,769         | 7.6 %               |
| Asset-backed securities                          | 2,101,691         | 11.3 %              |
| Corporate:                                       |                   |                     |
| Industrial                                       | 2,374,121         | 12.8 %              |
| Financial                                        | 1,418,598         | 7.7 %               |
| Utilities                                        | 274,532           | 1.5 %               |
| Other                                            | 43,450            | 0.2 %               |
| Total corporate                                  | 4,110,701         | 22.2 %              |
| Foreign government                               | 873,079           | 4.7 %               |
| Total fixed maturity securities (1)              | 13,343,132        | 71.9 %              |
| <b>Equity securities available for sale:</b>     |                   |                     |
| Common stocks                                    | 320,435           | 1.7 %               |
| Preferred stocks                                 | 175,599           | 1.0 %               |
| Total equity securities available for sale       | 496,034           | 2.7 %               |
| Real estate                                      | 1,833,337         | 9.9 %               |
| Investment funds (2)                             | 1,159,792         | 6.3 %               |
| Cash and cash equivalents (3)                    | 879,367           | 4.8 %               |
| Arbitrage trading account                        | 744,859           | 4.0 %               |
| Loans receivable                                 | 75,902            | 0.4 %               |
| Net invested assets                              | \$ 18,532,423     | 100.0 %             |

- (1) Total fixed maturity securities had an average rating of AA - and an average duration of 3.0 years, including cash and cash equivalents.

- (2) Investment funds are net of related liabilities of \$1.3 million.
- (3) Cash and cash equivalents includes trading accounts receivable from brokers and clearing organizations, trading account securities sold but not yet purchased and unsettled purchases.

View source version on businesswire.com: <https://www.businesswire.com/news/home/20180424006504/en/>

W. R. Berkley Corporation  
Karen A. Horvath, (203) 629-3000  
Vice President - External  
Financial Communications

Source: W. R. Berkley Corporation