
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark one)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2017

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the Transition Period from _____ to _____.

Commission File Number 1-15202

W. R. BERKLEY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

22-1867895

(I.R.S. Employer
Identification No.)

475 Steamboat Road, Greenwich, Connecticut

(Address of principal executive offices)

06830

(Zip Code)

(203) 629-3000

(Registrant's telephone number, including area code)

None

Former name, former address and former fiscal year, if changed since last report .

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Number of shares of common stock, \$.20 par value, outstanding as of May 2, 2017 : 121,228,108

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Part I — FINANCIAL INFORMATION

Item 1. Financial Statements

W. R. BERKLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	March 31, 2017	December 31, 2016
	(Unaudited)	(Audited)
Assets		
Investments:		
Fixed maturity securities	\$ 13,422,979	\$ 13,190,668
Investment funds	1,238,558	1,198,146
Real estate	1,237,738	1,184,981
Arbitrage trading account	753,278	299,999
Loans receivable	103,650	106,798
Equity securities available for sale	611,378	669,200
Total investments	17,367,581	16,649,792
Cash and cash equivalents	608,393	795,285
Premiums and fees receivable	1,766,478	1,701,854
Due from reinsurers	1,640,190	1,743,980
Deferred policy acquisition costs	544,914	537,890
Prepaid reinsurance premiums	451,886	413,140
Trading account receivables from brokers and clearing organizations	29,131	484,593
Property, furniture and equipment	356,908	349,432
Goodwill	144,513	144,513
Accrued investment income	135,439	127,047
Other assets	501,981	402,550
Total assets	\$ 23,547,414	\$ 23,350,076
Liabilities and Equity		
Liabilities:		
Reserves for losses and loss expenses	\$ 11,224,324	\$ 11,197,195
Unearned premiums	3,402,892	3,283,300
Due to reinsurers	218,040	213,128
Trading account securities sold but not yet purchased	51,348	51,179
Federal and foreign income taxes	169,959	119,597
Other liabilities	775,039	916,318
Senior notes and other debt	1,759,494	1,760,595
Subordinated debentures	727,777	727,630
Total liabilities	18,328,873	18,268,942
Equity:		
Preferred stock, par value \$.10 per share:		
Authorized 5,000,000 shares; issued and outstanding - none	—	—
Common stock, par value \$.20 per share:		
Authorized 500,000,000 shares, issued and outstanding, net of treasury shares, 121,218,479 and 121,193,599 shares, respectively	47,024	47,024
Additional paid-in capital	1,047,589	1,037,446
Retained earnings	6,703,675	6,595,987
Accumulated other comprehensive income	69,491	55,568
Treasury stock, at cost, 113,899,439 and 113,924,319 shares, respectively	(2,688,173)	(2,688,817)
Total stockholders' equity	5,179,606	5,047,208
Noncontrolling interests	38,935	33,926
Total equity	5,218,541	5,081,134
Total liabilities and equity	\$ 23,547,414	\$ 23,350,076

W. R. BERKLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In thousands, except per share data)

	For the Three Months Ended March 31,	
	2017	2016
REVENUES:		
Net premiums written	\$ 1,646,838	\$ 1,663,722
Change in net unearned premiums	(76,796)	(136,387)
Net premiums earned	1,570,042	1,527,335
Net investment income	148,858	130,133
Insurance service fees	33,280	40,362
Net realized investment gains	52,348	25,457
Other-than-temporary impairments	—	(18,114)
Revenues from non-insurance businesses	65,390	101,780
Other income	500	258
Total revenues	1,870,418	1,807,211
OPERATING COSTS AND EXPENSES:		
Losses and loss expenses	979,603	922,321
Other operating costs and expenses	603,700	582,459
Expenses from non-insurance businesses	66,019	95,531
Interest expense	36,799	32,224
Total operating costs and expenses	1,686,121	1,632,535
Income before income taxes	184,297	174,676
Income tax expense	(59,623)	(54,428)
Net income before noncontrolling interests	124,674	120,248
Noncontrolling interests	(1,227)	(737)
Net income to common stockholders	\$ 123,447	\$ 119,511
NET INCOME PER SHARE:		
Basic	\$ 1.01	\$ 0.97
Diluted	\$ 0.96	\$ 0.93

See accompanying notes to interim consolidated financial statements.

W. R. BERKLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(In thousands)

	For the Three Months	
	Ended March 31,	
	2017	2016
Net income before noncontrolling interests	\$ 124,674	\$ 120,248
Other comprehensive income:		
Change in unrealized currency translation adjustments	22,735	(2,047)
Change in unrealized investment gains, net of taxes	(8,831)	76,855
Other comprehensive income	13,904	74,808
Comprehensive income	138,578	195,056
Noncontrolling interest	(1,208)	(723)
Comprehensive income to common stockholders	<u>\$ 137,370</u>	<u>\$ 194,333</u>

See accompanying notes to interim consolidated financial statements.

W. R. BERKLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
(In thousands)

	For the Three Months Ended March 31,	
	2017	2016
COMMON STOCK:		
Beginning and end of period	\$ 47,024	\$ 47,024
ADDITIONAL PAID-IN CAPITAL:		
Beginning of period	\$ 1,037,446	\$ 1,005,455
Restricted stock units issued	(667)	(652)
Restricted stock units expensed	10,810	8,769
End of period	\$ 1,047,589	\$ 1,013,572
RETAINED EARNINGS:		
Beginning of period	\$ 6,595,987	\$ 6,178,070
Net income to common stockholders	123,447	119,511
Dividends	(15,759)	(14,711)
End of period	\$ 6,703,675	\$ 6,282,870
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Unrealized investment gains:		
Beginning of period	\$ 427,154	\$ 180,695
Unrealized (losses) gains on securities not other-than-temporarily impaired	(8,913)	76,904
Unrealized gains (losses) on other-than-temporarily impaired securities	101	(35)
End of period	418,342	257,564
Currency translation adjustments:		
Beginning of period	(371,586)	(247,393)
Net change in period	22,735	(2,047)
End of period	(348,851)	(249,440)
Total accumulated other comprehensive income	\$ 69,491	\$ 8,124
TREASURY STOCK:		
Beginning of period	\$ (2,688,817)	\$ (2,563,605)
Stock exercised/vested	644	652
Stock repurchased	—	(37,424)
End of period	\$ (2,688,173)	\$ (2,600,377)
NONCONTROLLING INTERESTS:		
Beginning of period	\$ 33,926	\$ 32,962
Contributions	3,801	3,158
Net income	1,227	737
Other comprehensive loss, net of tax	(19)	(14)
End of period	\$ 38,935	\$ 36,843

See accompanying notes to interim consolidated financial statements.

W. R. BERKLEY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	For the Three Months Ended March 31,	
	2017	2016
CASH FROM OPERATING ACTIVITIES:		
Net income to common stockholders	\$ 123,447	\$ 119,511
Adjustments to reconcile net income to net cash from operating activities:		
Net investment gains	(52,348)	(7,343)
Depreciation and amortization	18,133	30,245
Noncontrolling interests	1,227	737
Investment funds	(26,649)	(16,636)
Stock incentive plans	10,780	8,766
Change in:		
Arbitrage trading account	2,350	383
Premiums and fees receivable	(59,244)	(79,531)
Reinsurance accounts	67,205	(26,319)
Deferred policy acquisition costs	(6,126)	(33,466)
Income taxes	50,595	46,780
Reserves for losses and loss expenses	10,424	108,057
Unearned premiums	113,483	171,553
Other	(177,805)	(181,969)
Net cash from operating activities	75,472	140,768
CASH USED IN INVESTING ACTIVITIES:		
Proceeds from sale of fixed maturity securities	719,969	381,732
Proceeds from sale of equity securities	51,854	1,880
(Contributions to) distributions from investment funds	(11,290)	15,788
Proceeds from maturities and prepayments of fixed maturity securities	888,423	455,463
Purchase of fixed maturity securities	(1,767,208)	(1,032,129)
Purchase of equity securities	(103)	(1,108)
Real estate purchased	(48,710)	(53,781)
Change in loans receivable	3,147	123,737
Net additions to property, furniture and equipment	(12,457)	(12,461)
Change in balances due to security brokers	(22,034)	69,642
Payment for business purchased net of cash acquired	(71,346)	(54,313)
Net cash used in investing activities	(269,755)	(105,550)
CASH (USED IN) FROM FINANCING ACTIVITIES:		
Repayment of senior notes and other debt	(1,475)	(33,721)
Net proceeds from issuance of debt	—	110,093
Cash dividends to common stockholders	—	(14,711)
Purchase of common treasury shares	—	(37,424)
Other, net	(1,281)	3,158
Net cash (used in) from financing activities	(2,756)	27,395
Net impact on cash due to change in foreign exchange rates	10,147	11,271
Net change in cash and cash equivalents	(186,892)	73,884
Cash and cash equivalents at beginning of year	795,285	763,631
Cash and cash equivalents at end of period	\$ 608,393	\$ 837,515

See accompanying notes to interim consolidated financial statements.

W. R. Berkley Corporation and Subsidiaries
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) General

The unaudited consolidated financial statements, which include the accounts of W. R. Berkley Corporation and its subsidiaries (the “Company”) have been prepared on the basis of U.S. generally accepted accounting principles (“GAAP”) for interim financial information. Accordingly, they do not include all the information and notes required by GAAP for annual financial statements. The unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring items, which are necessary to present fairly the Company’s financial position and results of operations on a basis consistent with the prior audited consolidated financial statements. Operating results for interim periods are not necessarily indicative of the results that may be expected for the year. All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the revenues and expenses reflected during the reporting period. For further information related to a description of areas of judgment and estimates and other information necessary to understand the Company’s financial position and results of operations, refer to the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 . Reclassifications have been made in the 2016 financial statements as originally reported to conform to the presentation of the 2017 financial statements.

The income tax provision has been computed based on the Company’s estimated annual effective tax rate. The effective tax rate for the quarter differs from the federal income tax rate of 35% principally because of tax-exempt investment income.

(2) Per Share Data

The Company presents both basic and diluted net income per share (“EPS”) amounts. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the period (including shares held in a grantor trust established in March 2017). The Company transferred 4,087,731 common shares to the grantor trust for delivery upon settlement of vested but mandatorily deferred restricted stock units (RSUs). Shares held by the grantor trust do not affect diluted shares outstanding since the shares deliverable under vested RSUs were already included in diluted shares outstanding. Diluted EPS is based upon the weighted average number of basic and common equivalent shares outstanding during the period and is calculated using the treasury stock method for stock incentive plans. Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect.

The weighted average number of common shares used in the computation of basic and diluted earnings per share was as follows:

(In thousands)	For the Three Months Ended March 31,	
	2017	2016
Basic	121,893	122,780
Diluted	128,453	128,529

(3) Recent Accounting Pronouncements

Recently adopted accounting pronouncements:

In May 2015, the Financial Accounting Standards Board (“FASB”) issued ASU 2015-09, Disclosures about Short-Duration Contracts. ASU 2015-09 requires companies that issue short duration insurance contracts to disclose additional information, including: (i) incurred and paid claims development tables; (ii) frequency and severity of claims; and (iii) information about material changes in judgments made in calculating the liability for unpaid claim adjustment expenses, including reasons for the change and the effects on the financial statements. The Company adopted this updated guidance on January 1, 2016 with regard to the annual requirements and on January 1, 2017 with regard to the interim requirements. The amendments in ASU 2015-09 are applied retrospectively by providing comparative disclosures for each period presented, except for those requirements that apply only to the current period. As the requirements are disclosure only, the adoption of this guidance did not impact our financial condition or results of operations, but did result in additional disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 includes provisions intended to simplify various previous provisions related to how share-based payments are accounted for and presented in the financial statements. Under the new guidance, excess tax benefits (deductions for share based payment awards for tax purposes that exceed the compensation cost recognized for financial reporting purposes) are reported within the income tax expense financial statement line item. Previously, excess tax benefits were reported within additional paid in capital. The Company adopted this updated guidance on January 1, 2017 prospectively. The adoption of this guidance did not have a material impact on the Company's financial condition or results of operations.

All other accounting and reporting standards that became effective in 2017 were either not applicable to the Company or their adoption did not have a material impact on the Company.

Accounting and reporting standards that are not yet effective:

In May 2014, the FASB issued ASU 2014-09, Revenue from Customers. ASU 2014-09 clarifies the principles for recognizing revenue. While insurance contracts are not within the scope of this updated guidance, the Company's insurance service fee revenue and non-insurance business revenue will be subject to this updated guidance. The updated guidance requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The updated guidance, as amended by ASU 2015-14, is effective for public business entities for annual and interim reporting periods beginning after December 15, 2017. The adoption of this guidance is not expected to have a material effect on the Company's financial condition or results of operations.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments. ASU 2016-01 amends the accounting guidance for financial instruments to require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The updated guidance is effective for public business entities for annual reporting periods beginning after December 15, 2017 and interim periods within those years. The adoption of this guidance is not expected to have a material effect on the Company's financial condition upon adoption, but will impact results of operations after adoption of this guidance as unrealized gains and losses on equity securities will no longer be reported directly in accumulated other comprehensive income (AOCI), but will instead be reported in net income.

In February 2016, the FASB issued ASU 2016-02, Leases, which amends the accounting and disclosure guidance for leases. This guidance retains the two classifications of a lease, as either an operating or finance lease, both of which will require lessees to recognize a right-of-use asset and a lease liability for leases with terms of more than 12 months. The right-of-use asset and the lease liability will be determined based upon the present value of cash flows. Finance leases will reflect the financial arrangement by recognizing interest expense on the lease liability separately from the amortization expense of the right-of-use asset. Operating leases will recognize lease expense (with no separate recognition of interest expense) on a straight-line basis over the term of the lease. The accounting by lessors is not significantly changed by the updated guidance. The updated guidance is effective for reporting periods beginning after December 15, 2018, and will require that the earliest comparative period presented include the measurement and recognition of existing leases with an adjustment to equity as if the updated guidance had always been applied. The Company is currently evaluating the impact that the adoption of this guidance will have on its results of operations, financial position and liquidity.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses, which amends the accounting guidance for credit losses on financial instruments. The updated guidance amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. This guidance also applies a new current expected credit loss model for determining credit-related impairments for financial instruments measured at amortized cost. The updated guidance is effective for reporting periods beginning after December 15, 2019. The Company will not be able to determine the impact the adoption of this guidance will have on its results of operations, financial position or liquidity until the year the guidance becomes effective.

All other recently issued but not yet effective accounting and reporting standards are either not applicable to the Company or are not expected to have a material impact on the Company.

(4) Acquisitions

In March 2017, the Company acquired an 89.5% ownership interest for \$72.5 million in a company engaged in providing textile solutions world-wide. The fair value of the assets acquired and liabilities assumed have been estimated based on a preliminary valuation. The fair values of the assets and liabilities will be adjusted, as needed, following completion of the final valuation.

The following table summarizes the initial estimated fair value of net assets acquired and liabilities assumed for the business combination completed in 2017:

<u>(In thousands)</u>	<u>2017</u>	
Cash and cash equivalents	\$	1,154
Real estate, furniture and equipment		6,434
Goodwill and other intangibles assets		62,406
Other assets		9,417
Total assets acquired		79,411
Other liabilities assumed		(1,911)
Noncontrolling interest		(5,000)
Net assets acquired	\$	72,500

In February 2016, the Company acquired an 85% ownership interest for \$42.3 million in a company engaged in the distribution of promotional merchandise.

(5) Consolidated Statement of Comprehensive Income (Loss)

The following tables present the components of the changes in accumulated other comprehensive income (loss) ("AOCI"):

<u>(In thousands)</u>	<u>Unrealized Investment Gains (Losses)</u>	<u>Currency Translation Adjustments</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>
<u>As of and for the three months ended March 31, 2017:</u>			
<u>Changes in AOCI</u>			
Beginning of period	\$ 427,154	\$ (371,586)	\$ 55,568
Other comprehensive income (loss) before reclassifications	19,994	22,735	42,729
Amounts reclassified from AOCI	(28,825)	—	(28,825)
Other comprehensive income (loss)	(8,831)	22,735	13,904
Unrealized investment gain related to non-controlling interest	19	—	19
End of period	<u>\$ 418,342</u>	<u>\$ (348,851)</u>	<u>\$ 69,491</u>
<u>Amounts reclassified from AOCI</u>			
Pre-tax	\$ (44,346) (1)	\$ —	\$ (44,346)
Tax effect	15,521 (2)	—	15,521
After-tax amounts reclassified	<u>\$ (28,825)</u>	<u>\$ —</u>	<u>\$ (28,825)</u>
<u>Other comprehensive income (loss)</u>			
Pre-tax	\$ (9,571)	\$ 22,735	\$ 13,164
Tax effect	740	—	740
Other comprehensive income (loss)	<u>\$ (8,831)</u>	<u>\$ 22,735</u>	<u>\$ 13,904</u>
<u>As of and for the three months ended March 31, 2016:</u>			
<u>Changes in AOCI</u>			
Beginning of period	\$ 180,695	\$ (247,393)	\$ (66,698)
Other comprehensive income (loss) before reclassifications	78,242	(2,047)	76,195
Amounts reclassified from AOCI	(1,387)	—	(1,387)
Other comprehensive income (loss)	76,855	(2,047)	74,808
Unrealized investment gain related to non-controlling interest	14	—	14
End of period	<u>\$ 257,564</u>	<u>\$ (249,440)</u>	<u>\$ 8,124</u>
<u>Amounts reclassified from AOCI</u>			
Pre-tax	\$ (2,134) (1)	\$ —	\$ (2,134)
Tax effect	747 (2)	—	747
After-tax amounts reclassified	<u>\$ (1,387)</u>	<u>\$ —</u>	<u>\$ (1,387)</u>
<u>Other comprehensive income (loss)</u>			
Pre-tax	\$ 114,390	\$ (2,047)	\$ 112,343
Tax effect	(37,535)	—	(37,535)
Other comprehensive income (loss)	<u>\$ 76,855</u>	<u>\$ (2,047)</u>	<u>\$ 74,808</u>

(1) Net realized investment gains in the consolidated statements of income.

(2) Income tax expense in the consolidated statements of income.

(6) Statements of Cash Flow

Interest payments were \$61,782,000 and \$56,968,000 and income taxes paid were \$1,610,000 and \$5,644,000 in the three months ended March 31, 2017 and 2016, respectively.

(7) Investments in Fixed Maturity Securities

At March 31, 2017 and December 31, 2016, investments in fixed maturity securities were as follows:

(In thousands)	Amortized Cost	Gross Unrealized		Fair Value	Carrying Value
March 31, 2017		Gains	Losses		
Held to maturity:					
State and municipal	\$ 73,631	\$ 13,374	\$ —	\$ 87,005	\$ 73,631
Residential mortgage-backed	15,316	1,651	—	16,967	15,316
Total held to maturity	88,947	15,025	—	103,972	88,947
Available for sale:					
U.S. government and government agency	472,112	16,784	(2,220)	486,676	486,676
State and municipal:					
Special revenue	2,759,063	69,226	(15,887)	2,812,402	2,812,402
State general obligation	504,312	18,952	(3,295)	519,969	519,969
Pre-refunded	349,697	20,013	(146)	369,564	369,564
Corporate backed	376,664	8,290	(5,639)	379,315	379,315
Local general obligation	360,941	20,497	(1,602)	379,836	379,836
Total state and municipal	4,350,677	136,978	(26,569)	4,461,086	4,461,086
Mortgage-backed securities:					
Residential (1)	1,067,779	14,081	(13,030)	1,068,830	1,068,830
Commercial	144,583	347	(2,126)	142,804	142,804
Total mortgage-backed securities	1,212,362	14,428	(15,156)	1,211,634	1,211,634
Asset-backed	2,029,812	7,837	(9,480)	2,028,169	2,028,169
Corporate:					
Industrial	2,391,507	70,783	(5,330)	2,456,960	2,456,960
Financial	1,445,707	45,431	(6,881)	1,484,257	1,484,257
Utilities	238,801	10,578	(2,049)	247,330	247,330
Other	55,808	471	(30)	56,249	56,249
Total corporate	4,131,823	127,263	(14,290)	4,244,796	4,244,796
Foreign	864,556	38,692	(1,577)	901,671	901,671
Total available for sale	13,061,342	341,982	(69,292)	13,334,032	13,334,032
Total investments in fixed maturity securities	\$ 13,150,289	\$ 357,007	\$ (69,292)	\$ 13,438,004	\$ 13,422,979

(In thousands)	Amortized Cost	Gross Unrealized		Fair Value	Carrying Value
		Gains	Losses		
December 31, 2016					
Held to maturity:					
State and municipal	\$ 72,582	\$ 12,453	\$ —	\$ 85,035	\$ 72,582
Residential mortgage-backed	15,944	1,693	—	17,637	15,944
Total held to maturity	88,526	14,146	—	102,672	88,526
Available for sale:					
U.S. government and government agency	496,187	20,208	(2,593)	513,802	513,802
State and municipal:					
Special revenue	2,791,211	58,559	(26,315)	2,823,455	2,823,455
State general obligation	524,682	16,964	(5,139)	536,507	536,507
Pre-refunded	356,535	19,181	(165)	375,551	375,551
Corporate backed	410,933	6,172	(6,452)	410,653	410,653
Local general obligation	360,022	15,682	(2,367)	373,337	373,337
Total state and municipal	4,443,383	116,558	(40,438)	4,519,503	4,519,503
Mortgage-backed securities:					
Residential (1)	1,034,301	15,431	(12,950)	1,036,782	1,036,782
Commercial	155,540	304	(2,981)	152,863	152,863
Total mortgage-backed securities	1,189,841	15,735	(15,931)	1,189,645	1,189,645
Asset-backed	1,913,830	5,971	(11,941)	1,907,860	1,907,860
Corporate:					
Industrial	2,315,567	71,007	(7,174)	2,379,400	2,379,400
Financial	1,369,001	39,543	(11,270)	1,397,274	1,397,274
Utilities	229,154	10,801	(2,411)	237,544	237,544
Other	54,073	299	(63)	54,309	54,309
Total corporate	3,967,795	121,650	(20,918)	4,068,527	4,068,527
Foreign	858,773	46,794	(2,762)	902,805	902,805
Total available for sale	12,869,809	326,916	(94,583)	13,102,142	13,102,142
Total investments in fixed maturity securities	\$ 12,958,335	\$ 341,062	\$ (94,583)	\$ 13,204,814	\$ 13,190,668

(1) Gross unrealized losses for residential mortgage-backed securities include \$717,960 and \$818,691 as of March 31, 2017 and December 31, 2016, respectively, related to the non-credit portion of other-than-temporary impairments (“OTTI”) recognized in accumulated other comprehensive income.

The amortized cost and fair value of fixed maturity securities at March 31, 2017, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because certain issuers may have the right to call or prepay obligations.

(In thousands)	Amortized Cost	Fair Value
Due in one year or less	\$ 1,033,358	\$ 1,049,761
Due after one year through five years	5,160,693	5,288,826
Due after five years through ten years	3,273,799	3,386,314
Due after ten years	2,454,761	2,484,502
Mortgage-backed securities	1,227,678	1,228,601
Total	\$ 13,150,289	\$ 13,438,004

At March 31, 2017 and December 31, 2016, there were no investments that exceeded 10% of common stockholders' equity, other than investments in United States government and government agency securities.

(8) Investments in Equity Securities Available for Sale

At March 31, 2017 and December 31, 2016 , investments in equity securities were as follows:

(In thousands)	Cost	Gross Unrealized		Fair Value	Carrying Value
		Gains	Losses		
March 31, 2017					
Common stocks	\$ 90,080	\$ 333,397	\$ (2,148)	\$ 421,329	\$ 421,329
Preferred stocks	121,360	70,795	(2,106)	190,049	190,049
Total	<u>\$ 211,440</u>	<u>\$ 404,192</u>	<u>\$ (4,254)</u>	<u>\$ 611,378</u>	<u>\$ 611,378</u>
December 31, 2016					
Common stocks	\$ 94,998	\$ 351,906	\$ (1,046)	\$ 445,858	\$ 445,858
Preferred stocks	125,589	101,392	(3,639)	223,342	223,342
Total	<u>\$ 220,587</u>	<u>\$ 453,298</u>	<u>\$ (4,685)</u>	<u>\$ 669,200</u>	<u>\$ 669,200</u>

(9) Arbitrage Trading Account

At March 31, 2017 and December 31, 2016 , the fair and carrying values of the arbitrage trading account were \$753 million and \$300 million , respectively. The primary focus of the trading account is merger arbitrage. Merger arbitrage is the business of investing in the securities of publicly held companies which are the targets in announced tender offers and mergers. Arbitrage investing differs from other types of investing in its focus on transactions and events believed likely to bring about a change in value over a relatively short time period (usually four months or less).

The Company uses put options, call options and swap contracts in order to mitigate the impact of potential changes in market conditions on the merger arbitrage trading account. These options and contracts are reported at fair value. As of March 31, 2017 , the fair value of long option contracts outstanding was \$0.6 million (notional amount of \$14 million) and the fair value of short option contracts outstanding was \$0.4 million (notional amount of \$40 million). Other than with respect to the use of these trading account securities, the Company does not make use of derivatives.

(10) Net Investment Income

Net investment income consisted of the following:

(In thousands)	For the Three Months Ended March 31,	
	2017	2016
Investment income earned on:		
Fixed maturity securities, including cash and cash equivalents and loans receivable	\$ 112,346	\$ 108,835
Investment funds	26,649	16,636
Arbitrage trading account	6,360	3,190
Real estate	4,566	2,717
Equity securities available for sale	639	868
Gross investment income	150,560	132,246
Investment expense	(1,702)	(2,113)
Net investment income	<u>\$ 148,858</u>	<u>\$ 130,133</u>

(11) Investment Funds

The Company evaluates whether it is an investor in a variable interest entity (VIE). Such entities do not have sufficient equity at risk to finance their activities without additional subordinated financial support, or the equity investors, as a group, do not have the characteristics of a controlling financial interest (primary beneficiary). The Company determines whether it is the primary beneficiary of an entity subject to consolidation based on a qualitative assessment of the VIE's capital structure,

contractual terms, nature of the VIE's operations and purpose, and the Company's relative exposure to the related risks of the VIE on the date it becomes initially involved in the VIE and on an ongoing basis. The Company is not the primary beneficiary in any of its investment funds, and accordingly, carries its interests in investments funds under the equity method of accounting.

The Company's maximum exposure to loss with respect to these investments is limited to the carrying amount reported on the Company's consolidated balance sheet and its unfunded commitments which were \$362 million as of March 31, 2017.

Investment funds consist of the following:

(In thousands)	Carrying Value as of		Income (Loss) from Investment Funds	
	March 31,	December 31,	For the Three Months Ended March 31,	
	2017	2016	2017	2016
Real estate	\$ 654,501	\$ 641,783	\$ 4,532	\$ 17,037
Energy	96,161	91,448	3,245	(3,924)
Hedge equity	74,779	73,913	866	(2,852)
Other funds	413,117	391,002	18,006	6,375
Total	\$ 1,238,558	\$ 1,198,146	\$ 26,649	\$ 16,636

The Company's share of the earnings or losses of investment funds is generally reported on a one-quarter lag in order to facilitate the timely completion of the Company's consolidated financial statements.

(12) Real Estate

Investment in real estate represents directly owned property held for investment, as follows:

(In thousands)	Carrying Value	
	March 31,	December 31,
	2017	2016
Properties in operation	\$ 448,422	\$ 457,237
Properties under development	789,316	727,744
Total	\$ 1,237,738	\$ 1,184,981

In 2017, properties in operation included a long-term ground lease in Washington, D.C., a hotel in Memphis, Tennessee, an office complex in New York City and office buildings in West Palm Beach and Palm Beach, Florida. Properties in operation are net of accumulated depreciation and amortization of \$16,654,000 and \$14,996,000 as of March 31, 2017 and December 31, 2016, respectively. Related depreciation expense was \$1,648,000 and \$1,668,000 for the three months ended March 31, 2017 and 2016, respectively. Future minimum rental income expected on operating leases relating to properties in operation is \$13,116,000 in 2017, \$26,513,000 in 2018, \$27,839,000 in 2019, \$26,673,000 in 2020, \$26,958,000 in 2021, \$26,618,000 in 2022 and \$449,273,000 thereafter.

Properties under development include an office building in London and a mixed-use project in Washington, D.C.

(13) Loans Receivable

Loans receivable are as follows:

(In thousands)	March 31, 2017	December 31, 2016
Amortized cost (net of valuation allowance):		
Real estate loans	\$ 89,206	\$ 92,415
Commercial loans	14,444	14,383
Total	<u>\$ 103,650</u>	<u>\$ 106,798</u>
Fair value:		
Real estate loans	\$ 89,206	\$ 92,415
Commercial loans	15,947	15,884
Total	<u>\$ 105,153</u>	<u>\$ 108,299</u>
Valuation allowance:		
Specific	\$ 1,200	\$ 1,200
General	2,183	2,197
Total	<u>\$ 3,383</u>	<u>\$ 3,397</u>

	For the Three Months Ended March 31,	
	2017	2016
Increase (decrease) in valuation allowance	\$ (14)	\$ 568

Loans receivable in non-accrual status were \$5.3 million and \$5.4 million as of March 31, 2017 and December 31, 2016, respectively.

The Company monitors the performance of its loans receivable and assesses the ability of the borrower to pay principal and interest based upon loan structure, underlying property values, cash flow and related financial and operating performance of the property and market conditions. Loans receivable with a potential for default are further assessed using discounted cash flow analysis and comparable cost and sales methodologies, if appropriate.

The real estate loans are secured by commercial real estate primarily located in North Carolina and New York. These loans generally earn interest at floating LIBOR-based interest rates and have maturities (inclusive of extension options) through August 2025. The commercial loans are with small business owners who have secured the related financing with the assets of the business. Commercial loans primarily earn interest on a fixed basis and have varying maturities generally not exceeding 10 years.

In evaluating the real estate loans, the Company considers their credit quality indicators, including loan to value ratios, which compare the outstanding loan amount to the estimated value of the property, the borrower's financial condition and performance with respect to loan terms, the position in the capital structure, the overall leverage in the capital structure and other market conditions. Based on these considerations, none of the real estate loans were considered to be impaired at March 31, 2017, and accordingly, the Company determined that a specific valuation allowance was not required.

(14) Realized and Unrealized Investment Gains (Losses)

Realized and unrealized investment gains (losses) are as follows:

(In thousands)	For the Three Months Ended March 31,	
	2017	2016
Realized investment gains (losses):		
Fixed maturity securities:		
Gains	\$ 5,605	\$ 23,064
Losses	(3,965)	(2,940)
Equity securities available for sale	42,707	125
Investment funds	1,267	(460)
Real estate	3,300	5,024
Other	3,434	644
Net realized gains on investments sales	52,348	25,457
Other-than-temporary impairments (1)	—	(18,114)
Net investment gains	52,348	7,343
Income tax expense	(18,322)	(2,570)
After-tax net realized investment gains	<u>\$ 34,026</u>	<u>\$ 4,773</u>
Change in unrealized investment gains (losses) of available for sale securities:		
Fixed maturity securities	\$ 37,984	\$ 92,428
Previously impaired fixed maturity securities	101	(55)
Equity securities available for sale	(48,862)	13,137
Investment funds	1,206	8,880
Total change in unrealized investment gains (losses)	(9,571)	114,390
Income tax benefit (expense)	740	(37,535)
Noncontrolling interests	19	14
After-tax change in unrealized investment gains (losses) of available for sale securities	<u>\$ (8,812)</u>	<u>\$ 76,869</u>

(1) There were no other than temporary impairments (OTTI) for the three months ended March 31, 2017. OTTI for the three months ended March 31, 2016 of \$18.1 million related to common stock.

(15) Securities in an Unrealized Loss Position

The following tables summarize all securities in an unrealized loss position at March 31, 2017 and December 31, 2016 by the length of time those securities have been continuously in an unrealized loss position:

(In thousands)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>March 31, 2017</u>						
U.S. government and government agency	\$ 95,253	\$ 954	\$ 33,071	\$ 1,266	\$ 128,324	\$ 2,220
State and municipal	1,111,978	22,836	150,439	3,733	1,262,417	26,569
Mortgage-backed securities	618,642	10,013	140,791	5,143	759,433	15,156
Asset-backed securities	1,204,310	4,386	95,421	5,094	1,299,731	9,480
Corporate	867,293	8,126	61,732	6,164	929,025	14,290
Foreign government	115,542	1,320	4,495	257	120,037	1,577
Fixed maturity securities	4,013,018	47,635	485,949	21,657	4,498,967	69,292
Common stocks	18,875	1,173	8,803	975	27,678	2,148
Preferred stocks	—	—	23,567	2,106	23,567	2,106
Equity securities available for sale	18,875	1,173	32,370	3,081	51,245	4,254
Total	\$ 4,031,893	\$ 48,808	\$ 518,319	\$ 24,738	\$ 4,550,212	\$ 73,546

December 31, 2016

U.S. government and government agency	\$ 112,709	\$ 1,252	\$ 35,450	\$ 1,341	\$ 148,159	\$ 2,593
State and municipal	1,562,614	35,553	133,034	4,885	1,695,648	40,438
Mortgage-backed securities	625,903	11,103	109,066	4,828	734,969	15,931
Asset-backed securities	1,010,836	5,340	201,693	6,601	1,212,529	11,941
Corporate	1,035,245	13,448	65,147	7,470	1,100,392	20,918
Foreign government	213,246	1,985	24,820	777	238,066	2,762
Fixed maturity securities	4,560,553	68,681	569,210	25,902	5,129,763	94,583
Common stocks	336	22	8,755	1,024	9,091	1,046
Preferred stocks	—	—	22,034	3,639	22,034	3,639
Equity securities available for sale	336	22	30,789	4,663	31,125	4,685
Total	\$ 4,560,889	\$ 68,703	\$ 599,999	\$ 30,565	\$ 5,160,888	\$ 99,268

Fixed Maturity Securities – A summary of the Company's non-investment grade fixed maturity securities that were in an unrealized loss position at March 31, 2017 is presented in the table below:

(In thousands)	Number of Securities	Aggregate Fair Value	Gross Unrealized Loss
State and municipal	1	\$ 5,136	\$ 3,725
Mortgage-backed securities	9	19,647	924
Corporate	4	19,990	741
Foreign government	11	51,901	681
Asset-backed securities	6	9,615	173
Total	31	\$ 106,289	\$ 6,244

For OTTI of fixed maturity securities that management does not intend to sell or, to be required to sell, the portion of the decline in value that is considered to be due to credit factors is recognized in earnings, and the portion of the decline in value that is considered to be due to non-credit factors is recognized in other comprehensive income.

The Company has evaluated its fixed maturity securities in an unrealized loss position and believes the unrealized losses are due primarily to temporary market and sector-related factors rather than to issuer-specific factors. None of these securities are delinquent or in default under financial covenants. Based on its assessment of these issuers, the Company expects them to continue to meet their contractual payment obligations as they become due and does not consider any of these securities to be OTTI.

Preferred Stocks – At March 31, 2017, there was one preferred stock in an unrealized loss position, with a fair value of \$23.6 million and a gross unrealized loss of \$2.1 million. Based upon management's view of the underlying value of this security, the Company does not consider the security to be OTTI. For three months ended March 31, 2017 and 2016, there were no OTTI for preferred stocks.

Common Stocks – At March 31, 2017, there were three common stocks in an unrealized loss position, with an aggregate fair value of \$27.7 million and a gross unrealized loss of \$2.1 million. Based on management's view of the underlying securities, the Company does not consider these equity securities to be OTTI. There was no OTTI of common stocks for the three months ended March 31, 2017. For the three months ended March 31, 2016, OTTI for common stocks was \$ 18.1 million.

(16) Fair Value Measurements

The Company's fixed maturity and equity securities classified as available for sale and its trading account securities are carried at fair value. Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." The Company utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels, as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Quoted prices for similar assets or valuations based on inputs that are observable.

Level 3 - Estimates of fair value based on internal pricing methodologies using unobservable inputs. Unobservable inputs are only used to measure fair value to the extent that observable inputs are not available.

Substantially, all of the Company's fixed maturity securities were priced by independent pricing services. The prices provided by the independent pricing services are estimated based on observable market data in active markets utilizing pricing models and processes, which may include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, sector groupings, matrix pricing and reference data. The pricing services may prioritize inputs differently on any given day for any security based on market conditions, and not all inputs are available for each security evaluation on any given day. The pricing services used by the Company have indicated that they will only produce an estimate of fair value if objectively verifiable information is available. The determination of whether markets are active or inactive is based upon the volume and level of activity for a particular asset class. The Company reviews the prices provided by pricing services for reasonableness and periodically performs independent price tests of a sample of securities to ensure proper valuation.

If prices from independent pricing services are not available for fixed maturity securities, the Company estimates the fair value. For Level 2 securities, the Company utilizes pricing models and processes which may include benchmark yields, sector groupings, matrix pricing, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, bids, offers and reference data. Where broker quotes are used, the Company generally requests two or more quotes and sets a price within the range of quotes received based on its assessment of the credibility of the quote and its own evaluation of the security. The Company generally does not adjust quotes received from brokers. For securities traded only in private negotiations, the Company determines fair value based primarily on the cost of such securities, which is adjusted to reflect prices of recent placements of securities of the same issuer, financial projections, credit quality and business developments of the issuer and other relevant information.

For Level 3 securities, the Company generally uses a discounted cash flow model to estimate the fair value of fixed maturity securities. The cash flow models are based upon assumptions as to prevailing credit spreads, interest rate and interest rate volatility, time to maturity and subordination levels. Projected cash flows are discounted at rates that are adjusted to reflect illiquidity, where appropriate.

The following tables present the assets and liabilities measured at fair value on a recurring basis as of March 31, 2017 and December 31, 2016 by level:

<u>(In thousands)</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>March 31, 2017</u>				
Assets:				
Fixed maturity securities available for sale:				
U.S. government and government agency	\$ 486,676	\$ —	\$ 486,676	\$ —
State and municipal	4,461,086	—	4,461,086	—
Mortgage-backed securities	1,211,634	—	1,211,634	—
Asset-backed securities	2,028,169	—	2,027,990	179
Corporate	4,244,796	—	4,244,796	—
Foreign government	901,671	—	901,671	—
Total fixed maturity securities available for sale	13,334,032	—	13,333,853	179
Equity securities available for sale:				
Common stocks	421,329	403,855	8,671	8,803
Preferred stocks	190,049	—	186,387	3,662
Total equity securities available for sale	611,378	403,855	195,058	12,465
Arbitrage trading account	753,278	256,752	496,465	61
Total	\$ 14,698,688	\$ 660,607	\$ 14,025,376	\$ 12,705
Liabilities:				
Trading account securities sold but not yet purchased	\$ 51,348	\$ 51,348	\$ —	\$ —

December 31, 2016

Assets:				
Fixed maturity securities available for sale:				
U.S. government and government agency	\$ 513,802	\$ —	\$ 513,802	\$ —
State and municipal	4,519,503	—	4,519,503	—
Mortgage-backed securities	1,189,645	—	1,189,645	—
Asset-backed securities	1,907,860	—	1,907,677	183
Corporate	4,068,527	—	4,068,527	—
Foreign government	902,805	—	902,805	—
Total fixed maturity securities available for sale	13,102,142	—	13,101,959	183
Equity securities available for sale:				
Common stocks	445,858	429,647	7,457	8,754
Preferred stocks	223,342	—	219,680	3,662
Total equity securities available for sale	669,200	429,647	227,137	12,416
Arbitrage trading account	299,999	224,623	75,376	—
Total	\$ 14,071,341	\$ 654,270	\$ 13,404,472	\$ 12,599
Liabilities:				
Trading account securities sold but not yet purchased	\$ 51,179	\$ 51,089	\$ 90	\$ —

There were no significant transfers between Levels 1 and 2 during the three months ended March 31, 2017 or during the year ended December 31, 2016 .

The following tables summarize changes in Level 3 assets and liabilities for the three months ended March 31, 2017 and for the year ended December 31, 2016 :

(In thousands)	Gains (Losses) Included in:								
	Beginning Balance	Earnings (Losses)	Other Comprehensive Income (Loss)	Impairments	Purchases	(Sales)	Paydowns / Maturities	Transfers In / (Out)	Ending Balance
Three Months Ended March 31, 2017:									
Assets:									
Fixed maturities securities available for sale:									
Asset-backed securities	\$ 183	\$ 1	\$ 10	\$ —	\$ —	\$ (15)	\$ —	\$ —	\$ 179
Corporate	—	—	—	—	—	—	—	—	—
Total	183	1	10	—	—	(15)	—	—	179
Equity securities available for sale:									
Common stocks	8,754	—	49	—	—	—	—	—	8,803
Preferred stocks	3,662	—	—	—	—	—	—	—	3,662
Total	12,416	—	49	—	—	—	—	—	12,465
Arbitrage trading account	—	—	61	—	—	—	—	—	61
Total	\$ 12,599	\$ 1	\$ 120	\$ —	\$ —	\$ (15)	\$ —	\$ —	\$ 12,705

Year ended December 31, 2016:									
Assets:									
Fixed maturities securities available for sale:									
Asset-backed securities	\$ 199	\$ 3	\$ 16	\$ —	\$ —	\$ —	\$ (35)	\$ —	\$ 183
Corporate	154	177	—	—	—	(331)	—	—	—
Total	353	180	16	—	—	(331)	(35)	—	183
Equity securities available for sale:									
Common stocks	7,829	—	160	—	765	—	—	—	8,754
Preferred stocks	3,624	38	—	—	—	—	—	—	3,662
Total	11,453	38	160	—	765	—	—	—	12,416
Arbitrage trading account	176	(176)	—	—	—	—	—	—	—
Total	\$ 11,982	\$ 42	\$ 176	\$ —	\$ 765	\$ (331)	\$ (35)	\$ —	\$ 12,599

During the three months ended March 31, 2017 and the year ended December 31, 2016, there were no transfers out of Level 3.

(17) Reserves for Losses and Loss Expenses

Loss reserves included in the Company's financial statements represent management's best estimates based upon an actuarially derived point estimate and other considerations. The Company uses a variety of actuarial techniques and methods to derive an actuarial point estimate for each operating unit. These methods include paid loss development, incurred loss development, paid and incurred Bornhuetter-Ferguson methods and frequency and severity methods. In circumstances where one actuarial method is considered more credible than the others, that method is used to set the point estimate. The actuarial point estimate may also be based on a judgmental weighting of estimates produced from each of the methods considered. Industry loss experience is used to supplement the Company's own data in selecting "tail factors" in areas where the Company's own data is limited. The actuarial data is analyzed by line of business, coverage and accident or policy year, as appropriate, for each operating unit.

The establishment of the actuarially derived loss reserve point estimate also includes consideration of qualitative factors that may affect the ultimate losses. These qualitative considerations include, among others, the impact of re-underwriting initiatives, changes in the mix of business, changes in distribution sources and changes in policy terms and conditions.

The key assumptions used to arrive at the best estimate of loss reserves are the expected loss ratios, rate of loss cost inflation, and reported and paid loss emergence patterns. Expected loss ratios represent management's expectation of losses at the time the business is priced and written, before any actual claims experience has emerged. This expectation is a significant determinant of the estimate of loss reserves for recently written business where there is little paid or incurred loss data to consider. Expected loss ratios are generally derived from historical loss ratios adjusted for the impact of rate changes, loss cost trends and known changes in the type of risks underwritten. Expected loss ratios are estimated for each key line of business within each operating unit. Expected loss cost inflation is particularly important for the long-tail lines, such as excess casualty, and claims with a high medical component, such as workers' compensation. Reported and paid loss emergence patterns are used to project current reported or paid loss amounts to their ultimate settlement value. Loss development factors are based on the historical emergence patterns of paid and incurred losses, and are derived from the Company's own experience and industry data. The paid loss emergence pattern is also significant to excess and assumed workers' compensation reserves because those reserves are discounted to their estimated present value based upon such estimated payout patterns.

Loss frequency and severity are measures of loss activity that are considered in determining the key assumptions described in our discussion of loss and loss expense reserves, including expected loss ratios, rate of loss cost inflation and reported and paid loss emergence patterns. Loss frequency is a measure of the number of claims per unit of insured exposure, and loss severity is a measure of the average size of claims. Factors affecting loss frequency include the effectiveness of loss controls and safety programs and changes in economic activity or weather patterns. Factors affecting loss severity include changes in policy limits, retentions, rate of inflation and judicial interpretations.

Another factor affecting estimates of loss frequency and severity is the loss reporting lag, which is the period of time between the occurrence of a loss and the date the loss is reported to the Company. The length of the loss reporting lag affects our ability to accurately predict loss frequency (loss frequencies are more predictable for lines with short reporting lags) as well as the amount of reserves needed for incurred but not reported losses (less IBNR is required for lines with short reporting lags). As a result, loss reserves for lines with short reporting lags are likely to have less variation from initial loss estimates. For lines with short reporting lags, which include commercial automobile, primary workers' compensation, other liability (claims-made) and property business, the key assumption is the loss emergence pattern used to project ultimate loss estimates from known losses paid or reported to date. For lines of business with long reporting lags, which include other liability (occurrence), products liability, excess workers' compensation and liability reinsurance, the key assumption is the expected loss ratio since there is often little paid or incurred loss data to consider. Historically, the Company has experienced less variation from its initial loss estimates for lines of businesses with short reporting lags than for lines of business with long reporting lags.

The key assumptions used in calculating the most recent estimate of the loss reserves are reviewed each quarter and adjusted, to the extent necessary, to reflect the latest reported loss data, current trends and other factors observed.

The table below provides a reconciliation of the beginning and ending reserve balances:

(In thousands)	March 31,	
	2017	2016
Net reserves at beginning of year	\$ 9,590,265	\$ 9,244,872
Net provision for losses and loss expenses:		
Claims occurring during the current year (1)	958,684	916,649
Increase (decrease) in estimates for claims occurring in prior years (2) (3)	8,727	(5,601)
Loss reserve discount accretion	12,192	11,273
Total	979,603	922,321
Net payments for claims:		
Current year	97,461	259,633
Prior year	773,571	555,884
Total	871,032	815,517
Foreign currency translation	23,204	20,760
Net reserves at end of period	9,722,040	9,372,436
Ceded reserve at end of period	1,502,284	1,415,906
Gross reserves at end of period	\$ 11,224,324	\$ 10,788,342

(1) Claims occurring during the current year are net of loss reserve discounts of \$ 5,761,000 and \$ 19,072,000 in 2017 and 2016, respectively.

(2) The increase in estimates for claims occurring in prior years is net of loss reserve discount. On an undiscounted basis, the estimates for claims occurring in prior years increased by \$ 4,841,000 and decreased by \$ 23,559,000 in 2017 and 2016, respectively.

(3) For certain retrospectively rated insurance policies and reinsurance agreements, reserve development is offset by additional or return premiums. Favorable development, net of additional and return premiums, was \$ 2 million and \$ 12 million as of March 31, 2017 and 2016, respectively.

During the three months ended March 31, 2017, favorable prior year development (net of additional and return premiums) of \$2.4 million included \$26.2 million of favorable development for the Insurance segment, largely offset by \$23.8 million of adverse development for the Reinsurance segment. The favorable development for the Insurance segment was primarily attributable to workers' compensation business, including excess workers' compensation. The favorable workers' compensation development was spread across many accident years, including prior to 2008, but was most significant in accident years 2014 and 2015. The favorable workers' compensation development reflects a continuation of the benign loss cost trends experienced during 2016, particularly the favorable claim frequency trends (i.e., number of reported claims per unit of exposure). The adverse development for the Reinsurance segment was almost entirely due to reserve strengthening associated with claims impacted by the change in the Ogden discount rate in the UK. The Ogden rate is the discount rate used to calculate lump-sum bodily injury payouts in the UK and was recently reduced by the UK Ministry of Justice from +2.5% to -0.75%. The adverse development mostly related to UK motor bodily injury claims which we reinsured on an excess of loss basis in accident years 2012 through 2016.

During the three months ended March 31, 2016, favorable prior year development (net of additional and return premiums) of \$ 12.3 million included \$ 11.6 million for the Insurance segment and \$ 0.7 million for the Reinsurance segment. The favorable development for the Insurance segment was primarily attributable to workers' compensation business from accident years 2010 through 2015, partially offset by adverse development for commercial auto liability from accident years 2011 through 2014. The favorable development for workers' compensation reflects favorable claim frequency trends (i.e., number of reported claims per unit of exposure), while the unfavorable development for commercial auto liability was driven by higher large loss activity than expected.

(18) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments:

(In thousands)	March 31, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Fixed maturity securities	\$ 13,422,979	\$ 13,438,004	\$ 13,190,668	\$ 13,204,814
Equity securities available for sale	611,378	611,378	669,200	669,200
Arbitrage trading account	753,278	753,278	299,999	299,999
Loans receivable	103,650	105,153	106,798	108,299
Cash and cash equivalents	608,393	608,393	795,285	795,285
Trading account receivables from brokers and clearing organizations	29,131	29,131	484,593	484,593
Due from broker	3,749	3,749	—	—
Liabilities:				
Due to broker	—	—	19,416	19,416
Trading account securities sold but not yet purchased	51,348	51,348	51,179	51,179
Subordinated debentures	727,777	750,104	727,630	687,504
Senior notes and other debt	1,759,494	1,927,392	1,760,595	1,914,727

The estimated fair values of the Company's fixed maturity securities, equity securities available for sale and arbitrage trading account securities are based on various valuation techniques that rely on fair value measurements as described in Note 16 above. The fair value of loans receivable are estimated by using current institutional purchaser yield requirements for loans with similar credit characteristics, which is considered a Level 2 input. The fair value of the senior notes and other debt and the subordinated debentures is based on spreads for similar securities, which is considered a Level 2 input.

(19) Reinsurance

The following is a summary of reinsurance financial information:

(In thousands)	For the Three Months Ended March 31,	
	2017	2016
Written premiums:		
Direct	\$ 1,721,062	\$ 1,709,129
Assumed	215,145	246,568
Ceded	(289,369)	(291,975)
Total net premiums written	\$ 1,646,838	\$ 1,663,722
Earned premiums:		
Direct	\$ 1,613,364	\$ 1,568,067
Assumed	208,626	218,367
Ceded	(251,948)	(259,099)
Total net premiums earned	\$ 1,570,042	\$ 1,527,335
Ceded losses and loss expenses incurred	\$ 35,192	\$ 126,929
Ceded commissions earned	\$ 56,550	\$ 47,973

The Company reinsures a portion of its insurance exposures in order to reduce its net liability on individual risks and catastrophe losses. The Company also cedes premiums to state assigned risk plans and captive insurance companies. Estimated amounts due from reinsurers are reported net of reserves for uncollectible reinsurance of \$1 million as of March 31, 2017 and December 31, 2016.

(20) Restricted Stock Units

Pursuant to its stock incentive plan, the Company may issue restricted stock units (RSUs) to employees of the Company and its subsidiaries. The RSUs generally vest three to five years from the award date and are subject to other vesting and forfeiture provisions contained in the award agreement. RSUs are expensed pro-ratably over the vesting period. RSU expenses were \$11 million and \$9 million for the three months ended March 31, 2017 and 2016, respectively. A summary of RSUs issued in the three months ended March 31, 2017 and 2016 follows:

(\$ in thousands)	Units	Fair Value
2017	1,853	\$ 129
2016	5,580	\$ 286

(21) Litigation and Contingent Liabilities

In the ordinary course of business, the Company is subject to disputes, litigation and arbitration arising from its insurance and reinsurance businesses. These matters are generally related to insurance and reinsurance claims and are considered in the establishment of loss and loss expense reserves. In addition, the Company may also become involved in legal actions which seek extra-contractual damages, punitive damages or penalties, including claims alleging bad faith in handling of insurance claims. The Company expects its ultimate liability with respect to such matters will not be material to its financial condition. However, adverse outcomes on such matters are possible, from time to time, and could be material to the Company's results of operations in any particular financial reporting period.

(22) Business Segments

The Company's reportable segments include the following two business segments, plus a corporate segment:

- Insurance - primarily commercial insurance business, including excess and surplus lines and admitted lines in the United States, United Kingdom, Continental Europe, South America, Canada, Mexico, Scandinavia, Asia and Australia; and
- Reinsurance - reinsurance business on a facultative and treaty basis, primarily in the United States, United Kingdom, Continental Europe, Australia, the Asia-Pacific Region and South Africa.

Commencing with the first quarter of 2017, the Company reclassified two businesses from the Insurance segment to the Reinsurance segment. Reclassifications have been made to the Company's 2016 financial information to conform with this presentation.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Income tax expense and benefits are calculated based upon the Company's overall effective tax rate.

Summary financial information about the Company's reporting segments is presented in the following tables. Income (loss) before income taxes by segment includes allocated investment income. Identifiable assets by segment are those assets used in or allocated to the operation of each segment.

	Revenues					Net Income (Loss) to Common Stockholders
(In thousands)	Earned Premiums	Investment Income	Other	Total (1)	Pre-Tax Income (Loss)	
Three months ended March 31, 2017						
Insurance	\$ 1,413,170	\$ 111,909	\$ 18,287	\$ 1,543,366	\$ 199,994	\$ 134,095
Reinsurance	156,872	24,778	—	181,650	4,594	3,099
Corporate, other and eliminations (2)	—	12,171	80,883	93,054	(72,639)	(47,773)
Net investment gains	—	—	52,348	52,348	52,348	34,026
Total	\$ 1,570,042	\$ 148,858	\$ 151,518	\$ 1,870,418	\$ 184,297	\$ 123,447
Three months ended March 31, 2016						
Insurance	\$ 1,366,605	\$ 99,860	\$ 26,793	\$ 1,493,258	\$ 199,651	\$ 134,778
Reinsurance	160,730	23,770	—	184,500	28,061	19,609
Corporate, other and eliminations (2)	—	6,503	115,607	122,110	(60,379)	(39,649)
Net investment gains	—	—	7,343	7,343	7,343	4,773
Total	\$ 1,527,335	\$ 130,133	\$ 149,743	\$ 1,807,211	\$ 174,676	\$ 119,511

(1) Revenues for Insurance includes \$184 million and \$200 million for the three months ended March 31, 2017 and 2016, respectively, from foreign countries. Revenues for Reinsurance includes \$49 million and \$54 million for the three months ended March 31, 2017 and 2016, respectively, from foreign countries.

(2) Corporate, other and eliminations represent corporate revenues and expenses that are not allocated to business segments.

(In thousands)	Identifiable Assets	
	March 31, 2017	December 31, 2016
Insurance	\$ 18,932,563	\$ 19,137,758
Reinsurance	2,750,876	2,524,338
Corporate, other and eliminations	1,863,975	1,687,980
Consolidated	\$ 23,547,414	\$ 23,350,076

Net premiums earned by major line of business are as follows:

(In thousands)	For the Three Months Ended March 31,	
	2017	2016
Insurance:		
Other liability	\$ 451,830	\$ 413,528
Workers' compensation	361,136	343,581
Short-tail lines (1)	309,234	327,076
Commercial automobile	158,126	156,817
Professional liability	132,844	125,603
Total Insurance	<u>1,413,170</u>	<u>1,366,605</u>
Reinsurance:		
Casualty	94,739	104,305
Property	62,133	56,425
Total Reinsurance	<u>156,872</u>	<u>160,730</u>
Total	<u>\$ 1,570,042</u>	<u>\$ 1,527,335</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.

SAFE HARBOR STATEMENT

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 2017 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 expected 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 2017 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. Our future financial performance is dependent upon factors discussed in our Annual Report on Form 10-K, elsewhere in this Form 10-Q and our other SEC filings. Forward-looking statements speak only as of the date on which they are made. Except to the extent required by applicable laws, the Company does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

W. R. Berkley Corporation is an insurance holding company that is among the largest commercial lines writers in the United States and operates in two business segments: Insurance and Reinsurance. Our decentralized structure provides us with the flexibility to respond quickly and efficiently to local or specific market conditions and to pursue specialty business niches. It also allows us to be closer to our customers in order to better understand their individual needs and risk characteristics. While providing our business units with certain operating autonomy, our structure allows us to capitalize on the benefits of economies of scale through centralized capital, investment, reinsurance, enterprise risk management, and actuarial, financial and corporate legal staff support. The Company's primary sources of revenues and earnings are its insurance operations and its investments.

An important part of our strategy is to form new operating units to capitalize on various business opportunities. Over the years, the Company has formed numerous operating units that are focused on important parts of the economy in the U.S., including healthcare, cyber security, energy and agriculture, and on growing international markets, including Scandinavia, Australia, the Asia-Pacific region, South America and Mexico.

The profitability of the Company's insurance business is affected primarily by the adequacy of premium rates. The ultimate adequacy of premium rates is not known with certainty at the time an insurance policy is issued because premiums are determined before claims are reported. The ultimate adequacy of premium rates is affected mainly by the severity and frequency of claims, which are influenced by many factors, including natural and other disasters, regulatory measures and court decisions that define and change the extent of coverage and the effects of economic inflation on the amount of compensation for injuries or losses. General insurance prices are also influenced by available insurance capacity, i.e., the level of statutory capital and surplus employed in the industry, and the industry's willingness to deploy that capital.

Although insurance prices have generally increased for most lines of business since 2011, the rate of increase has declined in more recent years. Loss costs have also increased over that period of time. With the low level of interest rates available, current price levels for certain lines of business remain below the prices required for the Company to achieve its long-term return objectives. Part of the Company's strategy is to selectively reduce its business in areas where it believes returns are not adequate. Price changes are reflected in the Company's results over time as premiums are earned.

The Company's profitability is also affected by its investment income and investment gains. The Company's invested assets are invested principally in fixed maturity securities. The return on fixed maturity securities is affected primarily by general interest rates, as well as the credit quality and duration of the securities. Returns available on fixed maturity investments are at historically low levels.

The Company invests in equity securities, merger arbitrage securities, investment funds (including energy related funds), private equity, loans and real estate related assets. The Company's investments in investment funds and its other alternative investments have experienced, and the Company expects to continue to experience, greater fluctuations in investment income.

Commencing with the first quarter of 2017, the Company reclassified two businesses from the Insurance segment to the Reinsurance segment. Reclassifications have been made to the Company's 2016 financial information to conform with this presentation.

Critical Accounting Estimates

The following presents a discussion of accounting policies and estimates relating to reserves for losses and loss expenses, assumed premiums and other-than-temporary impairments of investments. Management believes these policies and estimates are the most critical to its operations and require the most difficult, subjective and complex judgments.

Reserves for Losses and Loss Expenses. To recognize liabilities for unpaid losses, either known or unknown, insurers establish reserves, which is a balance sheet account representing estimates of future amounts needed to pay claims and related expenses with respect to insured events which have occurred. Estimates and assumptions relating to reserves for losses and loss expenses are based on complex and subjective judgments, often including the interplay of specific uncertainties with related accounting and actuarial measurements. Such estimates are also susceptible to change as significant periods of time may elapse between the occurrence of an insured loss, the report of the loss to the insurer, the ultimate determination of the cost of the loss and the insurer's payment of that loss.

In general, when a claim is reported, claims personnel establish a "case reserve" for the estimated amount of the ultimate payment based upon known information about the claim at that time. The estimate represents an informed judgment based on general reserving practices and reflects the experience and knowledge of the claims personnel regarding the nature and value of the specific type of claim. Reserves are also established on an aggregate basis to provide for losses incurred but

not reported (“IBNR”) to the insurer, potential inadequacy of case reserves and the estimated expenses of settling claims, including legal and other fees and general expenses of administrating the claims adjustment process. Reserves are established based upon the then current legal interpretation of coverage provided.

In examining reserve adequacy, several factors are considered in estimating the ultimate economic value of losses. These factors include, among other things, historical data, legal developments, changes in social attitudes and economic conditions, including the effects of inflation. The actuarial process relies on the basic assumption that past experience, adjusted judgmentally for the effects of current developments and anticipated trends, is an appropriate basis for predicting future outcomes. Reserve amounts are based on management’s informed estimates and judgments using currently available data. As additional experience and other data become available and are reviewed, these estimates and judgments may be revised. This may result in reserve increases or decreases that would be reflected in our results in periods in which such estimates and assumptions are changed.

Reserves do not represent an exact calculation of liability. Rather, reserves represent an estimate of what management expects the ultimate settlement and claim administration will cost. While the methods for establishing reserves are well tested over time, some of the major assumptions about anticipated loss emergence patterns are subject to uncertainty. These estimates, which generally involve actuarial projections, are based on management’s assessment of facts and circumstances then known, as well as estimates of trends in claims severity and frequency, judicial theories of liability and other factors, including the actions of third parties which are beyond the Company’s control. These variables are affected by external and internal events, such as inflation and economic volatility, judicial and litigation trends, reinsurance coverage, legislative changes and claim handling and reserving practices, which make it more difficult to accurately predict claim costs. The inherent uncertainties of estimating reserves are greater for certain types of liabilities where long periods of time elapse before a definitive determination of liability is made. Because setting reserves is inherently uncertain, the Company cannot provide assurance that its current reserves will prove adequate in light of subsequent events.

Loss reserves included in the Company’s financial statements represent management’s best estimates based upon an actuarially derived point estimate and other considerations. The Company uses a variety of actuarial techniques and methods to derive an actuarial point estimate for each operating unit. These methods include paid loss development, incurred loss development, paid and incurred Bornhuetter-Ferguson methods and frequency and severity methods. In circumstances where one actuarial method is considered more credible than the others, that method is used to set the point estimate. For example, the paid loss and incurred loss development methods rely on historical paid and incurred loss data. For new lines of business, where there is insufficient history of paid and incurred claims data, or in circumstances where there have been significant changes in claim practices, the paid and incurred loss development methods would be less credible than other actuarial methods. The actuarial point estimate may also be based on a judgmental weighting of estimates produced from each of the methods considered. Industry loss experience is used to supplement the Company’s own data in selecting “tail factors” and in areas where the Company’s own data is limited. The actuarial data is analyzed by line of business, coverage and accident or policy year, as appropriate, for each operating unit.

The establishment of the actuarially derived loss reserve point estimate also includes consideration of qualitative factors that may affect the ultimate losses. These qualitative considerations include, among others, the impact of re-underwriting initiatives, changes in the mix of business, changes in distribution sources and changes in policy terms and conditions. Examples of changes in terms and conditions that can have a significant impact on reserve levels are the use of aggregate policy limits, the expansion of coverage exclusions, whether or not defense costs are within policy limits, and changes in deductibles and attachment points.

The key assumptions used to arrive at the best estimate of loss reserves are the expected loss ratios, rate of loss cost inflation, and reported and paid loss emergence patterns. Expected loss ratios represent management’s expectation of losses at the time the business is written, before any actual claims experience has emerged. This expectation is a significant determinant of the estimate of loss reserves for recently written business where there is little paid or incurred loss data to consider. Expected loss ratios are generally derived from historical loss ratios adjusted for the impact of rate changes, loss cost trends and known changes in the type of risks underwritten. Expected loss ratios are estimated for each key line of business within each operating unit. Expected loss cost inflation is particularly important for the long-tail lines, such as excess casualty, and claims with a high medical component, such as workers’ compensation. Reported and paid loss emergence patterns are used to project current reported or paid loss amounts to their ultimate settlement value. Loss development factors are based on the historical emergence patterns of paid and incurred losses, and are derived from the Company’s own experience and industry data. The paid loss emergence pattern is also significant to excess and assumed workers’ compensation reserves because those reserves are discounted to their estimated present value based upon such estimated payout patterns. Management believes the estimates and assumptions it makes in the reserving process provide the best estimate of the ultimate cost of settling claims and related expenses with respect to insured events which have occurred; however, different assumptions and variables could lead to significantly different reserve estimates.

Loss frequency and severity are measures of loss activity that are considered in determining the key assumptions described in our discussion of loss and loss expense reserves, including expected loss ratios, rate of loss cost inflation and reported and paid loss emergence patterns. Loss frequency is a measure of the number of claims per unit of insured exposure, and loss severity is a measure of the average size of claims. Factors affecting loss frequency include the effectiveness of loss controls and safety programs and changes in economic activity or weather patterns. Factors affecting loss severity include changes in policy limits, retentions, rate of inflation and judicial interpretations.

Another factor affecting estimates of loss frequency and severity is the loss reporting lag, which is the period of time between the occurrence of a loss and the date the loss is reported to the Company. The length of the loss reporting lag affects our ability to accurately predict loss frequency (loss frequencies are more predictable for lines with short reporting lags) as well as the amount of reserves needed for incurred but not reported losses (less IBNR is required for lines with short reporting lags). As a result, loss reserves for lines with short reporting lags are likely to have less variation from initial loss estimates. For lines with short reporting lags, which include commercial automobile, primary workers' compensation, other liability (claims-made) and property business, the key assumption is the loss emergence pattern used to project ultimate loss estimates from known losses paid or reported to date. For lines of business with long reporting lags, which include other liability (occurrence), products liability, excess workers' compensation and liability reinsurance, the key assumption is the expected loss ratio since there is often little paid or incurred loss data to consider. Historically, the Company has experienced less variation from its initial loss estimates for lines of businesses with short reporting lags than for lines of business with long reporting lags.

The key assumptions used in calculating the most recent estimate of the loss reserves are reviewed each quarter and adjusted, to the extent necessary, to reflect the latest reported loss data, current trends and other factors observed. If the actual level of loss frequency and severity are higher or lower than expected, the ultimate losses will be different than management's estimate. The following table reflects the impact of changes (which could be favorable or unfavorable) in frequency and severity, relative to our assumptions, on our loss estimate for claims occurring in 2016:

(In thousands) Severity (+/-)	Frequency (+/-)		
	1%	5%	10%
1%	\$ 76,915	\$ 231,511	\$ 424,755
5%	231,511	392,229	593,126
10%	424,755	593,126	803,590

Our net reserves for losses and loss expenses of approximately \$9.7 billion as of March 31, 2017 relate to multiple accident years. Therefore, the impact of changes in frequency or severity for more than one accident year could be higher or lower than the amounts reflected above. The impact of such changes would likely be manifested gradually over the course of many years, as the magnitude of the changes became evident.

Approximately \$1.7 billion, or 17%, of the Company's net loss reserves as of March 31, 2017 relate to the Reinsurance segment. There is a higher degree of uncertainty and greater variability regarding estimates of assumed loss reserves because those estimates are based, in part, upon information received from ceding companies. If information received from ceding companies is not timely or correct, the Company's estimate of ultimate losses may not be accurate. Furthermore, due to delayed reporting of claim information by ceding companies, the claim settlement tail for assumed reinsurance is extended. Management considers the impact of delayed reporting in its selection of assumed loss development factors.

Information received from ceding companies is used to set initial expected loss ratios, to establish case reserves and to estimate reserves for incurred but not reported losses on assumed reinsurance business. This information, which is generally provided through reinsurance intermediaries, is gathered through the underwriting process and from periodic claim reports and other correspondence with ceding companies. The Company performs underwriting and claim audits of selected ceding companies to determine the accuracy and completeness of information provided to the Company. The information received from the ceding companies is supplemented by the Company's own loss development experience with similar lines of business as well as industry loss trends and loss development benchmarks.

Following is a summary of the Company's reserves for losses and loss expenses by business segment:

(In thousands)	March 31, 2017	December 31, 2016
Insurance	\$ 8,028,555	\$ 7,913,074
Reinsurance	1,693,485	1,677,191
Net reserves for losses and loss expenses	9,722,040	9,590,265
Ceded reserves for losses and loss expenses	1,502,284	1,606,930
Gross reserves for losses and loss expenses	\$ 11,224,324	\$ 11,197,195

Following is a summary of the Company's net reserves for losses and loss expenses by major line of business:

(In thousands)	Reported Case Reserves	Incurred But Not Reported	Total
March 31, 2017			
Other liability	\$ 1,159,857	\$ 2,106,241	\$ 3,266,098
Workers' compensation (1)	1,471,650	1,246,543	2,718,193
Professional liability	284,185	554,475	838,660
Commercial automobile	342,220	257,910	600,130
Short-tail lines (2)	320,151	285,323	605,474
Total Insurance	3,578,063	4,450,492	8,028,555
Reinsurance (1)	846,575	846,910	1,693,485
Total	\$ 4,424,638	\$ 5,297,402	\$ 9,722,040
December 31, 2016			
Other liability	\$ 1,159,082	\$ 2,061,966	\$ 3,221,048
Workers' compensation (1)	1,453,318	1,228,774	2,682,092
Professional liability	264,188	542,539	806,727
Commercial automobile	344,143	252,978	597,121
Short-tail lines (2)	322,872	283,214	606,086
Total Insurance	3,543,603	4,369,471	7,913,074
Reinsurance (1)	823,516	853,675	1,677,191
Total	\$ 4,367,119	\$ 5,223,146	\$ 9,590,265

(1) Reserves for workers' compensation and reinsurance are net of an aggregate net discount of \$629 million and \$640 million as of March 31, 2017 and December 31, 2016, respectively.

(2) Short-tail lines include commercial multi-peril (non-liability), inland marine, accident and health, fidelity and surety, boiler and machinery and other lines.

The Company evaluates reserves for losses and loss adjustment expenses on a quarterly basis. Changes in estimates of prior year losses are reported when such changes are made. The changes in prior year loss reserve estimates are generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims and aggregate claim trends.

Certain of the Company's insurance and reinsurance contracts are retrospectively rated, whereby the Company collects more or less premiums based on the level of loss activity. For those contracts, changes in loss and loss adjustment expenses for prior years may be fully or partially offset by additional or return premiums.

Net prior year development (i.e. the sum of prior year reserve changes and prior year earned premiums changes) for the three months ended March 31, 2017 and 2016 are as follows:

(In thousands)	2017	2016
Net (increase) decrease in prior year loss reserves	\$ (8,727)	\$ 5,601
Increase in prior year earned premiums	11,173	6,687
Net favorable prior year development	\$ 2,446	\$ 12,288

During the three months ended March 31, 2017, favorable prior year development (net of additional and return premiums) of \$2.4 million included \$26.2 million of favorable development for the Insurance segment, largely offset by \$23.8 million of adverse development for the Reinsurance segment. The favorable development for the Insurance segment was primarily attributable to workers' compensation business, including excess workers' compensation. The favorable workers' compensation development was spread across many accident years, including prior to 2008, but was most significant in accident years 2014 and 2015. The favorable workers' compensation development reflects a continuation of the benign loss cost trends experienced during 2016, particularly the favorable claim frequency trends (i.e., number of reported claims per unit of exposure). The adverse development for the Reinsurance segment was almost entirely due to reserve strengthening associated with claims impacted by the change in the Ogden discount rate in the UK. The Ogden rate is the discount rate used to calculate lump-sum bodily injury payouts in the UK and was recently reduced by the UK Ministry of Justice from +2.5% to -0.75%. The adverse development mostly related to UK motor bodily injury claims which we reinsured on an excess of loss basis in accident years 2012 through 2016.

During the three months ended March 31, 2016, favorable prior year development (net of additional and return premiums) of \$ 12.3 million included \$ 11.6 million for the Insurance segment and \$ 0.7 million for the Reinsurance segment. The favorable development for the Insurance segment was primarily attributable to workers' compensation business from accident years 2010 through 2015, partially offset by adverse development for commercial auto liability from accident years 2011 through 2014. The favorable development for workers' compensation reflects favorable claim frequency trends (i.e., number of reported claims per unit of exposure), while the unfavorable development for commercial auto liability was driven by higher large loss activity than expected.

Reserve Discount. The Company discounts its liabilities for certain workers' compensation reserves. The amount of workers' compensation reserves that were discounted was \$1,862 million and \$1,907 million at March 31, 2017 and December 31, 2016, respectively. The aggregate net discount for those reserves, after reflecting the effects of ceded reinsurance, was \$629 million and \$640 million at March 31, 2017 and December 31, 2016, respectively. At March 31, 2017, discount rates by year ranged from 2.0% to 6.5%, with a weighted average discount rate of 3.9%.

Substantially all of the workers' compensation discount (97% of total discounted reserves at March 31, 2017) are excess workers' compensation reserves. In order to properly match loss expenses with income earned on investment securities supporting the liabilities, reserves for excess workers' compensation business are discounted using risk-free discount rates determined by reference to the U.S. Treasury yield curve. These rates are determined annually based on the weighted average rate for the period. Once established, no adjustments are made to the discount rate for that period, and any increases or decreases in loss reserves in subsequent years are discounted at the same rate, without regard to when any such adjustments are recognized. The expected loss and loss expense payout patterns subject to discounting are derived from the Company's loss payout experience.

The Company also discounts reserves for certain other long-duration workers' compensation reserves (representing approximately 3% of total discounted reserves at March 31, 2017), including reserves for quota share reinsurance and reserves related to losses regarding occupational lung disease. These reserves are discounted at statutory rates permitted by the Department of Insurance of the State of Delaware.

Assumed Reinsurance Premiums. The Company estimates the amount of assumed reinsurance premiums that it will receive under treaty reinsurance agreements at the inception of the contracts. These premium estimates are revised as the actual amount of assumed premiums is reported to the Company by the ceding companies. As estimates of assumed premiums are made or revised, the related amount of earned premiums, commissions and incurred losses associated with those premiums are recorded. Estimated assumed premiums receivable were approximately \$71 million at March 31, 2017 and \$68 million at December 31, 2016. The assumed premium estimates are based upon terms set forth in reinsurance agreements, information received from ceding companies during the underwriting and negotiation of agreements, reports received from ceding companies and discussions and correspondence with reinsurance intermediaries. The Company also considers its own view of

market conditions, economic trends and experience with similar lines of business. These premium estimates represent management's best estimate of the ultimate amount of premiums to be received under its assumed reinsurance agreements.

Other-Than-Temporary Impairments (OTTI) of Investments – The cost of securities is adjusted where appropriate to include a provision for decline in value which is considered to be other-than-temporary. An other-than-temporary decline is considered to occur in investments where there has been a sustained reduction in fair value and where the Company does not expect the fair value to recover prior to the time of sale or maturity. Since equity securities do not have a contractual cash flow or maturity, the Company considers whether the price of an equity security is expected to recover within a reasonable period of time.

The Company classifies its fixed maturity securities and preferred stocks by credit rating, primarily based on ratings assigned by credit rating agencies. For purposes of classifying securities with different ratings, the Company uses the average of the credit ratings assigned, unless in limited situations the Company's own analysis indicates an internal rating is more appropriate. Securities that are not rated by a rating agency are evaluated and classified by the Company on a case-by-case basis.

Fixed Maturity Securities – For securities that we intend to sell or, more likely than not, would be required to sell, a decline in value below amortized cost is considered to be OTTI. The amount of OTTI is equal to the difference between amortized cost and fair value at the balance sheet date. For securities that we do not intend to sell or expect to be required to sell, a decline in value below amortized cost is considered to be an OTTI if we do not expect to recover the entire amortized cost basis of a security (i.e., the present value of cash flows expected to be collected is less than the amortized cost basis of the security).

The portion of the decline in value considered to be a credit loss (i.e., the difference between the present value of cash flows expected to be collected and the amortized cost basis of the security) is recognized in earnings. The portion of the decline in value not considered to be a credit loss (i.e., the difference in the present value of cash flows expected to be collected and the fair value of the security) is recognized in other comprehensive income.

Impairment assessments for structured securities, including mortgage-backed securities and asset-backed securities, collateralized debt obligations and corporate debt, are generally evaluated based on the performance of the underlying collateral under various economic and default scenarios that may involve subjective judgments and estimates by management. Modeling these securities involves various factors, such as projected default rates, the nature and realizable value of the collateral, if any, the ability of the issuer to make scheduled payments, historical performance and other relevant economic and performance factors. If an OTTI determination is made, a discounted cash flow analysis is used to ascertain the amount of the credit impairment.

The following table provides a summary of fixed maturity securities in an unrealized loss position as of March 31, 2017:

(\$ in thousands)	Number of Securities	Aggregate Fair Value	Gross Unrealized Loss
Unrealized loss less than 20% of amortized cost	633	\$ 4,493,463	\$ 65,385
Unrealized loss of 20% or greater of amortized cost:			
Less than twelve months	1	5,136	3,725
Twelve months and longer	3	368	182
Total	637	\$ 4,498,967	\$ 69,292

A summary of the Company's non-investment grade fixed maturity securities that were in an unrealized loss position at March 31, 2017 is presented in the table below:

(\$ in thousands)	Number of Securities	Aggregate Fair Value	Gross Unrealized Loss
State and municipal	1	\$ 5,136	\$ 3,725
Mortgage-backed securities	9	19,647	924
Corporate	4	19,990	741
Foreign government	11	51,901	681
Asset-backed securities	6	9,615	173
Total	31	\$ 106,289	\$ 6,244

The Company has evaluated its fixed maturity securities in an unrealized loss position and believes the unrealized loss is due primarily to temporary market and sector-related factors rather than to issuer-specific factors. None of these securities are delinquent or in default under financial covenants. Based on its assessment of these issuers, the Company expects them to continue to meet their contractual payment obligations as they become due and does not consider any of these securities to be OTTI.

Preferred Stocks – At March 31, 2017, there was one preferred stock in an unrealized loss position, with a fair value of \$23.6 million and a gross unrealized loss of \$2.1 million. Based on management's view of the underlying value of the security, the Company does not consider the security to be OTTI. There were no OTTI of preferred stocks for the three months ended March 31, 2017 and 2016.

Common Stocks – At March 31, 2017, there were three common stocks in an unrealized loss position, with an aggregate fair value of \$27.7 million and a gross unrealized loss of \$2.2 million. Based upon management's view of the underlying value of these securities, the Company does not consider these equity securities to be OTTI. There was no OTTI of common stocks for the three months ended March 31, 2017. For the three months ended March 31, 2016, OTTI for common stocks was \$18.1 million.

Loans Receivable – The Company monitors the performance of its loans receivable, including current market conditions for each loan and the ability to collect principal and interest. For loans where the Company determines it is probable that the contractual terms will not be met, an analysis is performed and a valuation reserve is established, if necessary, with a charge to earnings. Loans receivable are reported net of a valuation reserve of \$3 million at both March 31, 2017 and December 31, 2016.

The Company monitors the performance of its loans receivable and assesses the ability of each borrower to pay principal and interest based upon loan structure, underlying property values, cash flow and related financial and operating performance of the property and market conditions. Loans receivable with a potential for default are further assessed using discounted cash flow analysis and comparable cost and sales methodologies, if appropriate.

Fair Value Measurements. The Company's fixed maturity and equity securities available for sale and its trading account securities are carried at fair value. Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." The Company utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for similar assets in active markets. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs may only be used to measure fair value to the extent that observable inputs are not available. The fair value of the vast majority of the Company's portfolio is based on observable data (other than quoted prices) and, accordingly, is classified as Level 2.

In classifying particular financial securities in the fair value hierarchy, the Company uses its judgment to determine whether the market for a security is active and whether significant pricing inputs are observable. The Company determines the existence of an active market by assessing whether transactions occur with sufficient frequency and volume to provide reliable pricing information. The Company determines whether inputs are observable based on the use of such information by pricing services and external investment managers, the uninterrupted availability of such inputs, the need to make significant adjustments to such inputs and the volatility of such inputs over time. If the market for a security is determined to be inactive or if significant inputs used to price a security are determined to be unobservable, the security is categorized in Level 3 of the fair value hierarchy.

Because many fixed maturity securities do not trade on a daily basis, the Company utilizes pricing models and processes which may include benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. Market inputs used to evaluate securities include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Quoted prices are often unavailable for recently issued securities that are infrequently traded or securities that are only traded in private transactions. For publicly traded securities for which quoted prices are unavailable, the Company determines fair value based on independent broker quotations and other observable market data. For securities traded only in private negotiations, the Company determines fair value based primarily on the cost of such securities, which is adjusted to reflect prices of recent placements of securities of the same issuer, financial data, projections and business developments of the issuer and other relevant information.

The following is a summary of pricing sources for the Company's fixed maturity securities available for sale as of March 31, 2017:

(\$ in thousands)	Carrying Value	Percent of Total
Pricing source:		
Independent pricing services	\$ 13,159,581	98.7%
Syndicate manager	45,931	0.3
Directly by the Company based on:		
Observable data	128,341	1.0
Cash flow model	179	—
Total	\$ 13,334,032	100.0%

Independent pricing services – Substantially all of the Company's fixed maturity securities available for sale were priced by independent pricing services (generally one U.S. pricing service plus additional pricing services with respect to a limited number of foreign securities held by the Company). The prices provided by the independent pricing services are generally based on observable market data in active markets (e.g., broker quotes and prices observed for comparable securities). The determination of whether markets are active or inactive is based upon the volume and level of activity for a particular asset class. The Company reviews the prices provided by pricing services for reasonableness based upon current trading levels for similar securities. If the prices appear unusual to the Company, they are re-examined and the value is either confirmed or revised. In addition, the Company periodically performs independent price tests of a sample of securities to ensure proper valuation and to verify our understanding of how securities are priced. As of March 31, 2017, the Company did not make any adjustments to the prices provided by the pricing services. Based upon the Company's review of the methodologies used by the independent pricing services, these securities were classified as Level 2.

Syndicate manager – The Company has a 15% participation in a Lloyd's syndicate, and the Company's share of the securities owned by the syndicate is priced by the syndicate's manager. The majority of the securities are liquid, short duration fixed maturity securities. The Company reviews the syndicate manager's pricing methodology and audited financial statements and holds discussions with the syndicate manager as necessary to confirm its understanding and agreement with security prices. Based upon the Company's review of the methodologies used by the syndicate manager, these securities were classified as Level 2.

Observable data – If independent pricing is not available, the Company prices the securities directly. Prices are based on observable market data where available, including current trading levels for similar securities and non-binding quotations from brokers. The Company generally requests two or more quotes. If more than one quote is received, the Company sets a price within the range of quotes received based on its assessment of the credibility of the quote and its own evaluation of the security. The Company generally does not adjust quotes obtained from brokers. Since these securities were priced based on observable data, they were classified as Level 2.

Cash flow model – If the above methodologies are not available, the Company prices securities using a discounted cash flow model based upon assumptions as to prevailing credit spreads, interest rates and interest rate volatility, time to maturity and subordination levels. Discount rates are adjusted to reflect illiquidity where appropriate. These securities were classified as Level 3.

Results of Operations for the Three Months Ended March 31, 2017 and 2016

Business Segment Results

Following is a summary of gross and net premiums written, net premiums earned, loss ratios (losses and loss expenses incurred expressed as a percentage of premiums earned), expense ratios (underwriting expenses expressed as a percentage of premiums earned) and United States Generally Accepted Accounting Principles (“GAAP”) combined ratios (sum of loss ratio and expense ratio) for each of our business segments for the three months ended March 31, 2017 and 2016. The GAAP combined ratio represents a measure of underwriting profitability, excluding investment income. A GAAP combined ratio in excess of 100 indicates an underwriting loss; a number below 100 indicates an underwriting profit.

(\$ in thousands)	2017	2016
Insurance:		
Gross premiums written	\$ 1,769,405	\$ 1,752,033
Net premiums written	1,494,135	1,479,207
Net premiums earned	1,413,170	1,366,605
Loss ratio	60.9%	60.5%
Expense ratio	32.9%	32.5%
GAAP combined ratio	93.8%	93.0%
Reinsurance:		
Gross premiums written	\$ 166,802	\$ 203,664
Net premiums written	152,703	184,515
Net premiums earned	156,872	160,730
Loss ratio	75.9%	59.2%
Expense ratio	37.0%	38.4%
GAAP combined ratio	112.9%	97.6%
Consolidated:		
Gross premiums written	\$ 1,936,207	\$ 1,955,697
Net premiums written	1,646,838	1,663,722
Net premiums earned	1,570,042	1,527,335
Loss ratio	62.4%	60.4%
Expense ratio	33.3%	33.1%
GAAP combined ratio	95.7%	93.5%

Net Income to Common Stockholders. The following table presents the Company’s net income to common stockholders and net income per diluted share for the three months ended March 31, 2017 and 2016:

(In thousands, except per share data)	2017	2016
Net income to common stockholders	\$ 123,447	\$ 119,511
Weighted average diluted shares	128,453	128,529
Net income per diluted share	\$ 0.96	\$ 0.93

The Company reported net income of \$123 million in 2017 compared to \$120 million in 2016. The 3% increase in net income was primarily due to an increase in after-tax net investment gains of \$29 million and an increase in after-tax net investment income of \$12 million, partially offset by an after-tax decrease in underwriting income of \$21 million (mainly due to the change in the Ogden discount rate used for lump-sum bodily injury payments in the U.K.), and an after-tax increase in other expenses of \$11 million (which includes interest expense, foreign exchange losses and other corporate expenses). The number of weighted average diluted shares remained relatively unchanged for the three months ended March 31, 2017 and 2016.

Premiums. Gross premiums written were \$1,936 million in 2017, a decrease of 1% from \$1,956 million in 2016. The decrease was largely due to a decrease in the Reinsurance segment of 18%. Approximately 75.9% of policies expiring in 2017 were renewed, compared with a 77.8% renewal retention rate for policies expiring in 2016.

Average renewal premium rates for insurance and facultative reinsurance increased 1.7% in 2017 when adjusted for change in exposures.

A summary of gross premiums written in 2017 compared with 2016 by line of business within each business segment follows:

- **Insurance** - gross premiums increased 1% to \$1,769 million in 2017 from \$1,752 million in 2016. Gross premiums increased \$16 million (9%) for professional liability, \$8 million (5%) for commercial auto and \$3 million (1%) for other liability, and decreased \$7 million (2%) for short-tail lines and \$3 million (less than 1%) for workers' compensation.
- **Reinsurance** - gross premiums decreased 18% to \$167 million in 2017 from \$204 million in 2016. Gross premiums decreased \$29 million (31%) for property lines and \$8 million (7%) for casualty lines.

Net premiums written were \$1,647 million in 2017, a decrease of 1% from \$1,664 million in 2016. Ceded reinsurance premiums as a percentage of gross written premiums were 15% in 2017 and 2016.

Premiums earned increased 3% to \$1,570 million in 2017 from \$1,527 million in 2016. Insurance premiums (including the impact of rate changes) are generally earned evenly over the policy term, and accordingly, recent rate increases will be earned over the upcoming quarters. Premiums earned in 2017 are related to business written during both 2017 and 2016. Audit premiums were \$40 million in 2017 compared with \$41 million in 2016.

Net Investment Income. Following is a summary of net investment income for the three months ended March 31, 2017 and 2016:

(\$ In thousands)	Amount		Average Annualized Yield	
	2017	2016	2017	2016
Fixed maturity securities, including cash and cash equivalents and loans receivable	\$ 112,346	\$ 108,835	3.2%	3.2%
Investment funds	26,649	16,636	8.5	5.5
Arbitrage trading account	6,360	3,190	5.4	3.7
Real estate	4,566	2,717	1.5	1.1
Equity securities available for sale	639	868	1.2	2.2
Gross investment income	150,560	132,246	3.5	3.3
Investment expenses	(1,702)	(2,113)		
Total	\$ 148,858	\$ 130,133	3.5%	3.2%

Net investment income increased 14% to \$149 million in 2017 from \$130 million in 2016 due primarily to a \$4 million increase in income from fixed maturity securities, a \$10 million increase in investment funds, a \$3 million increase in arbitrage trading account and an increase in income from real estate of \$2 million. The increase in investment income from investment funds (reported on a one-quarter lag) was primarily due to improvement in the performance for energy and energy related funds, partially offset by a decrease in real estate funds. Average invested assets, at cost (including cash and cash equivalents), were \$17.3 billion in 2017 and \$16.2 billion in 2016.

Insurance Service Fees. The Company earns fees from an insurance distribution business and as a servicing carrier of workers' compensation assigned risk plans for certain states. Service fees decreased to \$33 million in 2017 from \$40 million in 2016.

Net Realized Gains on Investment Sales. The Company buys and sells securities on a regular basis in order to maximize its total return on investments. Decisions to sell securities are based on management's view of the underlying fundamentals of specific securities as well as management's expectations regarding interest rates, credit spreads, currency values and general economic conditions. Net realized gains on investment sales were \$52 million in 2017 compared with \$25 million in 2016.

Other-Than-Temporary Impairments. There were no other-than-temporary impairments in 2017. Other-than-temporary impairments of \$18 million in 2016 related to common stocks.

Revenues from Non-Insurance Businesses. Revenues from non-insurance businesses were derived from a business engaged in the distribution of promotional merchandise and aviation-related businesses that provide services to aviation markets, including (i) the distribution, manufacturing, repair and overhaul of aircraft parts and components, (ii) the sale of new

and used aircraft, and (iii) avionics, fuel, maintenance, storage and charter services. Revenues from non-insurance businesses were \$65 million in 2017 and \$102 million in 2016. The decrease was primarily related to the sale of Aero Precision Industries in August 2016.

Losses and Loss Expenses. Losses and loss expenses increased to \$980 million in 2017 from \$922 million in 2016. The consolidated loss ratio was 62.4% in 2017 and 60.4% in 2016. Catastrophe losses, net of reinsurance recoveries and reinstatement premiums, were \$15 million in 2017 and \$16 million in 2016. Favorable prior year reserve development (net of premium offsets) was \$2 million in 2017 and \$12 million in 2016. The loss ratio excluding catastrophe losses and prior year reserve development increased 1.5 points to 61.7% in 2017 from 60.2% in 2016.

A summary of loss ratios in 2017 compared with 2016 by business segment follows:

- **Insurance** - The loss ratio was 60.9% in 2017 and 60.5% in 2016. Catastrophe losses were \$14 million in 2017 compared with \$15 million in 2016. Favorable prior year reserve development was \$26 million in 2017 and \$12 million in 2016. The loss ratio excluding catastrophe losses and prior year reserve development increased 1.6 points to 61.8% in 2017 from 60.2% in 2016.
- **Reinsurance** - The loss ratio of 75.9% in 2017 was 16.7 points higher than the loss ratio of 59.2% in 2016. Catastrophe losses were \$0.2 million in 2017 compared with \$0.5 million in 2016. Adverse prior year reserve development was \$24 million in 2017 (primarily related to the change in the Ogden discount rate) compared with favorable prior year reserve development of \$0.7 million in 2016. The loss ratio excluding catastrophe losses and prior year reserve development increased 1.4 points to 60.7% in 2017 from 59.3% in 2016.

Other Operating Costs and Expenses. Following is a summary of other operating costs and expenses:

(In thousands)	2017	2016
Policy acquisition and operating insurance expenses	\$ 523,409	\$ 505,255
Service expenses	29,933	33,798
Net foreign currency losses	5,508	3,728
Other costs and expenses	44,850	39,678
Total	<u>\$ 603,700</u>	<u>\$ 582,459</u>

Policy acquisition and operating insurance expenses are comprised of commissions paid to agents and brokers, premium taxes and other assessments and internal underwriting costs. Policy acquisition and operating insurance expenses increased 4% compared with an increase in net premiums earned of 3%. The expense ratio (policy acquisition and operating insurance expenses expressed as a percentage of premiums earned) was 33.3% and 33.1% in 2017 and 2016, respectively.

Service expenses, which represent the costs associated with the fee-based businesses, decreased to \$30 million in 2017 from \$34 million in 2016.

Net foreign currency losses result from transactions denominated in a currency other than a company's operating functional currency. Net foreign currency losses were \$6 million in 2017 compared to \$4 million in 2016.

Other costs and expenses represent general and administrative expenses of the parent company and other expenses not allocated to business segments, including the cost of certain long-term incentive plans and new business ventures. Other costs and expenses increased to \$45 million in 2017 from \$40 million in 2016 primarily because of startup costs for new business ventures.

Expenses from Non-Insurance Businesses. Expenses from non-insurance businesses represent costs associated with a business engaged in the distribution of promotional merchandise and aviation-related businesses that include (i) cost of goods sold related to aircraft and products sold and services provided, and (ii) general and administrative expenses. Expenses from non-insurance businesses were \$66 million in 2017 compared to \$96 million in 2016. The decline mainly relates to the sale of Aero Precision Industries in August 2016, partially offset by acquisition costs incurred by the Company in March 2017 related to the purchase of a company engaged in providing textile solutions world-wide.

Interest Expense. Interest expense was \$37 million in 2017 compared with \$32 million in 2016. During 2017, the Company repaid \$2 million of debt, compared to \$87 million in 2016, mainly in connection with the sale of Aero Precision Industries. In February 2016, the Company issued \$110 million of 5.9% subordinated debentures maturing in 2056, and in May 2016, the Company issued \$290 million of 5.75% subordinated debentures maturing in 2056.

Income Taxes. The effective income tax rate was 32% in 2017 and 31% in 2016. The effective income tax rate differs from the federal income tax rate of 35% primarily because of tax-exempt investment income.

The Company has not provided U.S. deferred income taxes on the undistributed earnings of approximately \$38 million of its non-U.S. subsidiaries since these earnings are intended to be permanently reinvested in the non-U.S. subsidiaries. However, in the future, if such earnings were distributed to the Company, taxes of approximately \$4 million, assuming all tax credits are realized, would be payable on such undistributed earnings and would be reflected in the tax provision for the year in which these earnings are no longer intended to be permanently reinvested in the foreign subsidiary.

Investments

As part of its investment strategy, the Company establishes a level of cash and highly liquid short-term and intermediate-term securities that, combined with expected cash flow, it believes is adequate to meet its payment obligations. Due to the historically low fixed maturity investment returns, the Company invests in equity securities, merger arbitrage securities, investment funds, private equity, loans and real estate related assets. The Company's investments in investment funds and its other alternative investments have experienced, and the Company expects to continue to experience, greater fluctuations in investment income.

The Company also attempts to maintain an appropriate relationship between the average duration of the investment portfolio and the approximate duration of its liabilities (i.e., policy claims and debt obligations). The average duration of the fixed maturity portfolio, including cash and cash equivalents, was 3.0 years at March 31, 2017, down from 3.1 years at December 31, 2016. The Company's fixed maturity investment portfolio and investment-related assets as of March 31, 2017 were as follows:

(\$ in thousands)	Carrying Value	Percent of Total
Fixed maturity securities:		
U.S. government and government agencies	\$ 486,676	2.7%
State and municipal:		
Special revenue	2,836,614	15.8
State general obligation	554,643	3.1
Local general obligation	393,876	2.2
Corporate backed	379,315	2.1
Pre-refunded (1)	370,269	2.1
Total state and municipal	4,534,717	25.2
Mortgage-backed securities:		
Agency	831,772	4.6
Residential-Prime	221,507	1.2
Commercial	142,804	0.8
Residential-Alt A	30,867	0.2
Total mortgage-backed securities	1,226,950	6.8
Asset-backed securities	2,028,169	11.3
Corporate:		
Industrial	2,456,960	13.7
Financial	1,484,257	8.3
Utilities	247,330	1.4
Other	56,249	0.3
Total corporate	4,244,796	23.7
Foreign government and foreign government agencies	901,671	5.0
Total fixed maturity securities	13,422,979	74.7
Equity securities available for sale:		
Common stocks	421,329	2.3
Preferred stocks	190,049	1.1
Total equity securities available for sale	611,378	3.4
Cash and cash equivalents	608,393	3.4
Investment funds	1,238,558	6.9
Real estate	1,237,738	6.9
Arbitrage trading account	753,278	4.2
Loans receivable	103,650	0.5
Total investments	\$ 17,975,974	100.0%

(1) Pre-refunded securities are securities for which an escrow account has been established to fund the remaining payments of principal and interest through maturity. Such escrow accounts are funded almost exclusively with U.S. Treasury and U.S. government agency securities.

Fixed Maturity Securities. The Company's investment policy with respect to fixed maturity securities is generally to purchase instruments with the expectation of holding them to their maturity. However, management of the available for sale

portfolio is considered necessary to maintain an approximate matching of assets and liabilities as well as to adjust the portfolio as a result of changes in financial market conditions and tax considerations.

The Company's philosophy related to holding or selling fixed maturity securities is based on its objective of maximizing total return. The key factors that management considers in its investment decisions as to whether to hold or sell fixed maturity securities are its view of the underlying fundamentals of specific securities as well as its expectations regarding interest rates, credit spreads and currency values. In a period in which management expects interest rates to rise, the Company may sell longer duration securities in order to mitigate the impact of an interest rate rise on the fair value of the portfolio. Similarly, in a period in which management expects credit spreads to widen, the Company may sell lower quality securities, and in a period in which management expects certain foreign currencies to decline in value, the Company may sell securities denominated in those foreign currencies. The sale of fixed maturity securities in order to achieve the objective of maximizing total return may result in realized gains; however, there is no reason to expect these gains to continue in future periods.

At March 31, 2017, investments in foreign government fixed maturity securities (which are generally held by the Company's foreign operations) were as follows:

<u>(In thousands)</u>	<u>Carrying Value</u>
Argentina	\$ 263,374
Australia	217,042
Canada	163,023
United Kingdom	84,438
Brazil	50,378
Germany	46,187
Supranational (1)	37,081
Norway	19,735
Colombia	7,873
Uruguay	6,340
Singapore	6,200
Total	<u>\$ 901,671</u>

(1) Supranational represents investments in the North American Development Bank, European Investment Bank and International Bank for Reconstruction and Development.

Equity Securities. Equity securities primarily represent investments in high-dividend yielding common and preferred stocks issued by large market capitalization companies.

Investment Funds. At March 31, 2017, the carrying value of investment funds was \$1,239 million, including investments in real estate funds of \$655 million, energy funds of \$96 million, hedge equity funds of \$75 million, and other funds of \$413 million. Investment funds are generally reported on a one-quarter lag.

Real Estate. Real estate is directly owned property held for investment. At March 31, 2017, real estate properties in operation included a long-term ground lease in Washington D.C, a hotel in Memphis, Tennessee, an office complex in New York City and office buildings in West Palm Beach and Palm Beach, Florida. In addition, there are two properties under development: an office building in London and a mixed-use project in Washington D.C. The Company expects to fund further development costs for these projects with a combination of its own funds and external financing.

Arbitrage Trading Account. The arbitrage trading account is comprised of direct investments in arbitrage securities. Merger arbitrage is the business of investing in the securities of publicly held companies that are the targets in announced tender offers and mergers.

Loans Receivable. Loans receivable, which are carried at amortized cost, had an aggregate cost of \$104 million and an aggregate fair value of \$105 million at March 31, 2017. The amortized cost of loans receivable is net of a valuation allowance of \$3 million as of March 31, 2017. Loans receivable include real estate loans of \$89 million that are secured by commercial real estate located primarily in North Carolina and New York. Real estate loans receivable generally earn interest at floating LIBOR-based interest rates and have maturities (inclusive of extension options) through August 2025. Loans receivable include commercial loans of \$15 million that are secured by business assets and have fixed interest rates with varying maturities generally not exceeding 10 years.

Market Risk . The fair value of the Company's investments is subject to risks of fluctuations in credit quality and interest rates. The Company uses various models and stress test scenarios to monitor and manage interest rate risk. The Company attempts to manage its interest rate risk by maintaining an appropriate relationship between the effective duration of the investment portfolio and the approximate duration of its liabilities (i.e., policy claims and debt obligations). The effective duration for the fixed maturity portfolio (including cash and cash equivalents) was 3.0 years at March 31, 2017 , down from 3.1 years at December 31, 2016 .

In addition, the fair value of the Company's international investments is subject to currency risk. The Company attempts to manage its currency risk by matching its foreign currency assets and liabilities where considered appropriate.

Liquidity and Capital Resources

Cash Flow. Cash flow provided from operating activities decreased to \$75 million in the first three months of 2017 from \$141 million in the comparable period in 2016, primarily due to the timing of loss and loss expense payments and premium collections.

The Company's insurance subsidiaries' principal sources of cash are premiums, investment income, service fees and proceeds from sales and maturities of portfolio investments. The principal uses of cash are payments for claims, taxes, operating expenses and dividends. The Company expects its insurance subsidiaries to fund the payment of losses with cash received from premiums, investment income and fees. The Company targets an average duration for its investment portfolio that is within one year of the average duration of its liabilities so that portions of its investment portfolio mature throughout the claim cycle and are available for the payment of claims if necessary. In the event operating cash flow and proceeds from maturities and prepayments of fixed income securities are not sufficient to fund claim payments and other cash requirements, the remainder of the Company's cash and investments is available to pay claims and other obligations as they become due. The Company's investment portfolio is highly liquid, with approximately 78% invested in cash, cash equivalents and marketable fixed maturity securities as of March 31, 2017. If the sale of fixed maturity securities were to become necessary, a realized gain or loss equal to the difference between the cost and sales price of securities sold would be recognized.

Debt. At March 31, 2017, the Company had senior notes, subordinated debentures and other debt outstanding with a carrying value of \$2,487 million and a face amount of \$2,522 million. The maturities of the outstanding debt are \$442 million in 2019, \$303 million in 2020, \$427 million in 2022, \$250 million in 2037, \$350 million in 2044, \$350 million in 2053 and \$400 million in 2056.

In February 2016, the Company issued \$110 million aggregate principal amount of its 5.9% subordinated debentures due 2056, and in May 2016, the Company issued \$290 million aggregate principal amount of its 5.75% subordinated debentures due 2056. During 2017, the Company repaid \$2 million of debt. During 2016, the Company repaid \$87 million of debt on various issuances, mainly in connection with the sale of Aero Precision Industries.

Equity. At March 31, 2017, total common stockholders' equity was \$5.2 billion, common shares outstanding were approximately 121,218,479 and stockholders' equity per outstanding share was \$42.73. The number of common shares outstanding excludes shares held in a grantor trust established by the Company for delivery upon settlement of vested but mandatorily deferred RSUs.

Total Capital. Total capitalization (equity, debt and subordinated debentures) was \$7.7 billion at March 31, 2017. The percentage of the Company's capital attributable to senior notes, subordinated debentures and other debt was 32% at March 31, 2017 and 33% at December 31, 2016.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Reference is made to the information under "Investments - Market Risk" under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. The Company's management, including its Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-14 as of the end of the period covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company has in place effective controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934, as amended, and the rules thereunder, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in Internal Control over Financial Reporting. During the quarter ended March 31, 2017, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Please see Note 21 to the notes to the interim consolidated financial statements.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company did not repurchase any of its shares during the three months ended March 31, 2017, and accordingly the number of shares authorized for purchase by the Company remains 6,851,086.

Item 6. Exhibits

Number

- | | |
|-------------------------------|--|
| <u>(31.1)</u> | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/ 15d-14(a). |
| <u>(31.2)</u> | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/ 15d-14(a). |
| <u>(32.1)</u> | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

W. R. BERKLEY CORPORATION

Date: May 5, 2017

/s/ W. Robert Berkley, Jr.

W. Robert Berkley, Jr.
President and Chief Executive Officer

Date: May 5, 2017

/s/ Richard M. Baio

Richard M. Baio
Senior Vice President - Chief Financial Officer and Treasurer

CERTIFICATIONS

I, W. Robert Berkley, Jr., President and Chief Executive Officer of W. R. Berkley Corporation (the “registrant”), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 5, 2017

/s/ W. Robert Berkley, Jr.

W. Robert Berkley, Jr.

President and
Chief Executive Officer

CERTIFICATIONS

I, Richard M. Baio, Senior Vice President - Chief Financial Officer and Treasurer of W. R. Berkley Corporation (the “registrant”), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 5, 2017

/s/ Richard M. Baio

Richard M. Baio

Senior Vice President — Chief Financial Officer and Treasurer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of W. R. Berkley Corporation (the “Company”) on Form 10-Q for the period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, W. Robert Berkley, Jr., President and Chief Executive Officer of the Company, and Richard M. Baio, Senior Vice President - Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ W. Robert Berkley, Jr.

W. Robert Berkley, Jr.

President and Chief Executive Officer

/s/ Richard M. Baio

Richard M. Baio

Senior Vice President — Chief Financial Officer and Treasurer

May 5, 2017

A signed original of this written statement required by Section 906 has been provided to W. R. Berkley Corporation (the “Company”) and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.