



Berkshire Hathaway
Specialty Insurance®

Being Different Matters

DECEMBER 31, 2017

Team,

First the bad news, then the good news.

As we've discussed on numerous occasions since BHSI was launched 4.5 years ago, the property casualty insurance business is a difficult business in which to generate an underwriting profit, and 2017 is a year in which that statement rang true. Due to a significantly elevated level of natural catastrophe activity and related claims, 2017 will likely prove to be the costliest year ever for the insurance industry. As a result of the storms that occurred in North America and Australia this year, BHSI will sustain in excess of \$200 million in catastrophe losses. That's the bad news. Now let's move on to the good news, which fortunately will require me to write more than the three sentences I used to outline the bad news, and definitely will be more pleasant for me to write and hopefully more enjoyable for you to read!

In the stretch good news category, let's start with it could have been much worse (it gets better, I promise!) – and not just because the storms (principally Hurricane Irma) could have taken different tracks and caused significantly greater damage and losses, but because our property underwriting team could have very easily run with the pack over the last 4.5 years, ignoring the opportunity to think differently, to build differently, to act and behave differently, and in the process forgone the opportunity get a better, more sustainable outcome and financial result. Fortunately for all of us and our business partners, we didn't ignore the opportunity to be different. So what did we get right?

First, we have been thoughtful and took the opportunity early on to build clarity of risk appetite in terms of exposures, asset classes, and customer market segments, and then proceeded to hire people and build capabilities to help us maximize our understanding of the risks we would be underwriting – as a result, we are increasingly market leaders at what we do, not followers or dabblers.

Second, we have been disciplined in terms of establishing a pricing approach and deliberate in selecting a combined ratio walk away price at an account level – we have avoided the frequent and unjustifiable “rationalization” of price decreases that occur in our industry and ultimately culminate in poor underwriting results. Also, to the point on the thoughtfulness that has gone into defining “who we are” as property risk underwriters, we have been adept at avoiding asset classes that we don't and can't understand – we have not stretched or strayed simply for the sake of generating premium or to find something new to do.

Lastly, we have been consistent in our approach – from underwriting, to claims handling, to the manner in which we engage and service our brokers and customers – we know who we are, and so do our business partners – as a result, increasingly our business partners “want” to do business with us for reasons that are beneficial to both them and us.

Importantly, by being different, our North American property business entered the 2017 storm season with an inception to date (since April 2013) combined ratio of 47%, and despite incurring approximately \$200 million in catastrophe losses in the third quarter, emerged from the storm season with an inception to date combined ratio of 77% – a remarkably good result, to say the least. Additionally, by protecting our bottom line during a challenging underwriting environment, we have positioned ourselves well to grow our business during what is proving to be a rising rate environment and at a time when our brokers and customers need us most – I'm certain this is a much better alternative than being distracted by having to re-underwrite our portfolio (a task that should be avoided at all costs). All in favor of being different, raise your hand?!

Fortunately, since BHSI was launched in April 2013, there has been a tremendous amount of thoughtfulness, discipline, and consistency that has gone into building the company – it's an approach that has no boundaries and one that has been broadly adopted across our platform and served us well. As we move into 2018 and beyond, I'm calling for more of the same – more thoughtfulness, more discipline, and more consistency – in all that we do.

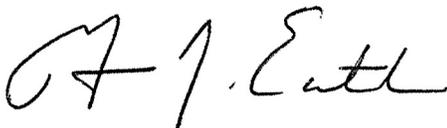
While the storms impacted our financial results for the year, they certainly did not deter us. We remained focused on continuing to build and grow BHSI, expanding our team, our geographic footprint, and our underwriting and service capabilities – let me count just a few of the ways: we kicked off the year extending our operations in Asia and the UK, announcing new management and product line leaders in Kuala Lumpur and London. Our underwriters hit the ground running in the first quarter, moving us into the marine insurance market and launching professional liability and network security & privacy insurance in Canada, while introducing new accident & health insurance team members in Asia. We unveiled employment practices liability Insurance in Canada, and executive & professional lines and casualty leadership for the UK, Ireland and Southern Europe. Additionally, we opened our doors in Dublin. All the while, we continued to focus on infusing excellence into our claims operation, building our team and infrastructure worldwide, including the addition of new marine and surety claim leaders in the U.S. As the year moved along, the fourth quarter was marked by numerous new product launches, including motor truck cargo legal liability insurance in Canada; an excess integrated follow form for U.S. and Canadian contractors; a contractors plant & equipment policy in Australia; financial institutions professional indemnity insurance in Asia; and a full suite of accident & health products and related product leadership in New Zealand. Also, we struck a distribution agreement with Travelex Insurance Services to be the provider of leisure travel insurance products to their extensive customer base. Importantly, we continued to take a solutions oriented approach to our underwriting that saw us take our “off-the-shelf” product offering and customize it in response to the needs of our customers – what a great way to be “wanted”.

While the above list of accomplishments is significant, it is but a short list of all the great work that took place across BHSI in 2017 and over the last 4.5 years. The amount of time, effort, and thoughtfulness that has gone into building BHSI from the ground up has been tremendous – importantly, it has been a team effort with meaningful contributions from all of our product groups, functional areas, and geographies. As we move into 2018, we do so with nearly 900 teammates – a figure that grows to almost 1500 people when you include the approximately 575 important teammates at Xceedance – doing great work across 28 offices in 11 countries and jurisdiction (13 with Xceedance), as well as team members working remotely in 16 additional cities – not bad for a 4.5 year old business!

As I’ve mentioned in the past, the strength of BHSI resides in our people, our culture, and the financial resources we are afforded by being part of Berkshire Hathaway. Let’s be certain to continue to demonstrate a great deal of care over each of these hugely important assets – if we do, I’m certain our success to date will continue long into the future.

In closing, I want to thank all of you for being BHSI team members and for continuously demonstrating what it means to have both great “capabilities” and exceptional “character”. I look forward to a great 2018 with all of you.

Sincerely,

A handwritten signature in black ink, appearing to read "P. Eastwood". The signature is fluid and cursive, with a large initial "P" and a long, sweeping underline.

Peter Eastwood

President & Chief Executive Officer