
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 September 30, 2018

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 every Interactive Data File required to be submitted 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 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 ☒

Non-accelerated filer ☐

Accelerated filer ☐

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 November 5, 2018 : 122,124,243

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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)

	September 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
Assets		
Investments:		
Fixed maturity securities	\$ 13,572,402	\$ 13,551,250
Real estate	1,917,250	1,469,601
Investment funds	1,251,748	1,155,677
Arbitrage trading account	678,321	617,649
Equity securities	325,254	576,647
Loans receivable	96,590	79,684
Total investments	17,841,565	17,450,508
Cash and cash equivalents	819,366	950,471
Premiums and fees receivable	1,872,460	1,773,844
Due from reinsurers	1,859,917	1,783,200
Deferred policy acquisition costs	513,092	507,549
Prepaid reinsurance premiums	497,285	472,009
Trading account receivables from brokers and clearing organizations	191,394	189,280
Property, furniture and equipment	424,754	422,960
Goodwill	171,095	178,945
Accrued investment income	148,646	136,597
Federal and foreign income taxes	37,196	—
Other assets	478,879	434,554
Total assets	\$ 24,855,649	\$ 24,299,917
Liabilities and Equity		
Liabilities:		
Reserves for losses and loss expenses	\$ 11,872,162	\$ 11,670,408
Unearned premiums	3,454,955	3,290,180
Due to reinsurers	231,197	246,460
Trading account securities sold but not yet purchased	112,355	64,358
Federal and foreign income taxes	—	98,091
Other liabilities	1,008,145	981,987
Senior notes and other debt	1,790,498	1,769,052
Subordinated debentures	907,304	728,218
Total liabilities	19,376,616	18,848,754
Equity:		
Common stock, par value \$.20 per share:		
Authorized 500,000,000 shares, issued and outstanding, net of treasury shares, 122,117,763 and 121,514,852 shares, respectively	47,024	47,024
Additional paid-in capital	1,058,074	1,048,283
Retained earnings	7,505,706	6,956,882
Accumulated other comprehensive (loss) income	(474,938)	68,541
Treasury stock, at cost, 113,000,155 and 113,603,066 shares, respectively	(2,698,018)	(2,709,386)
Total stockholders' equity	5,437,848	5,411,344
Noncontrolling interests	41,185	39,819
Total equity	5,479,033	5,451,163
Total liabilities and equity	\$ 24,855,649	\$ 24,299,917

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUES:				
Net premiums written	\$ 1,624,214	\$ 1,571,183	\$ 4,913,656	\$ 4,782,272
Change in net unearned premiums	(20,729)	10,317	(161,709)	(62,028)
Net premiums earned	1,603,485	1,581,500	4,751,947	4,720,244
Net investment income	186,124	142,479	514,419	426,601
Net realized and unrealized gains on investments	22,334	183,959	140,429	276,760
Revenues from non-insurance businesses	95,168	89,786	242,037	225,033
Insurance service fees	30,782	33,612	91,175	100,475
Other income	9	6	59	695
Total revenues	1,937,902	2,031,342	5,740,066	5,749,808
OPERATING COSTS AND EXPENSES:				
Losses and loss expenses	1,017,720	1,081,174	2,954,575	3,025,475
Other operating costs and expenses	577,648	600,822	1,781,230	1,821,155
Expenses from non-insurance businesses	93,463	86,412	238,198	221,389
Interest expense	39,848	36,821	116,608	110,419
Total operating costs and expenses	1,728,679	1,805,229	5,090,611	5,178,438
Income before income taxes	209,223	226,113	649,455	571,370
Income tax expense	(44,780)	(63,295)	(136,661)	(174,305)
Net income before noncontrolling interests	164,443	162,818	512,794	397,065
Noncontrolling interests	(2,523)	(764)	(4,402)	(2,560)
Net income to common stockholders	\$ 161,920	\$ 162,054	\$ 508,392	\$ 394,505
NET INCOME PER SHARE:				
Basic	\$ 1.28	\$ 1.29	\$ 4.02	\$ 3.17
Diluted	\$ 1.26	\$ 1.26	\$ 3.96	\$ 3.05

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 September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income before noncontrolling interests	\$ 164,443	\$ 162,818	\$ 512,794	\$ 397,065
Other comprehensive (loss) income:				
Change in unrealized currency translation adjustments	15,686	28,592	(75,970)	71,574
Change in unrealized investment (losses) gains, net of taxes	(94,842)	(8,168)	(253,056)	26,598
Other comprehensive (loss) income	(79,156)	20,424	(329,026)	98,172
Comprehensive income	85,287	183,242	183,768	495,237
Noncontrolling interests	(2,463)	(731)	(4,316)	(2,541)
Comprehensive income to common stockholders	<u>\$ 82,824</u>	<u>\$ 182,511</u>	<u>\$ 179,452</u>	<u>\$ 492,696</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 Nine Months Ended September 30,	
	2018	2017
COMMON STOCK:		
Beginning and end of period	\$ 47,024	\$ 47,024
ADDITIONAL PAID-IN CAPITAL:		
Beginning of period	\$ 1,048,283	\$ 1,037,446
Restricted stock units issued	(16,690)	(27,047)
Restricted stock units expensed	26,481	30,176
End of period	\$ 1,058,074	\$ 1,040,575
RETAINED EARNINGS:		
Beginning of period	\$ 6,956,882	\$ 6,595,987
Cumulative effect adjustment resulting from changes in accounting principles	215,939	—
Net income to common stockholders	508,392	394,505
Dividends	(175,507)	(110,430)
End of period	\$ 7,505,706	\$ 6,880,062
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME:		
Unrealized investment (losses) gains:		
Beginning of period	\$ 375,421	\$ 427,154
Cumulative effect adjustment resulting from changes in accounting principles	(214,539)	—
Change in unrealized (losses) gains on securities not other-than-temporarily impaired	(252,974)	25,712
Change in unrealized gains on other-than-temporarily impaired securities	4	905
End of period	(92,088)	453,771
Currency translation adjustments:		
Beginning of period	(306,880)	(371,586)
Net change in period	(75,970)	71,574
End of period	(382,850)	(300,012)
Total accumulated other comprehensive (loss) income	\$ (474,938)	\$ 153,759
TREASURY STOCK:		
Beginning of period	\$ (2,709,386)	\$ (2,688,817)
Stock exercised/vested	17,478	25,584
Stock repurchased	(6,799)	(28,378)
Stock issued	689	727
End of period	\$ (2,698,018)	\$ (2,690,884)
NONCONTROLLING INTERESTS:		
Beginning of period	\$ 39,819	\$ 33,926
(Distributions) contributions	(2,950)	3,646
Net income	4,402	2,560
Other comprehensive income (loss), net of tax	(86)	(19)
End of period	\$ 41,185	\$ 40,113

See accompanying notes to interim consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2018	2017
CASH FROM OPERATING ACTIVITIES:		
Net income to common stockholders	\$ 508,392	\$ 394,505
Adjustments to reconcile net income to net cash from operating activities:		
Net realized and unrealized gains on investments	(140,429)	(276,760)
Depreciation and amortization	76,541	78,137
Noncontrolling interests	4,402	2,560
Investment funds	(94,075)	(51,907)
Stock incentive plans	28,528	31,883
Change in:		
Arbitrage trading account	(14,795)	(2,835)
Premiums and fees receivable	(107,347)	(112,420)
Reinsurance accounts	(114,298)	(42,319)
Deferred policy acquisition costs	(7,466)	4,483
Income taxes	(99,945)	(15,451)
Reserves for losses and loss expenses	230,112	422,657
Unearned premiums	176,736	121,583
Other	(103,832)	(32,258)
Net cash from operating activities	342,524	521,858
CASH USED IN INVESTING ACTIVITIES:		
Proceeds from sale of fixed maturity securities	2,841,642	3,081,619
Proceeds from sale of equity securities	449,388	137,062
(Contributions to) distributions from investment funds	(3,505)	265,371
Proceeds from maturities and prepayments of fixed maturity securities	1,957,724	2,860,678
Purchase of fixed maturity securities	(5,187,501)	(6,530,466)
Purchase of equity securities	(87,059)	(17,049)
Real estate purchased	(454,410)	(159,006)
Change in loans receivable	(14,345)	32,574
Net additions to property, furniture and equipment	(35,582)	(74,268)
Change in balances due to security brokers	5,601	39,978
Cash received in connection with business disposition	8,664	—
Payment for business purchased net of cash acquired	(6,637)	(70,570)
Other	(443)	—
Net cash used in investing activities	(526,463)	(434,077)
CASH FROM (USED IN) FINANCING ACTIVITIES:		
Repayment of senior notes and other debt	(23)	(1,788)
Net proceeds from issuance of debt	198,905	—
Cash dividends to common stockholders	(96,131)	(93,371)
Purchase of common treasury shares	(6,799)	(28,378)
Other, net	(4,238)	(3,835)
Net cash from (used in) financing activities	91,714	(127,372)
Net impact on cash due to change in foreign exchange rates	(38,880)	18,303
Net change in cash and cash equivalents	(131,105)	(21,288)
Cash and cash equivalents at beginning of year	950,471	795,285
Cash and cash equivalents at end of period	\$ 819,366	\$ 773,997

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, 2017 . Reclassifications have been made in the 2017 financial statements as originally reported to conform to the presentation of the 2018 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 21% principally because of tax-exempt investment income, as well as tax on income from foreign jurisdictions with different tax rates.

(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 4,847,303 and 4,087,731 common shares held in a grantor trust as of September 30, 2018 and 2017, respectively). The common shares held in the grantor trust are 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 September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic	126,827	125,818	126,575	124,363
Diluted	128,561	128,944	128,404	129,289

(3) Recent Accounting Pronouncements

Recently adopted accounting pronouncements:

In May 2014, the Financial Accounting Standards Board (“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 are 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, was effective for public business entities for annual and interim reporting periods beginning after December 15, 2017. The Company adopted this guidance on January 1, 2018 on a prospective basis. The impact of applying this guidance prospectively was a cumulative effect adjustment that increased retained earnings, a component of stockholders' equity, by \$1 million after-tax.

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 with readily determinable fair values to be measured at fair value with changes in the fair value recognized in net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The updated guidance was effective for public business entities for annual reporting periods beginning after December 15, 2017 and interim periods within those years. The Company adopted this updated guidance on January 1, 2018 on a prospective basis. The impact of applying this guidance prospectively was a cumulative effect adjustment that increased retained earnings and decreased accumulated other comprehensive income ("AOCI") by offsetting amounts of \$291 million, resulting in no net impact to total stockholders' equity. Following the adoption, the Company reports changes in fair value related to equity securities within net realized and unrealized gains on investments.

In February 2018, the FASB issued ASU 2018-02, Reporting Comprehensive Income, which amends previous guidance to allow a reclassification to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). The amount of the reclassification includes the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of the enactment of the Tax Act related to items in AOCI. The updated guidance will be effective for reporting periods beginning after December 15, 2018, and is eligible for early adoption. The Company adopted this updated guidance on January 1, 2018. The impact of applying this guidance was a cumulative effect adjustment that decreased retained earnings and increased AOCI by offsetting amounts of \$76 million, resulting in no net impact to total stockholders' equity.

All other accounting and reporting standards that have become effective in 2018 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 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 can be adopted prospectively or 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 will adopt the new guidance prospectively as of January 1, 2019. 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) Consolidated Statement of Comprehensive Income

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

<u>(In thousands)</u>	<u>Unrealized Investment Gains (Losses)</u>	<u>Currency Translation Adjustments</u>	<u>Accumulated Other Comprehensive (Loss) Income</u>
As of and for the nine months ended September 30, 2018			
<u>Changes in AOCI</u>			
Beginning of period	\$ 375,421	\$ (306,880)	\$ 68,541
Cumulative effect adjustment resulting from changes in accounting principles	(214,539)	—	(214,539)
Restated beginning of period	160,882	(306,880)	(145,998)
Other comprehensive loss before reclassifications	(242,944)	(75,970)	(318,914)
Amounts reclassified from AOCI	(10,112)	—	(10,112)
Other comprehensive loss	(253,056)	(75,970)	(329,026)
Unrealized investment loss related to noncontrolling interest	86	—	86
End of period	<u>\$ (92,088)</u>	<u>\$ (382,850)</u>	<u>\$ (474,938)</u>
<u>Amounts reclassified from AOCI</u>			
Pre-tax	\$ (12,800) ⁽¹⁾	\$ —	\$ (12,800)
Tax effect	2,688 ⁽²⁾	—	2,688
After-tax amounts reclassified	<u>\$ (10,112)</u>	<u>\$ —</u>	<u>\$ (10,112)</u>
<u>Other comprehensive loss</u>			
Pre-tax	\$ (298,164)	\$ (75,970)	\$ (374,134)
Tax effect	45,108	—	45,108
Other comprehensive loss	<u>\$ (253,056)</u>	<u>\$ (75,970)</u>	<u>\$ (329,026)</u>
As of and for the three months ended September 30, 2018			
<u>Changes in AOCI</u>			
Beginning of period	\$ 2,694	\$ (398,536)	\$ (395,842)
Other comprehensive loss before reclassifications	(95,312)	15,686	(79,626)
Amounts reclassified from AOCI	470	—	470
Other comprehensive loss	(94,842)	15,686	(79,156)
Unrealized investment loss related to noncontrolling interest	60	—	60
End of period	<u>\$ (92,088)</u>	<u>\$ (382,850)</u>	<u>\$ (474,938)</u>
<u>Amounts reclassified from AOCI</u>			
Pre-tax	\$ 595 ⁽¹⁾	\$ —	\$ 595
Tax effect	(125) ⁽²⁾	—	(125)
After-tax amounts reclassified	<u>\$ 470</u>	<u>\$ —</u>	<u>\$ 470</u>
<u>Other comprehensive loss</u>			
Pre-tax	\$ (96,828)	\$ 15,686	\$ (81,142)
Tax effect	1,986	—	1,986
Other comprehensive loss	<u>\$ (94,842)</u>	<u>\$ 15,686</u>	<u>\$ (79,156)</u>

⁽¹⁾ Net realized and unrealized gains on investments in the consolidated statements of income.

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

(In thousands)	Unrealized Investment Gains (Losses)	Currency Translation Adjustments	Accumulated Other Comprehensive (Loss) Income
As of and for the nine months ended September 30, 2017			
<u>Changes in AOCI</u>			
Beginning of period	\$ 427,154	\$ (371,586)	\$ 55,568
Other comprehensive income before reclassifications	109,277	71,574	180,851
Amounts reclassified from AOCI	(82,679)	—	(82,679)
Other comprehensive income	26,598	71,574	98,172
Unrealized investment gain related to noncontrolling interest	19	—	19
End of period	<u>\$ 453,771</u>	<u>\$ (300,012)</u>	<u>\$ 153,759</u>
<u>Amounts reclassified from AOCI</u>			
Pre-tax	\$ (127,198) ⁽¹⁾	\$ —	\$ (127,198)
Tax effect	44,519 ⁽²⁾	—	44,519
After-tax amounts reclassified	<u>\$ (82,679)</u>	<u>\$ —</u>	<u>\$ (82,679)</u>
<u>Other comprehensive income</u>			
Pre-tax	\$ 50,148	\$ 71,574	\$ 121,722
Tax effect	(23,550)	—	(23,550)
Other comprehensive income	<u>\$ 26,598</u>	<u>\$ 71,574</u>	<u>\$ 98,172</u>
As of and for the three months ended September 30, 2017			
<u>Changes in AOCI</u>			
Beginning of period	\$ 461,906	\$ (328,604)	\$ 133,302
Other comprehensive income before reclassifications	19,968	28,592	48,560
Amounts reclassified from AOCI	(28,136)	—	(28,136)
Other comprehensive income	(8,168)	28,592	20,424
Unrealized investment gain related to noncontrolling interest	33	—	33
End of period	<u>\$ 453,771</u>	<u>\$ (300,012)</u>	<u>\$ 153,759</u>
<u>Amounts reclassified from AOCI</u>			
Pre-tax	\$ (43,286) ⁽¹⁾	\$ —	\$ (43,286)
Tax effect	15,150 ⁽²⁾	—	15,150
After-tax amounts reclassified	<u>\$ (28,136)</u>	<u>\$ —</u>	<u>\$ (28,136)</u>
<u>Other comprehensive income</u>			
Pre-tax	\$ (8,563)	\$ 28,592	\$ 20,029
Tax effect	395	—	395
Other comprehensive income	<u>\$ (8,168)</u>	<u>\$ 28,592</u>	<u>\$ 20,424</u>

⁽¹⁾ Net realized and unrealized gains on investments in the consolidated statements of income.

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

(5) Statements of Cash Flow

Interest payments were \$137,789,000 and \$134,291,000 and income taxes paid were \$173,000,000 and \$182,487,000 in the nine months ended September 30, 2018 and 2017, respectively.

(6) Investments in Fixed Maturity Securities

At September 30, 2018 and December 31, 2017, investments in fixed maturity securities were as follows:

(In thousands)	Amortized Cost	Gross Unrealized		Fair Value	Carrying Value
		Gains	Losses		
September 30, 2018					
Held to maturity:					
State and municipal	\$ 67,513	\$ 11,081	\$ —	\$ 78,594	\$ 67,513
Residential mortgage-backed	11,276	1,171	—	12,447	11,276
Total held to maturity	78,789	12,252	—	91,041	78,789
Available for sale:					
U.S. government and government agency	490,679	4,258	(7,895)	487,042	487,042
State and municipal:					
Special revenue	2,486,490	23,982	(32,046)	2,478,426	2,478,426
State general obligation	380,200	8,917	(2,742)	386,375	386,375
Pre-refunded	427,429	15,213	(55)	442,587	442,587
Corporate backed	294,243	4,833	(2,596)	296,480	296,480
Local general obligation	403,879	13,988	(3,841)	414,026	414,026
Total state and municipal	3,992,241	66,933	(41,280)	4,017,894	4,017,894
Mortgage-backed securities:					
Residential (1)	1,237,787	4,400	(33,896)	1,208,291	1,208,291
Commercial	345,826	670	(6,565)	339,931	339,931
Total mortgage-backed securities	1,583,613	5,070	(40,461)	1,548,222	1,548,222
Asset-backed	2,556,499	10,753	(17,378)	2,549,874	2,549,874
Corporate:					
Industrial	2,303,206	16,555	(41,783)	2,277,978	2,277,978
Financial	1,436,530	16,786	(21,688)	1,431,628	1,431,628
Utilities	303,260	2,222	(6,010)	299,472	299,472
Other	56,474	6	(389)	56,091	56,091
Total corporate	4,099,470	35,569	(69,870)	4,065,169	4,065,169
Foreign	838,834	10,427	(23,849)	825,412	825,412
Total available for sale	13,561,336	133,010	(200,733)	13,493,613	13,493,613
Total investments in fixed maturity securities	\$ 13,640,125	\$ 145,262	\$ (200,733)	\$ 13,584,654	\$ 13,572,402

(In thousands)	Amortized Cost	Gross Unrealized		Fair Value	Carrying Value
		Gains	Losses		
December 31, 2017					
Held to maturity:					
State and municipal	\$ 65,882	\$ 14,499	\$ —	\$ 80,381	\$ 65,882
Residential mortgage-backed	13,450	1,227	—	14,677	13,450
Total held to maturity	79,332	15,726	—	95,058	79,332
Available for sale:					
U.S. government and government agency	372,748	8,824	(3,832)	377,740	377,740
State and municipal:					
Special revenue	2,663,245	53,512	(10,027)	2,706,730	2,706,730
State general obligation	439,358	16,087	(711)	454,734	454,734
Pre-refunded	436,241	22,701	(9)	458,933	458,933
Corporate backed	375,268	10,059	(860)	384,467	384,467
Local general obligation	417,955	23,242	(967)	440,230	440,230
Total state and municipal	4,332,067	125,601	(12,574)	4,445,094	4,445,094
Mortgage-backed securities:					
Residential (1)	1,043,629	9,304	(13,547)	1,039,386	1,039,386
Commercial	261,652	1,521	(2,628)	260,545	260,545
Total mortgage-backed securities	1,305,281	10,825	(16,175)	1,299,931	1,299,931
Asset-backed	2,111,132	11,024	(10,612)	2,111,544	2,111,544
Corporate:					
Industrial	2,574,400	52,210	(7,718)	2,618,892	2,618,892
Financial	1,402,161	37,744	(5,138)	1,434,767	1,434,767
Utilities	284,886	11,316	(1,248)	294,954	294,954
Other	40,560	5	(66)	40,499	40,499
Total corporate	4,302,007	101,275	(14,170)	4,389,112	4,389,112
Foreign	819,345	32,018	(2,866)	848,497	848,497
Total available for sale	13,242,580	289,567	(60,229)	13,471,918	13,471,918
Total investments in fixed maturity securities	\$ 13,321,912	\$ 305,293	\$ (60,229)	\$ 13,566,976	\$ 13,551,250

(1) Gross unrealized gains for residential mortgage-backed securities include \$81,006 and \$76,467 as of September 30, 2018 and December 31, 2017, respectively, related to securities with 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 September 30, 2018, 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	\$ 948,532	\$ 948,471
Due after one year through five years	4,526,907	4,523,008
Due after five years through ten years	2,958,685	2,959,406
Due after ten years	3,611,112	3,593,100
Mortgage-backed securities	1,594,889	1,560,669
Total	\$ 13,640,125	\$ 13,584,654

At September 30, 2018 and December 31, 2017, there were no investments that exceeded 10% of common stockholders' equity, other than investments in United States government and government agency securities.

(7) Investments in Equity Securities

At September 30, 2018 and December 31, 2017 , investments in equity securities were as follows:

(In thousands)	Cost	Gross Unrealized (1)		Fair Value	Carrying Value
		Gains	Losses		
September 30, 2018					
Common stocks	\$ 117,880	\$ 56,869	\$ (7,811)	\$ 166,938	\$ 166,938
Preferred stocks	117,101	44,262	(3,047)	158,316	158,316
Total	<u>\$ 234,981</u>	<u>\$ 101,131</u>	<u>\$ (10,858)</u>	<u>\$ 325,254</u>	<u>\$ 325,254</u>
December 31, 2017					
Common stocks	\$ 81,855	\$ 272,309	\$ (1,960)	\$ 352,204	\$ 352,204
Preferred stocks	124,150	102,890	(2,597)	224,443	224,443
Total	<u>\$ 206,005</u>	<u>\$ 375,199</u>	<u>\$ (4,557)</u>	<u>\$ 576,647</u>	<u>\$ 576,647</u>

(1) Effective January 1, 2018, the Company adopted new accounting guidance that requires all equity investments with readily determinable fair values (subject to certain exceptions) to be measured at fair value with changes in the fair value recognized through net income. Refer to Note 3 for additional information.

(8) Arbitrage Trading Account

At September 30, 2018 and December 31, 2017 , the fair and carrying values of the arbitrage trading account were \$678 million and \$618 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 September 30, 2018 , the fair value of long option contracts outstanding was \$89 thousand (notional amount of \$16.4 million) and the fair value of short option contracts outstanding was \$278 thousand (notional amount of \$28.8 million). Other than with respect to the use of these trading account securities, the Company does not make use of derivatives.

(9) Net Investment Income

Net investment income consists of the following:

(In thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Investment income earned on:				
Fixed maturity securities, including cash and cash equivalents and loans receivable	\$ 131,836	\$ 118,834	\$ 384,748	\$ 347,976
Investment funds	41,005	15,200	94,075	50,744
Arbitrage trading account	7,632	4,418	21,156	16,235
Real estate	5,597	5,042	15,339	14,894
Equity securities	1,004	604	2,208	1,845
Gross investment income	<u>187,074</u>	<u>144,098</u>	<u>517,526</u>	<u>431,694</u>
Investment expense	<u>(950)</u>	<u>(1,619)</u>	<u>(3,107)</u>	<u>(5,093)</u>
Net investment income	<u>\$ 186,124</u>	<u>\$ 142,479</u>	<u>\$ 514,419</u>	<u>\$ 426,601</u>

(10) 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 investment 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 \$324 million as of September 30, 2018.

Investment funds consisted of the following:

(In thousands)	Carrying Value as of		Income (Loss) from Investment Funds	
	September 30,	December 31,	For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Real estate	\$ 632,618	\$ 606,995	\$ 50,044	\$ 30,661
Energy	79,559	82,882	408	(12,763)
Other funds	539,571	465,800	43,623	32,846
Total	<u>\$ 1,251,748</u>	<u>\$ 1,155,677</u>	<u>\$ 94,075</u>	<u>\$ 50,744</u>

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.

(11) Real Estate

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

(In thousands)	Carrying Value	
	September 30, 2018	December 31, 2017
Properties in operation	\$ 757,573	\$ 451,691
Properties under development	1,159,677	1,017,910
Total	<u>\$ 1,917,250</u>	<u>\$ 1,469,601</u>

In 2018, properties in operation included a long-term ground lease in Washington, D.C., a hotel in Memphis, Tennessee, two office complexes 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 \$40,623,000 and \$25,646,000 as of September 30, 2018 and December 31, 2017, respectively. Related depreciation expense was \$15,175,000 and \$5,382,000 for the nine months ended September 30, 2018 and 2017, respectively. Future minimum rental income expected on operating leases relating to properties in operation is \$12,632,005 in 2018, \$52,014,542 in 2019, \$50,145,388 in 2020, \$49,267,711 in 2021, \$51,048,893 in 2022, \$42,435,018 in 2023 and \$501,089,126 thereafter.

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

(12) Loans Receivable

Loans receivable are as follows:

(In thousands)	September 30, 2018	December 31, 2017
Amortized cost (net of valuation allowance):		
Real estate loans	\$ 62,775	\$ 66,057
Commercial loans	33,815	13,627
Total	<u>\$ 96,590</u>	<u>\$ 79,684</u>
Fair value:		
Real estate loans	\$ 63,561	\$ 66,917
Commercial loans	35,317	15,130
Total	<u>\$ 98,878</u>	<u>\$ 82,047</u>
Valuation allowance:		
Specific	\$ 1,200	\$ 1,200
General	2,183	2,183
Total	<u>\$ 3,383</u>	<u>\$ 3,383</u>
	For the Three Months Ended September 30,	
	2018	2017
Change in valuation allowance	\$ —	\$ —
	For the Nine Months Ended September 30,	
	2018	2017
Decrease in valuation allowance	\$ —	\$ (14)

Loans receivable in non-accrual status were \$1.5 million and \$4.3 million as of September 30, 2018 and December 31, 2017, 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 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 September 30, 2018, and accordingly, the Company determined that a specific valuation allowance was not required.

(13) Net Realized and Unrealized Gains (Losses) on Investments

Net realized and unrealized gains (losses) on investments are as follows:

(In thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net realized and unrealized gains (losses) on investments in earnings				
Fixed maturity securities:				
Gains	\$ 2,152	\$ 8,763	\$ 23,412	\$ 21,795
Losses	(2,747)	(197)	(10,612)	(4,162)
Equity securities (1):				
Net realized gains on investment sales	149,562	34,720	391,305	109,566
Change in unrealized gains	(131,513)	—	(280,370)	—
Investment funds (2)	(30)	124,228	(264)	125,383
Real estate	4,518	1,956	12,114	4,892
Loans receivable	449	—	2,508	—
Other	(57)	14,489	2,336	19,286
Net realized and unrealized gains on investments in earnings before OTTI	22,334	183,959	140,429	276,760
Other-than-temporary impairments	—	—	—	—
Net realized and unrealized gains on investments in earnings	22,334	183,959	140,429	276,760
Income tax expense	(4,690)	(64,386)	(29,490)	(96,866)
After-tax net realized and unrealized gains on investments in earnings	\$ 17,644	\$ 119,573	\$ 110,939	\$ 179,894
Change in unrealized investment (losses) gains of available for sale securities:				
Fixed maturity securities	\$ (100,490)	\$ (10,627)	\$ (297,065)	\$ 84,214
Previously impaired fixed maturity securities	(7)	61	4	905
Equity securities available for sale (3)	—	(2,126)	—	(44,812)
Investment funds	3,669	4,129	(1,103)	9,841
Total change in unrealized investment (losses) gains	(96,828)	(8,563)	(298,164)	50,148
Income tax benefit (expense)	2,086	423	45,280	(23,550)
Noncontrolling interests	60	5	86	19
After-tax change in unrealized investment (losses) gains of available for sale securities	\$ (94,682)	\$ (8,135)	\$ (252,798)	\$ 26,617

(1) The net realized gains or losses on investment sales represent the total gains or losses from the purchase dates of the equity securities. The change in unrealized gains consists of two components: (i) the reversal of the gain or loss recognized in previous periods on equity securities sold and (ii) the change in unrealized gain or loss resulting from mark-to-market adjustments on equity securities still held.

(2) Investment funds includes a gain of \$124 million from the sale of an investment in an office building located in Washington, D.C. for the three and nine months ended September 30, 2017.

(3) Effective January 1, 2018, the Company adopted new accounting guidance that requires all equity investments with readily determinable fair values (subject to certain exceptions) to be measured at fair value with changes in the fair value recognized in net income. The Company recorded an adjustment of \$291 million to opening AOCI net of tax as a result of this guidance. Refer to Note 3 for further information.

(14) Fixed Maturity Securities in an Unrealized Loss Position

The following tables summarize all fixed maturity securities in an unrealized loss position at September 30, 2018 and December 31, 2017 by the length of time those securities have been continuously in an unrealized loss position:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(In thousands)						
September 30, 2018						
U.S. government and government agency	\$ 241,467	\$ 2,712	\$ 118,054	\$ 5,183	\$ 359,521	\$ 7,895
State and municipal	1,553,827	25,957	423,785	15,323	1,977,612	41,280
Mortgage-backed securities	834,782	15,777	541,015	24,684	1,375,797	40,461
Asset-backed securities	1,740,632	14,562	300,633	2,816	2,041,265	17,378
Corporate	2,045,819	50,487	369,248	19,383	2,415,067	69,870
Foreign government	299,444	21,830	111,195	2,019	410,639	23,849
Fixed maturity securities	<u>\$ 6,715,971</u>	<u>\$ 131,325</u>	<u>\$ 1,863,930</u>	<u>\$ 69,408</u>	<u>\$ 8,579,901</u>	<u>\$ 200,733</u>
December 31, 2017						
U.S. government and government agency	\$ 92,167	\$ 1,491	\$ 72,055	\$ 2,341	\$ 164,222	\$ 3,832
State and municipal	735,972	5,944	345,755	6,630	1,081,727	12,574
Mortgage-backed securities	480,435	5,110	373,956	11,065	854,391	16,175
Asset-backed securities	1,127,309	8,298	167,412	2,314	1,294,721	10,612
Corporate	1,103,747	8,224	170,858	5,946	1,274,605	14,170
Foreign government	244,139	2,615	25,824	251	269,963	2,866
Fixed maturity securities	<u>\$ 3,783,769</u>	<u>\$ 31,682</u>	<u>\$ 1,155,860</u>	<u>\$ 28,547</u>	<u>\$ 4,939,629</u>	<u>\$ 60,229</u>

A summary of the Company's non-investment grade fixed maturity securities that were in an unrealized loss position at September 30, 2018 is presented in the table below:

(In thousands)	Number of Securities	Aggregate Fair Value	Gross Unrealized Loss
Foreign government	20	\$ 172,462	\$ 20,688
Corporate	14	80,945	6,547
Asset-backed securities	7	10,930	156
Mortgage-backed securities	4	3,270	30
Total	<u>45</u>	<u>\$ 267,607</u>	<u>\$ 27,421</u>

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.

(15) Fair Value Measurements

The Company's fixed maturity securities, equity securities and arbitrage 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 September 30, 2018 and December 31, 2017 by level:

(In thousands)	Total	Level 1	Level 2	Level 3
September 30, 2018				
Assets:				
Fixed maturity securities available for sale:				
U.S. government and government agency	\$ 487,042	\$ —	\$ 487,042	\$ —
State and municipal	4,017,894	—	4,017,894	—
Mortgage-backed securities	1,548,222	—	1,548,222	—
Asset-backed securities	2,549,874	—	2,549,773	101
Corporate	4,065,169	—	4,065,169	—
Foreign government	825,412	—	825,412	—
Total fixed maturity securities available for sale	13,493,613	—	13,493,512	101
Equity securities:				
Common stocks	166,938	157,855	—	9,083
Preferred stocks	158,316	—	154,521	3,795
Total equity securities	325,254	157,855	154,521	12,878
Arbitrage trading account	678,321	475,684	202,637	—
Total	\$ 14,497,188	\$ 633,539	\$ 13,850,670	\$ 12,979
Liabilities:				
Trading account securities sold but not yet purchased	\$ 112,355	\$ 112,355	\$ —	\$ —
December 31, 2017				
Assets:				
Fixed maturity securities available for sale:				
U.S. government and government agency	\$ 377,740	\$ —	\$ 377,740	\$ —
State and municipal	4,445,094	—	4,445,094	—
Mortgage-backed securities	1,299,931	—	1,299,931	—
Asset-backed securities	2,111,544	—	2,111,372	172
Corporate	4,389,112	—	4,389,112	—
Foreign government	848,497	—	848,497	—
Total fixed maturity securities available for sale	13,471,918	—	13,471,746	172
Equity securities:				
Common stocks	352,204	342,834	—	9,370
Preferred stocks	224,443	—	213,600	10,843
Total equity securities	576,647	342,834	213,600	20,213
Arbitrage trading account	617,649	471,420	146,229	—
Total	\$ 14,666,214	\$ 814,254	\$ 13,831,575	\$ 20,385
Liabilities:				
Trading account securities sold but not yet purchased	\$ 64,358	\$ 64,358	\$ —	\$ —

There were no significant transfers between Levels 1 and 2 during the nine months ended September 30, 2018 or during the year ended December 31, 2017.

The following tables summarize changes in Level 3 assets and liabilities for the nine months ended September 30, 2018 and for the year ended December 31, 2017 :

(In thousands)	Gains (Losses) Included in:								
	Beginning Balance	Earnings (Losses)	Other Comprehensive Income (Loss)	Impairments	Purchases	(Sales)	Paydowns / Maturities	Transfers In / (Out)	Ending Balance
Nine Months Ended September 30, 2018									
Assets:									
Fixed maturities securities available for sale:									
Asset-backed securities	\$ 172	\$ (2)	\$ 46	\$ —	\$ 10	\$ (125)	\$ —	\$ —	\$ 101
Total	172	(2)	46	—	10	(125)	—	—	101
Equity securities:									
Common stocks	9,370	(288)	—	—	—	—	—	1	9,083
Preferred stocks	10,843	(50)	—	—	—	(6,998)	—	—	3,795
Total	20,213	(338)	—	—	—	(6,998)	—	1	12,878
Arbitrage trading account	—	(29)	—	—	3,882	(11)	—	(3,842)	—
Total	\$ 20,385	\$ (369)	\$ 46	\$ —	\$ 3,892	\$ (7,134)	\$ —	\$ (3,841)	\$ 12,979
Year Ended December 31, 2017									
Assets:									
Fixed maturities securities available for sale:									
Asset-backed securities	\$ 183	\$ 3	\$ 34	\$ —	\$ —	\$ (48)	\$ —	\$ —	\$ 172
Total	183	3	34	—	—	(48)	—	—	172
Equity securities:									
Common stocks	8,754	—	616	—	—	—	—	—	9,370
Preferred stocks	3,662	8	—	—	7,173	—	—	—	10,843
Total	12,416	8	616	—	7,173	—	—	—	20,213
Arbitrage trading account	—	8	—	—	—	(8)	—	—	—
Total	\$ 12,599	\$ 19	\$ 650	\$ —	\$ 7,173	\$ (56)	\$ —	\$ —	\$ 20,385

During the nine months ended September 30, 2018 , one common stock in the arbitrage trading account was transferred out of Level 3 as the security became publicly traded on a stock exchange. For the year ended December 31, 2017 , there were no t ransfers out of Level 3.

(16) Reserves for Loss and Loss Expenses

The Company's reserves for losses and loss expenses are comprised of case reserves and incurred but not reported liabilities ("IBNR"). When a claim is reported, a case reserve is established for the estimated ultimate payment based upon known information about the claim. As more information about the claim becomes available over time, case reserves are adjusted up or down as appropriate. Reserves are also established on an aggregate basis to provide for IBNR liabilities and expected loss reserve development on reported claims.

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)	September 30,	
	2018	2017
Net reserves at beginning of year	\$ 10,056,914	\$ 9,590,265
Net provision for losses and loss expenses:		
Claims occurring during the current year (1)	2,917,231	2,998,687
Increase (decrease) in estimates for claims occurring in prior years (2) (3)	5,262	(7,648)
Loss reserve discount accretion	32,082	34,436
Total	2,954,575	3,025,475
Net payments for claims:		
Current year	597,859	628,078
Prior year	2,106,394	1,996,977
Total	2,704,253	2,625,055
Foreign currency translation	(101,071)	57,789
Net reserves at end of period	10,206,165	10,048,474
Ceded reserves at end of period	1,665,997	1,605,872
Gross reserves at end of period	\$ 11,872,162	\$ 11,654,346

(1) Claims occurring during the current year are net of loss reserve discounts of \$ 19 million and \$ 17 million for the nine months ended September 30, 2018 and 2017 , respectively.

(2) The increase (decrease) 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 decreased by \$ 2 million and \$ 31 million for the nine months ended September 30, 2018 and 2017 , 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 \$27 million and \$31 million for the nine months ended September 30, 2018 and 2017 , respectively.

During the nine months ended September 30, 2018 , favorable prior year development (net of additional and return premiums) of \$27 million included \$35 million of favorable development for the Insurance segment, partially offset by \$8 million of adverse development for the Reinsurance segment. The favorable development for the Insurance segment was primarily attributable to workers' compensation business. The favorable workers' compensation development was spread across many accident years, including prior to 2008, but was most significant in accident years 2015 through 2017. The favorable workers' compensation development reflects a continuation of the benign loss cost trends experienced during recent years, particularly the favorable claim frequency trends (i.e., number of reported claims per unit of exposure). It also reflects claims management initiatives implemented during the past few years. The adverse development for the Reinsurance segment was mainly driven by US casualty facultative business from accident years 2008 and prior related to construction projects.

During the nine months ended September 30, 2017 , favorable prior year development (net of additional and return premiums) of \$31 million included \$62 million of favorable development for the Insurance segment, partially offset by \$31 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 due to reserve strengthening associated with claims impacted by the change in the Ogden discount rate in the U.K., as well as adverse development in the U.S. facultative casualty excess of loss business. The Ogden rate is the discount rate used to calculate lump-sum bodily injury payouts in the U.K., and was reduced by the U.K. Ministry of Justice from + 2.5% to - 0.75% . The adverse development mostly related to U.K. motor bodily injury claims which we reinsured on an excess of loss basis in accident years 2012 through 2016. The adverse development on U.S. facultative casualty business related to construction-related risks in accident years 2008 and prior.

(17) Fair Value of Financial Instruments

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

(In thousands)	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Fixed maturity securities	\$ 13,572,402	\$ 13,584,654	\$ 13,551,250	\$ 13,566,976
Equity securities	325,254	325,254	576,647	576,647
Arbitrage trading account	678,321	678,321	617,649	617,649
Loans receivable	96,590	98,878	79,684	82,047
Cash and cash equivalents	819,366	819,366	950,471	950,471
Trading account receivables from brokers and clearing organizations	191,394	191,394	189,280	189,280
Liabilities:				
Due to broker	21,478	21,478	15,920	15,920
Trading account securities sold but not yet purchased	112,355	112,355	64,358	64,358
Subordinated debentures	907,304	913,344	728,218	769,060
Senior notes and other debt	1,790,498	1,876,579	1,769,052	1,945,313

The estimated fair values of the Company's fixed maturity securities, equity securities and arbitrage trading account securities are based on various valuation techniques that rely on fair value measurements as described in Note 15. 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.

(18) Reinsurance

The following is a summary of reinsurance financial information:

(In thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Written premiums:				
Direct	\$ 1,746,197	\$ 1,679,389	\$ 5,318,698	\$ 5,127,465
Assumed	181,587	194,769	536,582	570,052
Ceded	(303,570)	(302,975)	(941,624)	(915,245)
Total net premiums written	<u>\$ 1,624,214</u>	<u>\$ 1,571,183</u>	<u>\$ 4,913,656</u>	<u>\$ 4,782,272</u>
Earned premiums:				
Direct	\$ 1,735,576	\$ 1,692,453	\$ 5,115,403	\$ 4,972,755
Assumed	177,996	202,972	547,372	605,281
Ceded	(310,087)	(313,925)	(910,828)	(857,792)
Total net premiums earned	<u>\$ 1,603,485</u>	<u>\$ 1,581,500</u>	<u>\$ 4,751,947</u>	<u>\$ 4,720,244</u>
Ceded losses and loss expenses incurred	<u>\$ 186,538</u>	<u>\$ 247,104</u>	<u>\$ 586,607</u>	<u>\$ 424,905</u>
Ceded commissions earned	<u>\$ 68,938</u>	<u>\$ 63,222</u>	<u>\$ 201,216</u>	<u>\$ 177,524</u>

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 both September 30, 2018 and December 31, 2017 .

(19) 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 \$26 million and \$30 million for the nine months ended September 30, 2018 and 2017, respectively. A summary of RSUs issued in the nine months ended September 30, 2018 and 2017 follows:

(\$ in thousands)	Units	Fair Value
2018	757,294	\$ 57,796
2017	855,051	\$ 58,712

(20) 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.

(21) Business Segments

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

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

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.

(In thousands)	Revenues				Pre-Tax Income (Loss)	Net Income (Loss) to Common Stockholders
	Earned Premiums	Investment Income	Other	Total (1)		
Three months ended September 30, 2018						
Insurance	\$ 1,488,658	\$ 146,319	\$ 19,447	\$ 1,654,424	\$ 226,856	\$ 178,571
Reinsurance	114,827	23,826	—	138,653	14,792	11,567
Corporate, other and eliminations (2)	—	15,979	106,512	122,491	(54,759)	(45,862)
Net realized and unrealized gains on investments	—	—	22,334	22,334	22,334	17,644
Total	<u>\$ 1,603,485</u>	<u>\$ 186,124</u>	<u>\$ 148,293</u>	<u>\$ 1,937,902</u>	<u>\$ 209,223</u>	<u>\$ 161,920</u>
Three months ended September 30, 2017						
Insurance	\$ 1,433,729	\$ 105,924	\$ —	\$ 1,539,653	\$ 171,478	\$ 123,240
Reinsurance	147,771	21,528	—	169,299	(57,643)	(35,074)
Corporate, other and eliminations (2)	—	15,027	123,404	138,431	(71,681)	(45,685)
Net realized and unrealized gains on investments	—	—	183,959	183,959	183,959	119,573
Total	<u>\$ 1,581,500</u>	<u>\$ 142,479</u>	<u>\$ 307,363</u>	<u>\$ 2,031,342</u>	<u>\$ 226,113</u>	<u>\$ 162,054</u>
Nine months ended September 30, 2018						
Insurance	\$ 4,377,003	\$ 396,514	\$ 57,123	\$ 4,830,640	\$ 653,936	\$ 516,397
Reinsurance	374,944	70,599	—	445,543	50,687	40,005
Corporate, other and eliminations (2)	—	47,306	276,148	323,454	(195,597)	(158,949)
Net realized and unrealized gains on investments	—	—	140,429	140,429	140,429	110,939
Total	<u>\$ 4,751,947</u>	<u>\$ 514,419</u>	<u>\$ 473,700</u>	<u>\$ 5,740,066</u>	<u>\$ 649,455</u>	<u>\$ 508,392</u>
Nine months ended September 30, 2017						
Insurance	\$ 4,262,485	\$ 320,552	\$ —	\$ 4,583,037	\$ 557,605	\$ 381,736
Reinsurance	457,759	67,798	—	525,557	(38,279)	(20,801)
Corporate, other and eliminations (2)	—	38,251	326,203	364,454	(224,716)	(146,324)
Net realized and unrealized gains on investments	—	—	276,760	276,760	276,760	179,894
Total	<u>\$ 4,720,244</u>	<u>\$ 426,601</u>	<u>\$ 602,963</u>	<u>\$ 5,749,808</u>	<u>\$ 571,370</u>	<u>\$ 394,505</u>

(1) Revenues for Insurance from foreign countries for the three months ended September 30, 2018 and 2017 were \$176 million and \$166 million , and for the nine months ended September 30, 2018 and 2017 were \$535 million and \$513 million , respectively. Revenues for Reinsurance from foreign countries for the three months ended September 30, 2018 and 2017 were \$51 million and \$49 million , and for the nine months ended September 30, 2018 and 2017 were \$163 million and \$150 million , respectively.

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

Identifiable Assets

(In thousands)	September 30, 2018	December 31, 2017
Insurance	\$ 19,511,126	\$ 19,263,193
Reinsurance	2,940,606	3,169,731
Corporate, other and eliminations	2,403,917	1,866,993
Consolidated	<u>\$ 24,855,649</u>	<u>\$ 24,299,917</u>

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

(In thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Insurance:				
Other liability	\$ 482,255	\$ 466,616	\$ 1,421,144	\$ 1,378,505
Workers' compensation	378,922	378,529	1,122,217	1,106,616
Short-tail lines (1)	299,856	276,737	883,359	856,150
Commercial automobile	185,069	174,400	536,079	514,570
Professional liability	142,556	137,447	414,204	406,644
Total Insurance	1,488,658	1,433,729	4,377,003	4,262,485
Reinsurance:				
Casualty	87,039	94,478	264,450	282,430
Property	27,788	53,293	110,494	175,329
Total Reinsurance	114,827	147,771	374,944	457,759
Total	\$ 1,603,485	\$ 1,581,500	\$ 4,751,947	\$ 4,720,244

(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 2018 and beyond, are based upon the Company’s historical performance and on current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. They are subject to various risks and uncertainties, including but not limited to: the cyclical nature of the property casualty industry; the impact of significant competition, including new alternative entrants to the industry; the long-tail and potentially volatile nature of the insurance and reinsurance business; product demand and pricing; claims development and the process of estimating reserves; investment risks, including those of our portfolio of fixed maturity securities and investments in equity securities, including investments in financial institutions, municipal bonds, mortgage-backed securities, loans receivable, investment funds, including real estate, merger arbitrage, energy related and private equity investments; the effects of emerging claim and coverage issues; the uncertain nature of damage theories and loss amounts; natural and man-made catastrophic losses, including as a result of terrorist activities; general economic and market activities, including inflation, interest rates, and volatility in the credit and capital markets; the impact of the conditions in the financial markets and the global economy, and the potential effect of legislative, regulatory, accounting or other initiatives taken in response, on our results and financial condition; foreign currency and political risks (including those associated with the United Kingdom's withdrawal from the European Union, or "Brexit") relating to our international operations; our ability to attract and retain key personnel and qualified employees; continued availability of capital and financing; the success of our new ventures or acquisitions and the availability of other opportunities; the availability of reinsurance; our retention under the Terrorism Risk Insurance Program Reauthorization Act of 2015; the ability of our reinsurers to pay reinsurance recoverables owed to us; other legislative and regulatory developments, including those related to business practices in the insurance industry; credit risk related to our policyholders, independent agents and brokers; changes in the ratings assigned to us or our insurance company subsidiaries by rating agencies; the availability of dividends from our insurance company subsidiaries; potential difficulties with technology and/or data security; the effectiveness of our controls to ensure compliance with guidelines, policies and legal and regulatory standards; and other risks detailed from time to time in the Company’s filings with the Securities and Exchange Commission. These risks and uncertainties could cause our actual results for the year 2018 and beyond to differ materially from those expressed in any forward-looking statement we make. Any projections of growth in our revenues would not necessarily result in commensurate levels of earnings. 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.

Overview

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

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 have been at historically low levels for an extended period, although recently interest rates have increased.

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.

Through the second quarter of 2018, the Company used the Argentine peso ("ARS") as its functional currency for its business in Argentina and translated the financial statements of its Argentine operations into U.S. dollars ("USD"). Exchange rate movements through the second quarter of 2018 between the ARS and USD had been recorded as a currency translation gain or loss, which is a component of AOCI. Based on recent ARS inflation rate movements, the Company concluded that, effective July 1, 2018, the Argentine economy is considered highly inflationary under GAAP. This conclusion required the Company to change the functional currency of its Argentine operations to USD commencing July 1, 2018, and accordingly, the Company recognized foreign exchange gains and losses in earnings for any transactions in the Argentine operations that are not USD denominated.

Effective January 1, 2018, the Company adopted new accounting standards including ASU 2014-09, Revenue from Customers, ASU 2016-01, Financial Instruments and ASU 2018-02, Reporting Comprehensive Income. Refer to Note 3 in the financial statements for further information on the accounting guidance and impact of their adoption on the Company's results and financial position.

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 administering 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 2017 :

(In thousands) Severity (+/-)	Frequency (+/-)		
	1%	5%	10%
1%	\$ 79,667	\$ 239,794	\$ 439,953
5%	239,794	406,263	614,349
10%	439,953	614,349	832,344

Our net reserves for losses and loss expenses of approximately \$10.2 billion as of September 30, 2018 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 \$1.6 billion, or 16%, of the Company's net loss reserves as of September 30, 2018 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)	September 30, 2018	December 31, 2017
Insurance	\$ 8,613,278	\$ 8,341,622
Reinsurance	1,592,887	1,715,292
Net reserves for losses and loss expenses	10,206,165	10,056,914
Ceded reserves for losses and loss expenses	1,665,997	1,613,494
Gross reserves for losses and loss expenses	<u>\$ 11,872,162</u>	<u>\$ 11,670,408</u>

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
September 30, 2018			
Other liability	\$ 1,325,565	\$ 2,309,225	\$ 3,634,790
Workers' compensation (1)	1,556,809	1,262,943	2,819,752
Professional liability	307,793	642,323	950,116
Commercial automobile	355,611	286,825	642,436
Short-tail lines (2)	275,180	291,004	566,184
Total Insurance	3,820,958	4,792,320	8,613,278
Reinsurance (1)	878,508	714,379	1,592,887
Total	<u>\$ 4,699,466</u>	<u>\$ 5,506,699</u>	<u>\$ 10,206,165</u>
December 31, 2017			
Other liability	\$ 1,261,957	\$ 2,189,596	\$ 3,451,553
Workers' compensation (1)	1,543,379	1,242,501	2,785,880
Professional liability	295,269	618,107	913,376
Commercial automobile	364,900	269,942	634,842
Short-tail lines (2)	297,777	258,194	555,971
Total Insurance	3,763,282	4,578,340	8,341,622
Reinsurance (1)	919,497	795,795	1,715,292
Total	<u>\$ 4,682,779</u>	<u>\$ 5,374,135</u>	<u>\$ 10,056,914</u>

(1) Reserves for workers' compensation and reinsurance are net of an aggregate net discount of \$571 million and \$591 million as of September 30, 2018 and December 31, 2017, 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 nine months ended September 30, 2018 and 2017 are as follows:

(In thousands)	2018	2017
Net (increase) decrease in prior year loss reserves	\$ (5,262)	\$ 7,648
Increase in prior year earned premiums	31,880	22,940
Net favorable prior year development	<u>\$ 26,618</u>	<u>\$ 30,588</u>

During the nine months ended September 30, 2018 , favorable prior year development (net of additional and return premiums) of \$27 million included \$35 million of favorable development for the Insurance segment, partially offset by \$8 million of adverse development for the Reinsurance segment. The favorable development for the Insurance segment was primarily attributable to workers' compensation business. The favorable workers' compensation development was spread across many accident years, including prior to 2008, but was most significant in accident years 2015 through 2017. The favorable workers' compensation development reflects a continuation of the benign loss cost trends experienced during recent years, particularly the favorable claim frequency trends (i.e., number of reported claims per unit of exposure). It also reflects claims management initiatives implemented during the past few years. The adverse development for the Reinsurance segment was mainly driven by US casualty facultative business from accident years 2008 and prior related to construction projects.

During the nine months ended September 30, 2017 , favorable prior year development (net of additional and return premiums) of \$31 million included \$62 million of favorable development for the Insurance segment, partially offset by \$31 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 due to reserve strengthening associated with claims impacted by the change in the Ogden discount rate in the U.K., as well as adverse development in the U.S. facultative casualty excess of loss business. The Ogden rate is the discount rate used to calculate lump-sum bodily injury payouts in the U.K., and was reduced by the U.K. Ministry of Justice from +2.5% to -0.75% . The adverse development mostly related to U.K. motor bodily injury claims which we reinsured on an excess of loss basis in accident years 2012 through 2016. The adverse development on U.S. facultative casualty business related to construction-related risks in accident years 2008 and prior.

Reserve Discount. The Company discounts its liabilities for certain workers' compensation reserves. The amount of workers' compensation reserves that were discounted was \$1,814 million and \$1,855 million at September 30, 2018 and December 31, 2017 , respectively. The aggregate net discount for those reserves, after reflecting the effects of ceded reinsurance, was \$571 million and \$591 million at September 30, 2018 and December 31, 2017 , respectively. At September 30, 2018 , discount rates by year ranged from 2.0% to 6.5%, with a weighted average discount rate of 3.8%.

Substantially all of the workers' compensation discount (97% of total discounted reserves at September 30, 2018) relates to 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 September 30, 2018), 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 \$45 million at September 30, 2018 and \$56 million at December 31, 2017 . 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.

The Company classifies its fixed maturity securities 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 September 30, 2018 :

(\$ in thousands)	Number of Securities	Aggregate Fair Value	Gross Unrealized Loss
Unrealized loss less than 20% of amortized cost	1,175	\$ 8,547,309	\$ 187,215
Unrealized loss of 20% or greater of amortized cost:			
Less than twelve months	17	32,589	13,514
Twelve months and longer	2	3	4
Total	1,194	\$ 8,579,901	\$ 200,733

A summary of the Company's non-investment grade fixed maturity securities that were in an unrealized loss position at September 30, 2018 is presented in the table below:

(\$ in thousands)	Number of Securities	Aggregate Fair Value	Gross Unrealized Loss
Foreign government	20	\$ 172,462	\$ 20,688
Corporate	14	80,945	6,547
Asset-backed securities	7	10,930	156
Mortgage-backed securities	4	3,270	30
Total	45	\$ 267,607	\$ 27,421

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.

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 September 30, 2018 and December 31, 2017 .

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 available for sale securities, equity securities, 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 September 30, 2018 :

(\$ in thousands)	Carrying Value	Percent of Total
Pricing source:		
Independent pricing services	\$ 13,324,779	98.8%
Syndicate manager	34,846	0.2
Directly by the Company based on:		
Observable data	133,887	1.0
Cash flow model	101	—
Total	<u>\$ 13,493,613</u>	<u>100.0%</u>

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 September 30, 2018, 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 Nine Months Ended September 30, 2018 and 2017

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 GAAP combined ratios (sum of loss ratio and expense ratio) for each of our business segments for the nine months ended September 30, 2018 and 2017. 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)	2018		2017	
Insurance:				
Gross premiums written	\$	5,453,303	\$	5,233,692
Net premiums written		4,561,370		4,364,638
Net premiums earned		4,377,003		4,262,485
Loss ratio		61.8%		61.7%
Expense ratio		32.5%		32.8%
GAAP combined ratio		94.3%		94.5%
Reinsurance:				
Gross premiums written	\$	401,977	\$	463,825
Net premiums written		352,286		417,634
Net premiums earned		374,944		457,759
Loss ratio		67.1%		86.1%
Expense ratio		38.2%		37.1%
GAAP combined ratio		105.3%		123.2%
Consolidated:				
Gross premiums written	\$	5,855,280	\$	5,697,517
Net premiums written		4,913,656		4,782,272
Net premiums earned		4,751,947		4,720,244
Loss ratio		62.2%		64.1%
Expense ratio		33.0%		33.2%
GAAP combined ratio		95.2%		97.3%

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 nine months ended September 30, 2018 and 2017:

(In thousands, except per share data)	2018		2017	
Net income to common stockholders	\$	508,392	\$	394,505
Weighted average diluted shares		128,404		129,289
Net income per diluted share	\$	3.96	\$	3.05

The Company reported net income to common stockholders of \$508 million in 2018 compared to \$395 million in 2017. The 29% increase in net income was primarily due to an after-tax increase in underwriting income of \$82 million, an after-tax increase in net investment income of \$69 million mainly driven by growth in the fixed maturity security portfolio, higher interest rates and an increase in investment funds, a \$29 million increase in after-tax foreign currency gains, and a \$52 million decrease in tax expense primarily due to the reduction of the federal corporate tax rate from 35% to 21%, partially offset by a decrease in after-tax net investment gains of \$108 million, an after-tax increase in interest expense of \$5 million, an after-tax increase in corporate expenses of \$3 million, and an after-tax reduction in insurance service fee income of \$2 million. The number of weighted average diluted shares decreased slightly primarily due to share repurchases.

Premiums. Gross premiums written were \$5,855 million in 2018, an increase of 3% from \$5,698 million in 2017. The increase was due to an increase in the Insurance segment of \$220 million, partially offset by a decrease in the Reinsurance segment of \$62 million. The renewal retention rate was approximately 77.7% for policies expiring in 2018 and 2017.

Average renewal premium rates for insurance and facultative reinsurance increased 2.5% in 2018 when adjusted for change in exposures, and increased 4.1% excluding workers' compensation.

A summary of gross premiums written in 2018 compared with 2017 by line of business within each business segment follows:

- Insurance - gross premiums increased 4% to \$5,453 million in 2018 from \$5,234 million in 2017 . Gross premiums increased \$106 million (7%) for other liability, \$58 million (10%) for professional liability, \$53 million (4%) for short-tail lines, and \$46 million (8%) for commercial auto and decreased \$44 million (3%) for workers' compensation.
- Reinsurance - gross premiums decreased 13% to \$402 million in 2018 from \$464 million in 2017 . Gross premiums decreased \$35 million (22%) for property lines and \$27 million (9%) for casualty lines.

Net premiums written were \$4,914 million in 2018 , an increase of 3% from \$4,782 million in 2017 . Ceded reinsurance premiums as a percentage of gross written premiums were 16% in both 2018 and 2017 .

Premiums earned increased less than 1% to \$4,752 million in 2018 from \$4,720 million in 2017 . 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 2018 are related to business written during both 2018 and 2017 . Audit premiums were \$149 million in 2018 compared with \$137 million in 2017 .

Net Investment Income . Following is a summary of net investment income for the nine months ended September 30, 2018 and 2017 :

(\$ in thousands)	Amount		Average Annualized Yield	
	2018	2017	2018	2017
Fixed maturity securities, including cash and cash equivalents and loans receivable	\$ 384,748	\$ 347,976	3.6%	3.3%
Investment funds	94,075	50,744	10.3	5.5
Arbitrage trading account	21,156	16,235	4.4	4.0
Real estate	15,339	14,894	1.1	1.6
Equity securities	2,208	1,845	1.3	1.2
Gross investment income	517,526	431,694	3.8	3.3
Investment expenses	(3,107)	(5,093)	—	—
Total	\$ 514,419	\$ 426,601	3.8%	3.3%

Net investment income increased 21% to \$514 million in 2018 from \$427 million in 2017 due primarily to a \$43 million increase in income from investment funds mainly from real estate, energy and aviation funds, a \$37 million increase in income from fixed maturity securities mainly driven by growth in the fixed maturity security portfolio and higher interest rates, a \$5 million increase from the arbitrage trading account and a \$2 million decrease in investment expenses. The Company has maintained a shortened duration of its fixed maturity security portfolio. This has reduced the potential impact of mark-to-market on the portfolio and positioned the Company to take advantage of rising interest rates. Average invested assets, at cost (including cash and cash equivalents), were \$18.3 billion in 2018 and \$17.4 billion in 2017 .

Insurance Service Fees . The Company earns fees from an insurance distribution business, a third-party administrator and as a servicing carrier of workers' compensation assigned risk plans for certain states. Insurance service fees decreased to \$91 million in 2018 from \$100 million in 2017 .

Net Realized and Unrealized Gains on Investments . The Company buys and sells securities and other investment assets on a regular basis in order to maximize its total return on investments. Decisions to sell securities and other investment assets are based on management's view of the underlying fundamentals of specific investments as well as management's expectations regarding interest rates, credit spreads, currency values and general economic conditions. Net realized and unrealized gains on investments were \$140 million in 2018 compared with \$277 million in 2017 . Effective January 1, 2018, the Company adopted new accounting guidance that requires all equity investments with readily determinable fair values to be measured at fair value with changes in the fair value recognized through net income (other than those equity securities accounted for under the equity method of accounting or those that result in consolidation of the investee). The gains of \$140 million in 2018 reflect net realized gains on investment sales of \$420 million reduced by a change in unrealized gains on equity securities of \$280 million.

Revenues from Non-Insurance Businesses. Revenues from non-insurance businesses were derived from businesses engaged in the distribution of promotional merchandise, world-wide textile solutions 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 \$242 million in 2018 and \$225 million in 2017. The increase mainly relates to revenues from the textile business purchased in March 2017.

Losses and Loss Expenses. Losses and loss expenses decreased to \$2,955 million in 2018 from \$3,025 million in 2017. The consolidated loss ratio was 62.2% in 2018 and 64.1% in 2017. Catastrophe losses, net of reinsurance recoveries and reinstatement premiums, were \$60 million in 2018 and \$167 million in 2017. The more significant 2017 catastrophe losses largely related to hurricanes Harvey, Irma and Maria, along with two earthquakes in Mexico. Favorable prior year reserve development (net of premium offsets) was \$27 million in 2018 and \$31 million in 2017. The loss ratio excluding catastrophe losses and prior year reserve development increased 0.3 points to 61.5% in 2018 from 61.2% in 2017.

A summary of loss ratios in 2018 compared with 2017 by business segment follows:

- **Insurance** - The loss ratio was 61.8% in 2018 and 61.7% in 2017. Catastrophe losses were \$50 million in 2018 compared with \$94 million in 2017. Favorable prior year reserve development was \$35 million in 2018 and \$62 million in 2017. The loss ratio excluding catastrophe losses and prior year reserve development increased 0.4 points to 61.4% in 2018 from 61.0% in 2017.
- **Reinsurance** - The loss ratio of 67.1% in 2018 was 19 points lower than the loss ratio of 86.1% in 2017. Catastrophe losses were \$10 million in 2018 compared with \$73 million in 2017. Adverse prior year reserve development was \$8 million in 2018 and \$31 million in 2017. The 2017 adverse development largely related to the impact of the change in the Ogden discount rate in the U.K. and the U.S. facultative casualty excess of loss business. The loss ratio excluding catastrophe losses and prior year reserve development decreased 0.9 points to 62.4% in 2018 from 63.3% in 2017.

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

(\$ in thousands)	2018	2017
Policy acquisition and insurance operating expenses	\$ 1,566,473	\$ 1,567,359
Insurance service expenses	90,970	97,308
Net foreign currency (gains) losses	(22,033)	14,255
Other costs and expenses	145,820	142,233
Total	\$ 1,781,230	\$ 1,821,155

Policy acquisition and insurance operating expenses are comprised of commissions paid to agents and brokers, premium taxes and other assessments and internal underwriting costs. The percentage change of policy acquisition and insurance operating expenses remained flat and net premiums earned increased less than 1% from 2017. The expense ratio (underwriting expenses expressed as a percentage of premiums earned) was 33.0% in 2018 and 33.2% in 2017.

Service expenses, which represent the costs associated with the fee-based businesses, decreased to \$91 million in 2018 from \$97 million in 2017.

Net foreign currency (gains) losses result from transactions denominated in a currency other than a company's operating functional currency. Net foreign currency gains were \$22 million in 2018 compared to losses of \$14 million in 2017, resulting from the strengthening U.S. dollar and the change of functional currency for the Company's Argentine operations to the U.S. dollar as of July 1, 2018. The Argentine economy was determined to be highly inflationary under GAAP requiring the change in functional currency beginning with the third quarter of 2018.

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 \$146 million in 2018 from \$142 million in 2017.

Expenses from Non-Insurance Businesses. Expenses from non-insurance businesses represent costs associated with businesses engaged in the distribution of promotional merchandise, world-wide textile solutions 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 \$238 million in 2018 compared to \$221 million in 2017. The increase mainly relates to expenses from the textile business purchased in March 2017.

Interest Expense. Interest expense was \$117 million in 2018 compared with \$110 million in 2017. In March 2018, the Company issued \$175 million aggregate principal amount of 5.70% subordinated debentures due 2058, and in April 2018, the Company issued another \$10 million principal amount of such debentures. Additionally in 2018, the Company issued subsidiary debt of \$20 million.

Income Taxes. The effective income tax rate was 21.0% in 2018 and 30.5% in 2017. The decrease in the effective tax rate in 2018 from 2017 was primarily due to the Tax Cuts and Jobs Act of 2017, which reduced the federal corporate tax rate from 35% to 21%.

The Company has not provided U.S. deferred income taxes on the undistributed earnings of approximately \$60 million of its non-U.S. subsidiaries since these earnings are intended to be permanently reinvested in the non-U.S. subsidiaries. In the future, if such earnings were distributed the Company projects that the incremental tax, if any, will be immaterial.

Results of Operations for the Three Months Ended September 30, 2018 and 2017

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 GAAP combined ratios (sum of loss ratio and expense ratio) for each of our business segments for the three months ended September 30, 2018 and 2017. 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)	2018	2017
Insurance:		
Gross premiums written	\$ 1,794,104	\$ 1,718,552
Net premiums written	1,504,792	1,432,334
Net premiums earned	1,488,658	1,433,729
Loss ratio	63.0%	63.2%
Expense ratio	31.9%	32.4%
GAAP combined ratio	94.9%	95.6%
Reinsurance:		
Gross premiums written	\$ 133,681	\$ 155,606
Net premiums written	119,422	138,849
Net premiums earned	114,827	147,771
Loss ratio	69.3%	118.7%
Expense ratio	38.6%	34.9%
GAAP combined ratio	107.9%	153.6%
Consolidated:		
Gross premiums written	\$ 1,927,785	\$ 1,874,158
Net premiums written	1,624,214	1,571,183
Net premiums earned	1,603,485	1,581,500
Loss ratio	63.5%	68.4%
Expense ratio	32.4%	32.6%
GAAP combined ratio	95.9%	101.0%

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 September 30, 2018 and 2017:

(In thousands, except per share data)	2018	2017
Net income to common stockholders	\$ 161,920	\$ 162,054
Weighted average diluted shares	128,561	128,944
Net income per diluted share	\$ 1.26	\$ 1.26

The Company reported net income to common stockholders of \$162 million in both 2018 and 2017. The changes in net income were primarily due to an after-tax increase in underwriting income of \$65 million, an after-tax increase in net investment income of \$34 million mainly driven by growth in the fixed maturity security portfolio and higher interest rates as well as increased investment fund income, a \$15 million increase in after-tax foreign currency gains, a \$12 million decrease in tax expense due primarily to the reduction of the federal corporate tax rate from 35% to 21%, and an after-tax decrease in corporate expenses of \$2 million, offset by a decrease in after-tax net investment gains of \$127 million and an after-tax increase in interest expense of \$2 million. The number of weighted average diluted shares decreased slightly primarily due to share repurchases.

Premiums. Gross premiums written were \$1,928 million in 2018, an increase of 3% from \$1,874 million in 2017. The increase was due to an increase in the Insurance segment of \$76 million, partially offset by a decrease in the Reinsurance segment of \$22 million. Approximately 77.4% of policies expiring in 2018 were renewed, compared with a 77.5% renewal retention rate for policies expiring in 2017.

Average renewal premium rates for insurance and facultative reinsurance increased 2.3% in 2018 when adjusted for change in exposures, and increased 3.9% excluding workers' compensation.

A summary of gross premiums written in 2018 compared with 2017 by line of business within each business segment follows:

- Insurance - gross premiums increased 4% to \$1,794 million in 2018 from \$1,719 million in 2017 . Gross premiums increased \$40 million (7%) for other liability, \$22 million (12%) for professional liability, \$19 million (10%) for commercial auto and \$12 million (3%) for short-tail lines and decreased \$17 million (4%) for workers' compensation.
- Reinsurance - gross premiums decreased 14% to \$134 million in 2018 from \$156 million in 2017 . Gross premiums decreased \$14 million (28%) for property lines and \$8 million (7%) for casualty lines.

Net premiums written were \$1,624 million in 2018 , an increase of 3% from \$1,571 million in 2017 . Ceded reinsurance premiums as a percentage of gross written premiums were 16% in both 2018 and 2017 .

Premiums earned increased 1% to \$1,603 million in 2018 from \$1,582 million in 2017 . 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 2018 are related to business written during both 2018 and 2017 . Audit premiums were \$51 million in 2018 compared with \$46 million in 2017 .

Net Investment Income . Following is a summary of net investment income for the three months ended September 30, 2018 and 2017 :

(\$ in thousands)	Amount		Average Annualized Yield	
	2018	2017	2018	2017
Fixed maturity securities, including cash and cash equivalents and loans receivable	\$ 131,836	\$ 118,834	3.6%	3.4%
Investment funds	41,005	15,200	13.1	5.2
Arbitrage trading account	7,632	4,418	5.1	3.5
Real estate	5,597	5,042	1.2	1.5
Equity securities	1,004	604	1.7	1.2
Gross investment income	187,074	144,098	4.0	3.3
Investment expenses	(950)	(1,619)	—	—
Total	\$ 186,124	\$ 142,479	4.0%	3.2%

Net investment income increased 31% to \$186 million in 2018 from \$142 million in 2017 due primarily to a \$26 million increase in income from investment funds due to real estate, energy and aviation funds, a \$13 million increase in income from fixed maturity securities mainly driven by growth in the fixed maturity security portfolio and higher interest rates, a \$3 million increase from the arbitrage trading account and a \$2 million increase from real estate and equity securities and decreased investment expenses. The Company has maintained a shortened duration of its fixed maturity security portfolio. This has reduced the potential impact of mark-to-market on the portfolio and positioned the Company to take advantage of rising interest rates. Average invested assets, at cost (including cash and cash equivalents), were \$18.5 billion in 2018 and \$17.6 billion in 2017 .

Insurance Service Fees . The Company earns fees from an insurance distribution business, a third-party administrator and as a servicing carrier of workers' compensation assigned risk plans for certain states. Insurance service fees decreased to \$31 million in 2018 from \$34 million in 2017 .

Net Realized and Unrealized Gains on Investments . The Company buys and sells securities and other investment assets on a regular basis in order to maximize its total return on investments. Decisions to sell securities and other investment assets are based on management's view of the underlying fundamentals of specific investments as well as management's expectations regarding interest rates, credit spreads, currency values and general economic conditions. Net realized and unrealized gains on investments were \$22 million in 2018 compared with \$184 million in 2017 . Effective January 1, 2018, the Company adopted new accounting guidance that requires all equity investments with readily determinable fair values to be measured at fair value with changes in the fair value recognized through net income (other than those equity securities accounted for under the equity method of accounting or those that result in consolidation of the investee). The gains of \$22 million in 2018 reflect net realized gains on investment sales of \$154 million reduced by a change in unrealized gains on equity securities of \$132 million.

Revenues from Non-Insurance Businesses. Revenues from non-insurance businesses were derived from businesses engaged in the distribution of promotional merchandise, world-wide textile solutions 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 \$95 million in 2018 and \$90 million in 2017 .

Losses and Loss Expenses. Losses and loss expenses decreased to \$1,018 million in 2018 from \$1,081 million in 2017 . The consolidated loss ratio was 63.5% in 2018 and 68.4% in 2017. Catastrophe losses, net of reinsurance recoveries and reinstatement premiums, were \$39 million in 2018 and \$119 million in 2017 . The more significant 2017 catastrophe losses largely related to hurricanes Harvey, Irma and Maria, along with two earthquakes in Mexico. Favorable prior year reserve development (net of premium offsets) was \$7 million in 2018 and 2017 . The loss ratio excluding catastrophe losses and prior year reserve development was 61.5% in 2018 and 61.3% in 2017 .

A summary of loss ratios in 2018 compared with 2017 by business segment follows:

- Insurance - The loss ratio was 63.0% in 2018 and 63.2% in 2017. Catastrophe losses were \$30 million in 2018 compared with \$47 million in 2017 . Favorable prior year reserve development was \$8 million in 2018 and \$13 million in 2017. The loss ratio excluding catastrophe losses and prior year reserve development increased 0.8 points to 61.6% in 2018 from 60.8% in 2017 .
- Reinsurance - The loss ratio of 69.3% in 2018 was 49.4 points lower than the loss ratio of 118.7% in 2017 . Catastrophe losses were \$9 million in 2018 and \$72 million in 2017 . Adverse prior year reserve development was \$1 million in 2018 and \$6 million in 2017 . The loss ratio excluding catastrophe losses and prior year reserve development decreased 5.2 points to 60.9% in 2018 from 66.1% in 2017 .

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

(\$ in thousands)	2018	2017
Policy acquisition and insurance operating expenses	\$ 519,380	\$ 516,243
Insurance service expenses	27,268	32,451
Net foreign currency (gains) losses	(17,267)	1,779
Other costs and expenses	48,267	50,349
Total	\$ 577,648	\$ 600,822

Policy acquisition and insurance operating expenses are comprised of commissions paid to agents and brokers, premium taxes and other assessments and internal underwriting costs. Policy acquisition and insurance operating expenses and net premiums earned both increased 1 %. The expense ratio (underwriting expenses expressed as a percentage of premiums earned) was 32.4% in 2018 and 32.6% in 2017 .

Service expenses, which represent the costs associated with the fee-based businesses, decreased to \$27 million in 2018 from \$32 million in 2017 .

Net foreign currency (gains) losses result from transactions denominated in a currency other than a company's operating functional currency. Net foreign currency gains were \$17 million in 2018 compared to losses of \$2 million in 2017 , resulting from the strengthening U.S. dollar and the change of functional currency for the Company's Argentine operations to the U.S. dollar as of July 1, 2018. The Argentine economy was determined to be highly inflationary under GAAP requiring the change in functional currency beginning with the third quarter of 2018.

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 decreased to \$48 million in 2018 from \$50 million in 2017 .

Expenses from Non-Insurance Businesses. Expenses from non-insurance businesses represent costs associated with businesses engaged in the distribution of promotional merchandise, world-wide textile solutions 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 \$93 million in 2018 compared to \$86 million in 2017 .

Interest Expense. Interest expense was \$40 million in 2018 and \$37 million in 2017 . In March 2018, the Company issued \$175 million aggregate principal amount of 5.70% subordinated debentures due 2058, and in April 2018, the Company issued another \$10 million principal amount of such debentures. Additionally in 2018, the Company issued subsidiary debt of \$20 million.

Income Taxes. The effective income tax rate was 21.4% in 2018 and 28.0% in 2017 . The effective income tax rate differs from the federal income tax rate of 21% primarily because of tax-exempt investment income and tax on income from foreign jurisdictions with different tax rates. The decrease in the effective tax rate in 2018 from 2017 was primarily due to the Tax Cuts and Jobs Act of 2017, which reduced the federal corporate tax rate from 35% to 21%.

The Company has not provided U.S. deferred income taxes on the undistributed earnings of approximately \$60 million of its non-U.S. subsidiaries since these earnings are intended to be permanently reinvested in the non-U.S. subsidiaries. In the future, if such earnings were distributed the Company projects that the incremental tax, if any, will be immaterial.

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 2.9 years at September 30, 2018 and 3.0 years at December 31, 2017. The Company's fixed maturity investment portfolio and investment-related assets as of September 30, 2018 were as follows:

(\$ in thousands)	Carrying Value	Percent of Total
Fixed maturity securities:		
U.S. government and government agencies	\$ 487,042	2.6%
State and municipal:		
Special revenue	2,497,499	13.4
Pre-refunded (1)	448,308	2.4
State general obligation	424,078	2.3
Local general obligation	419,042	2.2
Corporate backed	296,480	1.6
Total state and municipal	4,085,407	21.9
Mortgage-backed securities:		
Agency	900,744	4.8
Commercial	339,931	1.8
Residential-Prime	278,614	1.5
Residential-Alt A	40,209	0.2
Total mortgage-backed securities	1,559,498	8.4
Asset-backed securities	2,549,874	13.7
Corporate:		
Industrial	2,277,978	12.2
Financial	1,431,628	7.7
Utilities	299,472	1.6
Other	56,091	0.3
Total corporate	4,065,169	21.8
Foreign government and foreign government agencies	825,412	4.4
Total fixed maturity securities	13,572,402	72.6
Equity securities:		
Common stocks	166,938	0.9
Preferred stocks	158,316	0.9
Total equity securities	325,254	1.8
Real estate	1,917,250	10.3
Investment funds	1,251,748	6.7
Cash and cash equivalents	819,366	4.4
Arbitrage trading account	678,321	3.6
Loans receivable	96,590	0.6
Total investments	\$ 18,660,931	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.

Equity Securities. Equity securities primarily represent investments in common and preferred stocks in companies with potential growth opportunities in different sectors, including healthcare and financial institutions.

Investment Funds. At September 30, 2018, the carrying value of investment funds was \$1,252 million, including investments in real estate funds of \$633 million, other funds of \$539 million and energy funds of \$80 million. Investment funds are generally reported on a one-quarter lag.

Real Estate. Real estate is directly owned property held for investment. At September 30, 2018, real estate properties in operation included a long-term ground lease in Washington, D.C., a hotel in Memphis, Tennessee, two office complexes 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 \$97 million and an aggregate fair value of \$99 million at September 30, 2018. The amortized cost of loans receivable is net of a valuation allowance of \$3 million as of September 30, 2018. Loans receivable include real estate loans of \$63 million that are secured by commercial real estate located primarily in 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 \$34 million that are secured by business assets and have fixed interest rates and floating LIBOR-based interest rates with varying maturities 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 2.9 years at September 30, 2018 and 3.0 years at December 31, 2017.

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 was \$343 million in the first nine months of 2018 as compared to \$522 million provided from operating activities in the first nine months of 2017. The reduction is primarily due to the timing of loss and loss expense payments, certain long-term incentive plan payments and payments to taxing authorities.

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 77% invested in cash, cash equivalents and marketable fixed maturity securities as of September 30, 2018. 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 September 30, 2018, the Company had senior notes, subordinated debentures and other debt outstanding with a carrying value of \$2,698 million and a face amount of \$2,735 million. The maturities of the outstanding debt are \$453 million in 2019, \$320 million in 2020, \$427 million in 2022, \$250 million in 2037, \$350 million in 2044, \$350 million in 2053, \$400 million in 2056, and \$185 million in 2058.

During 2018, the Company issued \$175 million aggregate principal amount of 5.70% subordinated debentures due 2058 in March 2018, and another \$10 million principal amount of such debentures in April 2018. Additionally in 2018, the Company issued subsidiary debt of \$20 million.

Equity. At September 30, 2018, total common stockholders' equity was \$5.4 billion, common shares outstanding were 122,117,763 and stockholders' equity per outstanding share was \$44.53. The Company repurchased 101,000 common shares for \$6.8 million during the nine months ended September 30, 2018. During the three months ended September 30, 2018, the Company did not repurchase any shares of its common stock. 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 \$8.1 billion at September 30, 2018. The percentage of the Company's capital attributable to senior notes, subordinated debentures and other debt was 33% at September 30, 2018 and 32% at December 31, 2017.

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 September 30, 2018, 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 20 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, 2017 .

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 September 30, 2018, and accordingly the number of shares authorized for purchase by the Company remains 9,167,997.

Item 6. Exhibits

<u>Number</u>	
(10.1)	Form of 2018 Performance-Based Restricted Stock Unit Agreement Under the W. R. Berkley Corporation 2018 Stock Incentive Plan
(10.2)	W. R. Berkley Corporation Deferred Compensation Plan for Officers as amended and restated November 2, 2016
(31.1)	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/ 15d-14(a).
(31.2)	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/ 15d-14(a).
(32.1)	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: November 8, 2018

/s/ W. Robert Berkley, Jr.

W. Robert Berkley, Jr.

President and Chief Executive Officer

Date: November 8, 2018

/s/ Richard M. Baio

Richard M. Baio

Senior Vice President - Chief Financial Officer and Treasurer

PERFORMANCE-BASED RESTRICTED STOCK UNIT AGREEMENT

Under the W. R. Berkley Corporation 2018 Stock Incentive Plan

THIS AGREEMENT, dated as of _____, 2018, by and between W. R. BERKLEY CORPORATION, a Delaware corporation (the “Company”), and grantee as set forth on Exhibit A hereto (the “Grantee”). Important jurisdiction-specific modifications to this Agreement are contained in Exhibit B hereto and are incorporated herein by reference.

WITNESSETH:

WHEREAS, the Grantee is an employee of the Company or subsidiary thereof, and the Company wishes to grant the Grantee a notional interest in shares of the Company’s common stock, par value \$0.20 per share (the “Stock”), in the form of restricted stock units, subject to certain restrictions and on the terms and conditions set forth herein; and

WHEREAS, through the grant of these restricted stock units, the Company hopes to incentivize and retain the services of Grantee and encourage stock ownership by Grantee in order to give Grantee a proprietary interest in the Company’s success and align Grantee’s interest with those of the stockholders of the Company; and

WHEREAS, the Restricted Stock Units (as defined below) awarded Grantee hereunder vest based on the Company’s performance during the applicable Performance Period (as defined below), however, the issuance of the Stock after vesting is generally deferred until ninety (90) days following Grantee’s “separation from service” (as such term is used in Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”)); and

WHEREAS, the Company and Grantee recognize that if Grantee engages in certain activities during or, in certain instances, following the termination of Grantee’s employment with the Company (the “Competitive Actions” or “Misconduct” as defined in Section 3 below), Grantee’s interests are no longer aligned with the interests of the Company and Grantee will no longer be entitled to retain certain benefits of the grants made herein.

NOW, THEREFORE, in consideration of the covenants and agreements herein contained, the parties hereto hereby agree as follows:

SECTION 1. Grant of Restricted Stock Units. As of the date hereof, subject to the terms and conditions of this Agreement and the W. R. Berkley Corporation 2018 Stock Incentive Plan (the “Plan”), the Company hereby grants to the Grantee the targeted number of restricted stock units set forth on Exhibit A hereto (the restricted stock units granted or earned hereunder are hereafter referred to as the “Restricted Stock Units”). A portion of the Restricted Stock Units shall be designated as Tranche 1 Restricted Stock Units, Tranche 2 Restricted Stock Units and Tranche 3 Restricted Stock Units, as set forth on Exhibit A. The number of Restricted Stock Units granted represents the number of Restricted Stock Units that would be earned if the Company were to achieve the target level of ROE Relative Performance for each of the Performance Periods. The number of Restricted Stock Units earned respectively, if any, is subject to increase or decrease based on the Company’s actual ROE Relative Performance and may range from 0% to 110% of the Restricted Stock Units. Each Restricted Stock Unit shall represent the right to receive one share of Stock subject to the terms and conditions set forth herein. Capitalized terms not defined herein, including Section 21, shall have the meaning ascribed to them in the Plan. This grant shall be administered by the Compensation Committee (the “Committee”) of the Board of Directors of the Company (the “Board”).

SECTION 2. Non-Transferability. Except as specifically consented to by the Committee, the Grantee may not sell, transfer, pledge, or otherwise encumber or dispose of the Restricted Stock Units other than by will, the laws of descent and distribution, or as otherwise provided for in the Plan.

SECTION 3. Vesting; Forfeiture; Recapture; Other Remedies.

(a) Following the completion of each Performance Period, the Committee shall determine for such Performance Period, the Average Return on Equity, the ROE Relative Performance, the ROE Relative Performance Vesting Percentage and, respectively, the portion of the Tranche 1 Restricted Stock Units, Tranche 2 Restricted Stock Units and Tranche 3 Restricted Stock Units, as applicable, that have become earned (determined by multiplying the number of Restricted Stock Units subject to the applicable tranche by the ROE Relative Performance Vesting Percentage). Immediately following the Committee’s determination of the

number of earned Tranche 1 Restricted Stock Units, Tranche 2 Restricted Stock Units and Tranche 3 Restricted Stock Units for a respective Performance Period, the earned Restricted Stock Units shall vest as of the last day of the applicable Performance Period (subject to forfeiture, as set forth in Section 3(d) below), provided the Grantee has remained continuously employed by the Company from the date hereof through the completion of the applicable Performance Period. Restricted Stock Units granted herein which have not become vested Restricted Stock Units following the completion of the applicable Performance Period or otherwise vested shall be immediately forfeited without payment of any consideration and the Grantee shall have no further rights with respect to such Restricted Stock Units.

(b) In the event that Grantee's employment with the Company is terminated for any reason, all unvested Restricted Stock Units (except for those that vest immediately upon termination as provided in Sections 3(c) and 3(i) below) shall be forfeited, and the Grantee shall have no further rights with respect to such Restricted Stock Units. For purposes of this Agreement, Grantee's employment will be considered terminated as of the date Grantee is no longer actively providing services to the Company (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Grantee is employed or the terms of Grantee's employment agreement, if any), and unless otherwise expressly provided in this Agreement or determined by the Company, Grantee's right to continue to vest in the Restricted Stock Units granted hereunder, if any, will terminate as of such date and will not be extended by any notice period arising under local law or contract. However, Grantee's period of service would not include any contractual notice period (except for such period of time Grantee is actively providing substantial services during any notice period as required by the Company) or any period of "garden leave" or similar period arising under employment laws in the jurisdictions where Grantee is employed or the terms of Grantee's employment agreement, if any.

(c) In the event the Grantee's employment with the Company is terminated on account of death or Disability prior to the completion of the applicable Performance Period, the number of earned Restricted Stock Units for any incomplete Performance Period (including, for the avoidance of doubt, any Performance Period that has yet to commence as of the date of such termination) shall be immediately determined assuming the Company achieved the target level of ROE Relative Performance for such Performance Period and the number of earned Tranche 1 Restricted Stock Units, earned Tranche 2 Restricted Stock Units and earned Tranche 3 Restricted Stock Units that become vested shall be determined by multiplying the number of earned Restricted Stock Units by a fraction, the numerator of which is the number of days the Grantee served as an employee from the date of this Agreement to the date of such termination and the denominator of which is 1,095 with respect to the Tranche 1 Restricted Stock Units, 1,460 with respect to the Tranche 2 Restricted Stock Units and 1,825 with respect to the Tranche 3 Restricted Stock Units.

(d) The Restricted Stock Units granted hereunder shall be subject to the following forfeiture, recapture and other remedial provisions as provided below:

- a. In the event that the Committee determines that the Grantee, prior to the Vesting Date during Grantee's employment, has engaged in a Competitive Action or enters into, or has entered into, an agreement (written, oral or otherwise) to engage in a Competitive Action or has engaged in Misconduct, all of the unvested Restricted Stock Units granted hereunder shall be immediately forfeited, and the Grantee shall have no further rights with respect to such Restricted Stock Units.
- b. In the event that the Committee determines that the Grantee, (1) on or after the Vesting Date during Grantee's employment or within one year following Grantee's termination of employment for any reason, has engaged in a Competitive Action or has entered into an agreement (written, oral or otherwise) to engage in a Competitive Action, or (2) on or after the Vesting Date, has engaged in Misconduct, or prior to the Vesting Date Grantee has engaged in Misconduct that is not discovered or acted upon by the Company until on or after the Vesting Date, (x) the Grantee shall immediately forfeit all shares of Stock not yet delivered to Grantee with respect to the Restricted Stock Units and all rights to future payments of Dividend Equivalents (as defined below), and (y) the Grantee shall pay to the Company, upon demand by the Company, an amount equal to (i) the value, as of the Settlement Date (as defined below), of the number of shares of Stock delivered to the Grantee with respect to the Restricted Stock Units, (ii) all amounts paid to Grantee on or at any time prior to the Settlement Date in respect of Dividend Equivalents, and (iii) the value of all dividends, if any, paid to the Grantee in respect of the shares of Stock delivered to the Grantee on the Settlement Date. The Grantee may satisfy the payment obligation to the Company of the portion due under (i) above by returning the shares delivered to the Grantee on the Settlement Date, provided that any amounts due under (ii) and (iii) above must be remitted to the Company in addition to the return of the shares.
- C. Grantee acknowledges that engaging in (1) a Competitive Action during the Restricted Period within the geographic areas set forth in Section 3(e) below or (2) Misconduct is contrary to the interests of the Company and would result in irreparable injuries to the Company and would cause loss in an amount that cannot be readily

quantified. Grantee acknowledges that retaining the amounts required to be paid to the Company pursuant to this Section 3(d) once Grantee has (x) chosen to engage in or to agree to engage in a Competitive Action or (y) engaged in Misconduct is contrary to the interests of the Company. The amounts forfeited or paid to the Company hereunder do not and are not intended to constitute actual or liquidated damages. Any action or inaction by the Company with respect to enforcing the forfeiture or recapture provisions set forth herein shall not reduce, eliminate or in any way affect the Company's right to enforce the forfeiture or recapture provisions in any other agreement with Grantee.

D. The term “Restricted Period” as used herein shall mean the period beginning on the date hereof and ending one year following Grantee's termination of employment for any reason.

E. Furthermore, if the Grantee engages in Misconduct or a Competitive Action or has entered into an agreement (written, oral or otherwise) to engage in a Competitive Action during the Restricted Period, then the Company shall be entitled to, and reserves the right to, pursue any other legal or equitable remedies in addition to the right to receive forfeitures and/or payments pursuant to this Section 3(d), including, but not limited to, the recovery of monetary damages resulting from such action set forth in Section 3(e) and injunctive relief.

(e) For purposes of this Agreement, the Grantee has engaged in a “Competitive Action” if, either directly or indirectly, and whether as an employee, consultant, independent contractor, partner, joint venturer or otherwise, the Grantee (i) who was employed by W. R. Berkley Corporation, engages in or directs any business activities, except those which are ministerial or clerical in nature, which are competitive with any business activities conducted by the Company, in or directed into any geographical area (x) where Grantee had responsibilities on behalf of the Company or about which Grantee received Confidential Information (defined below) and (y) in which the Company is engaged in business at the relevant time of enforcement, (ii) who was employed by, or previously employed by, a subsidiary or subsidiaries of the Company, engages in or directs any business activities, except those which are ministerial or clerical in nature, which are competitive with any business activities conducted by such subsidiary or subsidiaries, in or directed into any geographical area (x) where Grantee had responsibilities on behalf of such subsidiary or subsidiaries or about which Grantee received Confidential Information and (y) in which the subsidiary/subsidiaries is or are engaged in business at the relevant time of enforcement, (iii) on behalf of any person or entity engaged in business activities competitive with the business activities of the Company, solicits or induces, or in any manner attempts to solicit or induce, any person employed by, or as an agent or producer of, the Company to terminate such person's employment, agency or producer relationship, as the case may be, with the Company, (iv) diverts, or attempts to divert, any Covered Business Partner (defined below) from doing business with the Company or attempts to induce any Covered Business Partner to cease being a customer of the Company, (v) solicits a Covered Business Partner to do business with a competitor or prospective competitor of the Company or (vi) makes use of, or attempts to make use of, the Company's property or Confidential Information, other than in the course of the performance of services to the Company or at the direction of the Company. The determination as to whether the Grantee has engaged in a Competitive Action shall be made by the Committee in its sole and absolute discretion. The Committee has sole and absolute discretion to determine whether, notwithstanding its determination that Grantee has engaged in a Competitive Action, recapture or forfeiture as provided herein shall not occur. The Committee's exercise or nonexercise of its discretion with respect to any particular event or occurrence by or with respect to the Grantee or any other recipient of restricted stock units shall not in any way reduce or eliminate the authority of the Committee to (i) determine that any event or occurrence by or with respect to the Grantee constitutes engaging in a Competitive Action or (ii) determine the related Competitive Action date.

(f) For purposes of this Agreement, the Grantee has engaged in “Misconduct” if the Grantee, during Grantee's employment with the Company, has engaged in an act which would, in the judgment of the Committee, constitute fraud that could be punishable as a crime or embezzlement against either the Company or any of its subsidiaries. The determination as to whether the Grantee has engaged in Misconduct shall be made by the Committee in its sole and absolute discretion. The Committee has sole and absolute discretion to determine whether, notwithstanding its determination that Grantee has engaged in Misconduct, recapture or forfeiture as provided herein shall not occur. The Committee's exercise or nonexercise of such discretion with respect to any particular event or occurrence by or with respect to the Grantee or any other recipient of restricted stock units shall not in any way reduce or eliminate the authority of the Committee to (i) determine that any event or occurrence by or with respect to the Grantee constitutes an act of Misconduct or (ii) determine the related Misconduct date.

(g) The Grantee hereby agrees to notify the Company within ten (10) days of commencing any employment or other service provider relationship with any company or business during the Restricted Period, specifying in reasonable detail (i) the name of such company or business and the line of business in which it is engaged, and (ii) the Grantee's position or title and the types of services to be rendered by the Grantee in such position or title. The Grantee hereby acknowledges that this notice requirement is reasonable and necessary for the Company to enforce the provisions of Sections 3(d) hereof. Furthermore, if the Grantee fails to so notify the Company, the Grantee shall be required to repay (at the Committee's sole discretion) to the Company the amounts described in Section 3(d) hereof as if the Grantee had engaged in a Competitive Action during the Restricted Period, unless the

Grantee can provide dispositive evidence, which shall be determined in the Committee's sole discretion, that a Competitive Action did not occur.

(h) ***Certain Definitions.*** (i) “Client” shall mean any insured, agent, producer or other intermediary to or through whom the Company provides insurance or reinsurance or related services;

(ii) “Confidential Information” shall mean an item of information or a compilation of information, in any form (tangible or intangible), related to the business of the Company or of a subsidiary for whom Grantee performs services that the Company/subsidiary has not made public or authorized public disclosure of, and that is not generally known to the public through proper means, including but not limited to:

- (1) underwriting premiums or quotes, income and receipts, claims records and levels, renewals, policy wording and terms, reinsurance quotas, profit commission;
- (2) operating unit or other business projections and forecasts;
- (3) Client lists, brokers lists and price sensitive information;
- (4) technical information, reports, interpretations, forecasts, corporate and business plans and accounts, business methods, financial details, projections and targets;
- (5) remuneration and personnel details;
- (6) planned products, planned services, marketing surveys, research reports, market share and pricing statistics, budgets, fee levels;
- (7) computer passwords, the contents of any databases, tables, know how documents or materials;
- (8) commissions, commission charges, pricing policies and all information about research and development; and
- (9) the Company's suppliers', Clients' or Prospective Clients' names, addresses (including email addresses), telephone, facsimile or other contact numbers and contact names, the nature of their business operations, their requirements for services supplied by the Company and all confidential aspects of their relationship with the Company;

(iii) “Covered Business Partner” shall mean any person, concern or entity (including, without limitation, any Client) as to which Grantee, or persons supervised by Grantee, had material business-related contact or received Confidential Information during the most recent two years of Grantee's employment with the Company or such shorter period of time as employed (the “Look Back Period”); and

(iv) “Prospective Client” shall mean any person, concern or entity (including, without limitation, any potential insured, agent, producer or other intermediary) to or through whom the Company has been in negotiations during the Look Back Period to provide insurance or reinsurance or related services.

(i) In the event of a Change in Control, unless otherwise specifically prohibited under applicable laws or by the rules and regulations of any governing governmental agencies or national securities exchanges, in the event that the Grantee's employment with the Company is terminated (i) by the Company without Cause or (ii) by the Grantee for Good Reason, in each case during the eighteen (18) month period following such Change in Control, the number of earned Restricted Stock Units for any incomplete Performance Period (including, for the avoidance of doubt, any Performance Period that has yet to commence as of the date of such termination) shall be immediately determined assuming the Company achieved the target level of ROE Relative Performance for such Performance Period and the number of earned Tranche 1 Restricted Stock Units, earned Tranche 2 Restricted Stock Units and earned Tranche 3 Restricted Stock Units shall immediately become vested Restricted Stock Units. All vested Restricted Stock Units pursuant to this Section 3(h) shall be settled in accordance with Section 4.

SECTION 4. Delivery and Possession of Share Certificates. Ninety (90) days following the Grantee's “separation from service” (for purposes of Section 409A of the Code) for any reason, including death or Disability (the “Settlement Date”), provided the Grantee has neither engaged in, nor entered into an agreement (written, oral or otherwise) to engage in, a Competitive Action nor engaged in Misconduct, the Company shall deliver to the Grantee (or the Grantee's estate in the event of death) a certificate or certificates representing the number of shares of Stock equal to the number of vested Restricted Stock Units, if any, as of the date of such separation from service and Grantee shall take possession thereof; provided, however, that if the Grantee is a “specified employee” pursuant to Section 409A(a)(2)(B)(i) of the Code, distribution of shares of Stock shall be delayed for such period of time as may be necessary to satisfy Section 409A(a)(2)(B)(i) of the Code (generally six months), and on the earliest date on which such distribution can be made following such delay without violating the requirements of Section 409A(a)(2)(B)(i) of the Code, the Company shall deliver to the Grantee a certificate or certificates representing the number of shares of Stock equal to the number of

such vested Restricted Stock Units. A delay shall not be required to the extent the Grantee terminates employment on account of death or Disability, provided that if in the event of a Disability the Grantee is “disabled” within the meaning of Section 409A(a)(2)(C) of the Code, then the Restricted Stock Units shall be settled ninety (90) days following the occurrence of such death or Disability. Notwithstanding the foregoing, in the event of a Change in Control, which also constitutes a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company within the meaning of Section 409A(a)(2)(A)(v) of the Code, the Company shall immediately deliver to the Grantee a certificate or certificates representing the number of then vested Restricted Stock Units.

SECTION 5. **Dividends and Dividend Equivalents**. No dividends or dividend equivalents shall accrue or be paid with respect to any outstanding unvested Restricted Stock Units. On the second Tuesday of each January, April, July and October (each, a “**Dividend Equivalent Payment Date**”) occurring during the period commencing on the Vesting Date and ending on the Settlement Date, the Grantee shall be paid an amount in cash, with respect to each vested Restricted Stock Unit then outstanding and held by such Grantee, equal to the aggregate cash dividends paid by the Company in respect of one share of Stock (the “**Dividend Equivalent**”) following the immediately prior Dividend Equivalent Payment Date, or with respect to the first Dividend Equivalent Payment Date only, on or following the Vesting Date; provided, however, that with respect to the first Dividend Equivalent Payment Date, no Dividend Equivalents shall be paid to the Grantee in respect of any cash dividends declared or paid by the Company prior to such Vesting Date. To the extent a cash dividend is paid by the Company on or prior to the Settlement Date but the Dividend Equivalent Payment Date relating thereto would not occur prior to the Settlement Date, the Dividend Equivalents relating thereto shall be paid to the Grantee on the Settlement Date. The Grantee’s right to future payments of Dividend Equivalents shall be subject to forfeiture to the same extent that the corresponding Restricted Stock Units are subject to forfeiture pursuant to Section 3.

SECTION 6. **Rights of Stockholder**. Neither the Grantee nor any transferee will have any rights as a stockholder with respect to any share covered by this Agreement until the Grantee or transferee becomes the holder of record of such shares.

SECTION 7. **Company; Grantee**.

(a) The term “**Company**” as used in Section 3 or otherwise in this Agreement with reference to the Grantee’s employment shall include the Company and its subsidiaries. The term “subsidiary” as used in this Agreement shall mean any subsidiary of the Company within the meaning of Section 424(f) of the Code.

(b) Whenever the word “**Grantee**” is used in any provision of this Agreement under circumstances where the provision should logically be construed to apply to the executors, the administrators, or the person or persons to whom the Restricted Stock Units may be transferred by will or by the laws of descent and distribution, the word “Grantee” shall be deemed to include such person or persons.

SECTION 8. **Compliance with Law**. Notwithstanding any of the provisions hereof, the Grantee hereby agrees and the Company will not be obligated to issue or transfer shares to Grantee hereunder, if the issuance or transfer of such shares will constitute a violation by the Grantee or the Company of any provision of any law or regulation of any governmental authority. Any determination in this connection by the Committee will be final, binding and conclusive. The Company shall in no event be obliged to register any securities pursuant to the Securities Act or to take any other affirmative action in order to cause the issuance or transfer of shares acquired pursuant to this Agreement to comply with any law or regulation of any governmental authority.

SECTION 9. **Notice**. Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided, provided that, unless and until some other address be so designated, all notices or communications by the Grantee to the Company shall be mailed or delivered to the Company at its principal executive office, and all notices or communications by the Company to the Grantee may be given to the Grantee personally or may be mailed to Grantee at the Grantee’s last known address, as reflected in the Company’s records.

SECTION 10. **Changes in Capital Structure**. The existence of this Agreement will not affect in any way the right or power of the Company or its stockholders to make or authorize any of the following:

- (a) any adjustments, recapitalization, reorganizations or other changes in the Company’s capital structure or its business;
- (b) any merger or consolidation of the Company;
- (c) any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred to prior preference stocks ahead of or affecting the Stock or the rights thereof or convertible into or exchangeable for Stock;
- (d) the dissolution or liquidation of the Company;

- (e) any sale or transfer of all or any part of its assets or business; or
- (f) any other corporate act or proceeding.

SECTION 11. **Other Share Issues**. Except as expressly provided in the Plan, the issue by the Company of shares of stock of any class, or securities convertible into or exchangeable for shares of stock of any class, for cash, property or services, either upon direct sale or upon the exercise of options, rights or warrants, or upon conversion of shares or obligations of the Company convertible into such shares or other securities will not affect, and no adjustment by reason thereof will be made with respect to, the number of shares subject to this Agreement.

SECTION 12. **Withholding**. At the time of vesting and/or settlement of the Restricted Stock Units, as appropriate, the Committee shall require the Grantee to pay to the Company an amount sufficient to pay all federal, state and local withholding taxes applicable (including FICA taxes upon vesting), in the Committee's judgment, to the vesting or settlement of the Restricted Stock Units, and the Grantee's right to vesting and/or settlement, as appropriate, shall be contingent upon such payment. Such payment to the Company may be effected through (a) payment by the recipient to the Company of the aggregate withholding taxes in cash or cash equivalents; (b) at the discretion of the Committee, the Company's withholding from the number of shares of Stock that would otherwise be delivered to the Grantee upon settlement of the Restricted Stock Units, a number of shares of Stock with an aggregate fair market value on the date of settlement (as determined by the Committee) equal to the aggregate amount of withholding taxes; or (c) at the discretion of the Committee, any combination of these two methods.

SECTION 13. **Grantee's Tax Considerations**. The tax impact of the award hereunder can be quite complex and will vary with each Grantee. It is recommended that each Grantee review such Grantee's own tax situation and consult their tax advisor.

SECTION 14. **Waiver of Right to Trial by Jury**. AS ALLOWED BY APPLICABLE LAW, BOTH PARTIES HEREBY WAIVE AND RELEASE ANY CLAIM UNDER STATE OR FEDERAL LAW THEY MAY HAVE HAD TO A JURY TRIAL IN CONNECTION WITH CLAIMS ARISING UNDER OR RELATED TO THIS AGREEMENT OR ANY ACTIONS TAKEN OR DETERMINATIONS MADE HEREUNDER.

SECTION 15. **No Right to Continued Service**. This Agreement does not confer upon the Grantee any right to continue as an employee of the Company, nor shall it interfere in any way with the right of the Company to terminate Grantee's employment at any time for any reason.

SECTION 16. **Agreement Confidentiality**. Grantee understands and agrees that Grantee will keep the terms and conditions of this Agreement strictly confidential unless Grantee is compelled to do otherwise by a court of competent jurisdiction, and Grantee further agrees not to disclose the terms and conditions of this Agreement to any third party other than Grantee's immediate family members, attorney, financial advisor, or accountant, all of whom must also agree to keep these terms and conditions strictly confidential unless compelled to do otherwise by a court of competent jurisdiction. Notwithstanding anything herein to the contrary, Grantee shall notify any subsequent employer, prior to commencing employment, of the restrictions and obligations in Sections 3(d), (e), (f) and (g) of this Agreement (as modified by Exhibit B to this Agreement, if and as applicable to the Grantee).

SECTION 17. **Binding Effect**. This Agreement shall be binding upon the heirs, executors, administrators and successors of the parties hereto.

SECTION 18. **The Plan**. The terms and provisions of the Plan are incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall govern. If there is any inconsistency between this Agreement and Exhibit B, Exhibit B shall prevail. The Grantee hereby acknowledges that he or she has received a copy of the Plan and understands and agrees to the terms thereof. This Agreement, together with the Plan, constitutes the entire agreement by and between the parties hereto with respect to the subject matter hereof, and this Agreement and the Plan supersede all prior agreements, correspondence and understandings and all prior and contemporaneous oral agreements and understandings, among the parties hereto with regard to the subject matter hereof.

SECTION 19. **Governing Law**. This Agreement shall be construed and interpreted in accordance with the laws of the State of Delaware, without regard to the principles of conflicts of law thereof. The jurisdiction and venue for any dispute arising under, or any action brought to enforce or otherwise relating to, this Agreement will be exclusively in the courts of the State of Delaware, including the federal courts located in Delaware in the event federal jurisdiction exists. Grantee hereby irrevocably consents to the exclusive personal jurisdiction and venue of the federal and State courts of the State of Delaware for the resolution of any disputes arising out of, or relating to, this Agreement and irrevocably waives any claim or argument that the courts of the State of Delaware are an inconvenient forum. In any action arising under or relating to this Agreement, the court shall not have the

authority to, and shall not, conduct a *de novo* review of any determination made by the Committee or the Company but is instead authorized to determine solely whether the determination was the result of fraud or bad faith under Delaware law.

SECTION 20. Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision or provisions of this Agreement, which shall remain in full force and effect. If any provision of this Agreement is held to be invalid, void or unenforceable in any jurisdiction, any court so holding shall substitute a valid, enforceable provision that preserves, to the maximum lawful extent, the terms and intent of such provisions of this Agreement. If any of the provisions of, or covenants contained in, this Agreement are hereafter construed to be invalid or unenforceable in any jurisdiction, the same shall not affect the remainder of the provisions or the enforceability thereof in any other jurisdiction, which shall be given full effect, without regard to the invalidity or unenforceability in such other jurisdiction. Any such holding shall affect such provision of this Agreement, solely as to that jurisdiction, without rendering that or any other provisions of this Agreement invalid, illegal or unenforceable in any other jurisdiction. If any covenant should be deemed invalid, illegal or unenforceable because its scope is considered excessive, such covenant will be modified so that the scope of the covenant is reduced only to the minimum extent necessary to render the modified covenant valid, legal and enforceable.

SECTION 21. Definitions. The following terms shall have the following meanings:

(a) “Average Return on Equity” means the percentage equal to the product of four (4) times the result of (i) the sum of the Return on Equity for each quarter in the applicable Performance Period, divided by (ii) the number of quarters in the applicable Performance Period.

(b) “Cause” means “Cause” as defined in any active employment agreement between the Grantee and the Company or, in the absence of any such definition, means the occurrence of any one of the following events: (i) fraud, personal dishonesty, embezzlement or acts of gross negligence or gross misconduct on the part of the Grantee in the course of his or her employment or services; (ii) the Grantee’s engagement in conduct that is materially injurious to the Company; (iii) the Grantee’s conviction by a court of competent jurisdiction of, or pleading “guilty” or “no contest” to, (x) a felony or (y) any other criminal charge (other than minor traffic violations) which could reasonably be expected to have a material adverse impact on the Company’s reputation or business; (iv) public or consistent drunkenness by the Grantee or his or her illegal use of narcotics which is, or could reasonably be expected to become, materially injurious to the reputation or business of the Company or which impairs, or could reasonably be expected to impair, the performance of the Grantee’s duties to the Company; (v) willful failure by the Grantee to follow the lawful directions of a superior officer; or (vi) the Grantee’s continued and material failure to fulfill his or her employment obligations to the Company.

(c) “Disability” means the total and permanent disability of the Grantee, as determined by the Committee in its sole discretion.

(d) “Good Reason” means “Good Reason” as defined in any active employment agreement between the Grantee and the Company or, in the absence of any such definition, means the occurrence of any one of the following events, unless the Grantee agrees in writing that such event shall not constitute Good Reason: (i) a material reduction in the Grantee’s duties or responsibilities from those in effect immediately prior to a Change in Control; (ii) a material reduction in the Grantee’s base salary below the levels in effect immediately prior to a Change in Control; or (iii) relocation of the Grantee’s primary place of employment to a location more than fifty (50) miles from its location, and further from the Grantee’s primary residence, immediately prior to a Change in Control; *provided, however*, that with respect to any Good Reason termination, the Company will be given not less than thirty (30) days’ written notice by the Grantee (within sixty (60) days of the occurrence of the event constituting Good Reason) of the Grantee’s intention to terminate the Grantee’s employment for Good Reason, such notice to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Good Reason is based, and such termination shall be effective at the expiration of such thirty (30) day notice period only if the Company has not fully cured such act or acts or failure or failures to act that give rise to Good Reason during such period. Further notwithstanding any provision in this definition to the contrary, in order to constitute a termination for Good Reason, such termination must occur within six (6) months of the initial existence of the applicable condition.

(e) “Net Income” means consolidated net income from continuing operations of the Company as determined under U.S. Generally Accepted Accounting Principles without the application of the accounting for unrealized gains and losses on equity securities pursuant to Financial Accounting Standards Board Accounting Standards Update 2016-01 (“ASU 2016-01”).

(f) “Performance Period” means the Tranche 1 Performance Period, Tranche 2 Performance Period or Tranche 3 Performance Period, respectively.

(g) “ROE Relative Performance” means the Average Return on Equity less the Treasury Note Rate of Return, expressed in basis points.

(h) “ROE Relative Performance Vesting Percentage” means a function of the ROE Relative Performance during the applicable Performance Period, and shall be determined as follows:

ROE Relative Performance*	ROE Relative Performance Vesting Percentage (% of Target)*
+	0%
+	80.0%
≥+633 basis points	90.0%
≥+766 basis points	100.0% (target)
+	110.0%

* In the event that the ROE Relative Performance falls between any two values listed in the table above, the ROE Relative Performance Vesting Percentage shall be determined using a straight line interpolation between such two values. For the avoidance of doubt if the ROE Relative Performance is less than +500 basis points (*i.e.* , the Average Return on Equity is less than 6.89%), the ROE Relative Vesting Percentage shall be 0% (*i.e.* , no linear interpolation between 0% and 80%) and if the ROE Relative Performance is equal to or greater than +900 basis points (*i.e.* , the Average Return on Equity at least 10.89%), the ROE Relative Vesting Percentage shall be 110%.

(i) “Return on Equity” means for a quarter, a fraction (expressed as percentage) equal to Net Income divided by the Stockholders’ Equity at the beginning of the calendar year for that quarter.

(j) “Stockholders’ Equity” means stockholders’ equity without the application of the accounting for unrealized gains or losses on equity securities pursuant to ASU 2016-01.

(k) “Tranche 1 Performance Period” means the period commencing July 1, 2018 and ending on June 30, 2021.

(l) “Tranche 2 Performance Period” means the period commencing July 1, 2019 and ending on June 30, 2022.

(m) “Tranche 3 Performance Period” means the period commencing July 1, 2020 and ending on June 30, 2023.

(n) “Treasury Note Rate of Return” means the five-year Treasury Note rate on June 29, 2018, which is 2.739%.

(o) “Vesting Date” means the date on which the Tranche 1 Restricted Stock Units, Tranche 2 Restricted Stock Units, and Tranche 3 Restricted Stock Units, as applicable, vest hereunder.

SECTION 22. **Signature in Counterparts**. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

SECTION 23. **Protected Conduct**. Nothing in this Agreement prohibits Grantee from reporting an event that Grantee reasonably and in good faith believes is a violation of law to the relevant law-enforcement agency (such as the Securities and Exchange Commission or Department of Labor), requires notice to or approval from the Company before doing so, or prohibits Grantee from cooperating in an investigation conducted by such a government agency. This may include a disclosure of trade secret information provided that it must comply with the restrictions in the Defend Trade Secrets Act of 2016 (DTSA). The DTSA provides that no individual will be held criminally or civilly liable under Federal or State trade secret law for the disclosure of a trade secret that: (i) is made in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and made solely for the purpose of reporting or investigating a suspected violation of law; or, (ii) is made in a complaint or other document if such filing is under seal so that it is not made public. Also, the DTSA further provides that an individual who pursues a lawsuit for retaliation by an employer for reporting a suspected violation of the law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal, and does not disclose the trade secret, except as permitted by court order. To the extent that Grantee is covered by Section 7 of the National Labor Relations Act (NLRA) because Grantee is not in a supervisor or management role, nothing in this Agreement shall be construed to prohibit Grantee from using information Grantee acquires regarding the wages, benefits, or other terms and conditions of employment at the Company for any purpose protected under the NLRA.

SECTION 24. The Grantee agrees that he or she has entered into this Agreement voluntarily and that the Grantee has not been induced to participate in the distribution of Restricted Stock Units by the Company by expectation of appointment, employment, continued appointment or continued employment of the Grantee with the Company or a related entity of the Company. The Grantee further agrees that the Company has not made any representations or warranties with respect to the Restricted Stock Units, the Company, the business of the Company or its prospects, and that no securities commission, agency, governmental

authority, regulatory body, stock exchange or similar regulatory authority has reviewed or passed on the merits of the Restricted Stock Units and that the Grantee’s ability to transfer the Restricted Stock Units will be limited by the Plan, this Agreement and applicable securities laws.

* * *

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

W. R. BERKLEY CORPORATION

By: _____
Name: William R. Berkley
Title: Executive Chairman

Grantee

RSU Agreement L14 Perf (8.2018)

EXHIBIT A
TO THE RESTRICTED STOCK UNIT AGREEMENT DATED
AS OF _____ UNDER THE W. R. BERKLEY CORPORATION
2018 STOCK INCENTIVE PLAN

NAME OF GRANTEE: _____

TARGET NUMBER OF TRANCHE 1 RESTRICTED STOCK UNITS AWARDED TO GRANTEE: _____

TARGET NUMBER OF TRANCHE 2 RESTRICTED STOCK UNITS AWARDED TO GRANTEE: _____

TARGET NUMBER OF TRANCHE 3 RESTRICTED STOCK UNITS AWARDED TO GRANTEE: _____

TOTAL TARGET NUMBER OF RESTRICTED STOCK UNITS AWARDED TO GRANTEE: _____

By accepting the terms and conditions of the above grant agreement, you expressly acknowledge that you have read and agree to all the terms and conditions set forth above.

If you decide to reject the terms and conditions of the grant, you will decline your right to receive the grant, and the grant of the Restricted Stock Units to you will be cancelled ab initio.

Please select one of the following actions. You will be asked to confirm your selection on the following page.

EXHIBIT B

JURISDICTION SPECIFIC MODIFICATIONS

I. States of the United States of America

A. **Arkansas, Connecticut, Illinois, Indiana, Maryland, Minnesota, South Carolina, South Dakota, Texas, and Virginia :**
Sections 3(e)(i) and 3(e)(ii) are further limited to situations where Grantee is performing services that are the same as or similar in function or purpose to the services Grantee performed for W. R. Berkley Corporation or its subsidiary/subsidiaries (as appropriate) during the Look Back Period.

B. **Arizona**. For an Arizona resident, for so long as Grantee resides in Arizona and is subject to the laws of Arizona: (i) the restrictions in Sections 3(e)(i), (ii), (iv) and (v) will only apply within any geographical area (x) where Grantee had responsibilities on behalf of the Company or about which Grantee received Confidential Information during the Look Back Period and (y) in which the Company is engaged in business; (ii) Sections 3(e)(i) and 3(e)(ii) are further limited to situations where Grantee is performing services that are the same as or similar in function or purpose to the services Grantee performed for W. R. Berkley Corporation or its subsidiary/subsidiaries (as appropriate) during the Look Back Period; and (iii) with respect to Grantee's nondisclosure obligation under Section 3(e)(vi), Grantee's nondisclosure obligation only extends during the Restricted Period (this is not a deviation from the text of the Agreement, but a clarification for the avoidance of any doubt).

C. **California**. For a resident of California, for so long as Grantee resides in California and is subject to the laws of California: (i) no provision or requirement of this Agreement will be construed or interpreted in a manner contrary to the public policy of the State of California; (ii) the restrictions in Sections 3(e)(i) and (ii) shall not apply; (iii) Sections 3(e)(iv) and (v) shall be limited to situations where Grantee is aided in his or her conduct by Grantee's use or disclosure of trade secrets (as defined by applicable law); (iv) the last sentence of Section (3)(g) shall not apply and the remainder of Section 3(g) shall apply; and (v) Section 14 shall not apply.

D. **Nebraska**. For a Nebraska resident, for so long as Grantee resides in Nebraska and is subject to the laws of Nebraska: (i) Sections 3(e)(i) and (ii) shall not apply; and (ii) the definition of "Covered Business Partner" in Section 3(h) is modified so that it means any persons or entities with which Grantee, or persons supervised by Grantee, did business and had personal business-related contact during the Look Back Period.

E. **North Carolina**. For a North Carolina resident, for so long as Grantee resides in North Carolina and is subject to the laws of North Carolina: (i) Sections 3(e)(i) and 3(e)(ii) are further limited to situations where Grantee is performing services that are the same as or similar in function or purpose to the services Grantee performed for W. R. Berkley Corporation or its subsidiary/subsidiaries (as appropriate) during the Look Back Period; and (ii) the Look Back Period shall be calculated looking back two years from the date of enforcement and not from the date employment ends.

F. **North Dakota**. For a resident of North Dakota, for so long as Grantee resides in and is subject to the laws of North Dakota: (i) no provision or requirement of this Agreement will be construed or interpreted in a manner contrary to the public policy of the State of North Dakota; (ii) the restrictions in Sections 3(e)(i) and (ii) shall not apply; (iii) Sections 3(e)(iv) and (v) shall be limited to situations where Grantee is aided in his or her conduct by Grantee's use or disclosure of trade secrets (as defined by applicable law); and (iv) the last sentence of Section (3)(g) shall not apply and the remainder of Section 3(g) shall apply.

G. **Oklahoma**. For an Oklahoma resident, for so long as Grantee resides in Oklahoma and is subject to the laws of Oklahoma: the restrictions in Sections 3(e)(i) and (ii) shall not apply and "Covered Business Partner" of the Company means any individual, company, or business entity (including, without limitation, any Client) with which the Company has transacted business within the Look Back Period and with which Grantee, or persons supervised by Grantee, had material business-related contact or about which Grantee had access to Confidential Information during the Look Back Period.

H. **Wisconsin**. For a Wisconsin resident, for so long as Grantee resides in Wisconsin and is subject to the laws of Wisconsin: (i) Sections 3(e)(i) and 3(e)(ii) are further limited to situations where Grantee is performing services that are the same as or similar in function or purpose to the services Grantee performed for W. R. Berkley Corporation or its subsidiary/subsidiaries (as appropriate) during the Look Back Period; and (ii) Section 3(e)(iii) is rewritten as follows: "participates in soliciting or attempting to solicit any employee of the Company that is in a Sensitive Position to leave the employment of the Company on behalf of (or for the benefit of) a competing business, or knowingly assists a competing business in efforts to hire such an employee away from the Company. An employee in a "Sensitive Position" refers to an employee of the Company who is in a management, supervisory, sales, research and development, underwriting, claims, actuarial, loss control or similar role where the employee is provided Confidential Information or is involved in business dealings with the Company's customers."

II. Countries Other than the United States of America

Argentina. For an Argentinian resident, for so long as Grantee resides in Argentina and is subject to the laws of Argentina:

(i) Section 19 shall be deleted in its entirety and replaced with the following:

"SECTION 19. **Governing Law**. This Agreement shall be construed and interpreted in accordance with the laws of Argentina. Grantee hereby irrevocably consents to the exclusive personal jurisdiction of the Argentine courts for the resolution of any disputes arising out of, or relating, to this Agreement."

(ii) This Agreement shall not be effective unless the Grantee physically signs an original Agreement.

Australia. For an Australian resident, for so long as Grantee resides in Australia and is subject to the laws of Australia:

- (i) Section 19 shall be deleted in its entirety and replaced with the following:

“SECTION 19. **Governing Law**. This Agreement shall be construed and interpreted in accordance with the laws of the State of New South Wales in Australia. Grantee hereby irrevocably consents to the personal jurisdiction of the federal and state courts of the State of New South Wales in Australia for the resolution of any disputes arising out of, or relating to, this Agreement.”

- (ii) The provisions in “Addendum for Australia, Canada, Hong Kong and Singapore” set forth below shall be applicable.

Canada. For a Canadian resident, for so long as Grantee resides in Canada and is subject to the laws of Canada:

The provisions in “Addendum for Australia, Canada, Hong Kong and Singapore” set forth below shall be applicable.

Colombia. For a Colombian resident, for so long as Grantee resides in Colombia and is subject to the laws of Colombia:

Grantee agrees that the Restricted Stock Units rights derived from this Agreement are not consideration for the services rendered by the Grantee in Colombia. For this Agreement to be effective, the Grantee must enter into a local agreement, governed by Colombian laws, with Grantee’s current employer in which Grantee agrees to the statement in the prior sentence.

Hong Kong. For a Hong Kong resident, for so long as Grantee resides in Hong Kong and is subject to the laws of Hong Kong:

- (i) Section 2 shall be deleted in its entirety and replaced with the following:

SECTION 2. **Non-Transferability**. (a) Subject to Section 2(b) below and except as specifically consented to by the Committee, the Grantee may not sell, transfer, pledge, or otherwise encumber or dispose of the Restricted Stock Units other than by will, the laws of descent and distribution, or as otherwise provided for in the Plan.

(b) Notwithstanding any other provisions of this Agreement, if the Grantee resides in, or received this offer in Hong Kong, the Grantee shall have no rights or entitlement to sell, transfer or otherwise dispose of the Restricted Stock Units, except if such sale, transfer or disposal is permitted pursuant to the Plan and specifically consented to by the Committee.

- (ii) Section 24 is amended to add the following two paragraphs at the end thereof:

“The contents of this Agreement have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this Agreement, you should obtain independent professional advice.

This Agreement must not be issued, circulated or distributed in Hong Kong other than (1) to “professional investors” as defined in the Securities and Futures Ordinance (“SFO”) and any rules made under the SFO, (2) to persons and in circumstances which do not result in this Agreement being a “prospectus” as defined in section 2(1) of the CWMO or which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (“CWMO”) or an invitation to the public within the meaning of the SFO or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFO and CWMO.”

- (iii) The provisions in “Addendum for Australia, Canada, Hong Kong and Singapore” set forth below shall be applicable.

Norway. For a Norwegian resident, for so long as Grantee resides in Norway and is subject to the laws of Norway:

- (i) In the third recital under WITNESSETH the words “or Solicitation” shall be added after the word “Misconduct”;
- (ii) In Section 3(d)A., the words “or Solicitation” shall be added after the word “Misconduct”;
- (iii) In Section 3(d)B., the phrase, “or (3) on or after the Vesting Date or within one year following Grantee’s termination of employment, has engaged in Solicitation,” shall be added after the phrase “until on or after the Vesting Date” in subsection (2) of Section 3(d)B;
- (iv) In Section 3(d)C., the phrase, “or (3) Solicitation” shall be added after the phrase “(2) Misconduct”;

- (v) In Section 3(d)C., the phrase, “or (z) engaged in Solicitation” shall be added after the phrase “(y) engaged in Misconduct,”;
- (vi) In Section 3(d)E., the words “or Solicitation” shall be added after the words “Misconduct,”;
- (vii) In Section 3(e), subsections (iv) and (v) shall be deleted and subsection (vi) shall be renumbered as subsection (iv); and
- (viii) In Section 3, the following new subsections shall be added after subsection (i):

“(j) For purposes of this Agreement, the Grantee has engaged in “ Solicitation ” if the Grantee during the term of employment, and for a period of 12 months after the expiry of the agreed notice period (alternatively from the date of summary dismissal), directly or indirectly (i) diverts, or attempts to divert, any person, concern or entity from doing business with the Company or attempts to induce any such person, concern or entity to cease being a customer of the Company, (ii) solicits the business of the Company or (iii) influences customers, suppliers and/or other business associates/contract parties of the Company or any subsidiary to limit or terminate their relationship with the Company and/or any subsidiary. With respect to customers, the preceding sentence only applies to customers which the Grantee has had contact with and/or responsibility for during the last 12 months prior to the time of the written statement as mentioned below.

(k) The Company may, upon the request from the Grantee and in connection with termination, summary dismissal or other cessation of employment, decide whether and to what extent the Grantee’s obligation to refrain from Solicitation shall be invoked. With respect to customers, the procedure in connection with such a decision shall comply with the mandatory provisions of Chapter 14A in the Norwegian Working Environment Act, including the specification of which customers are covered by the Grantee’s obligation to refrain from Solicitation in a written statement.”

Singapore. For a Singaporean resident, for so long as Grantee resides in Singapore and is subject to the laws of the Republic of Singapore:

- (i) In Section 3(d)B., the phrase “that, in the Committee’s sole and absolute discretion, reflects the seriousness of the Competitive Action and/or the Misconduct. The maximum amount that the Company may demand from the Grantee is” shall be added after the words “an amount” in subsection (2) of Section 3(d)B;
- (ii) In Section 3(d)B, the last sentence shall be deleted and replaced with the following sentence:

“The Grantee may satisfy the payment obligation to the Company, in whole or in part (as the case may be), by returning the shares delivered to the Grantee on the Settlement Date.”;
- (iii) In Section 3(d)C., the following sentence shall be deleted:

“The amounts forfeited or paid to the Company hereunder do not and are not intended to constitute actual or liquidated damages.”;
- (iv) In Section 3(g), the last sentence shall be deleted;
- (v) Section 19 shall be deleted in its entirety and replaced with the following:

“SECTION 19. **Governing Law.** This Agreement shall be construed and interpreted in accordance with the laws of the State of Delaware. Grantee hereby irrevocably consents to the personal jurisdiction of the courts of the Republic of Singapore for the resolution of any disputes arising out of, or relating to, this Agreement.”
- (vi) The provisions in “Addendum for Australia, Canada, Hong Kong and Singapore” set forth below shall be applicable.

United Kingdom. For a United Kingdom resident, for so long as Grantee resides in the United Kingdom and is subject to the laws of England and Wales or if the Grantee is employed under an employment contract which is governed by English law at the time of grant of the Restricted Stock Units: (i) delete the parenthetical phrase at the end in the third recital under “WITNESSETH” and (ii) the following terms and provisions shall amend and supersede the terms and provisions of Section 3(b), (d), (e), (f), (g) and (h) and Section 19 of this Agreement as follows:

1. TERMINATION OF EMPLOYMENT

With effect from the earlier of the date of termination of the Grantee's employment or the date that the Grantee gives or receives notice of termination of the Grantee's employment for any reason, any unvested Restricted Stock Units shall lapse and be forfeited (except for those that vest immediately upon termination as set out in Section 3(a) of this Agreement and subject to the forfeiture provisions in paragraph 3 below) and the Grantee shall have no further rights with respect to any such unvested Restricted Stock Units.

2. RESTRICTIVE COVENANTS

2.1 The Grantee covenants with the Company and the Group that the Grantee will not, save with the prior written consent of the Committee (in its absolute discretion):

2.1.1. during the Restricted Period directly or indirectly be employed, engaged or retained by or otherwise concerned or interested in any Competing Business. For this purpose, the Grantee is directly or indirectly employed, engaged or retained by or concerned or interested in a Competing Business if:

- (a) the Grantee carries it on as principal or agent; or
- (b) the Grantee is a partner, director, employee, secondee, consultant or agent in, of or to any person who carries on the Competing Business;
- (c) the Grantee has any direct or indirect financial interest (as shareholder, creditor or otherwise) in any person who carries on the Competing Business; and/or
- (d) the Grantee is a partner, director, employee, secondee, consultant or agent in, of or to any person who has a direct or indirect financial interest (as shareholder, creditor or otherwise) in any person who carries on the Competing Business,

disregarding any financial interest the Grantee may have in securities which are listed or dealt in on a recognised investment exchange if the Grantee is interested in securities which amount to less than 3% of the issued securities of that class and which, in all circumstances, carry less than 3% of the voting rights (if any) attaching to the issued securities of that class;

2.1.2 during the Restricted Period and whether directly or indirectly, either alone or with or on behalf of any person, firm, company or entity and whether on his or her own account or as principal, partner, shareholder, director, employee, consultant or in any other capacity whatsoever, have any business dealings with any Client or Prospective Client in relation to or for the benefit of a Competing Business;

2.1.3 during the Restricted Period and whether directly or indirectly, either alone or with or on behalf of any person, firm, company or entity and whether on his or her own account or as principal, partner, shareholder, director, employee, consultant or in any other capacity whatsoever, canvass or solicit business or custom from or seek to entice away any Client or Prospective Client from the Company or any Group Company in relation to or for the benefit of a Competing Business;

2.1.4 during the Restricted Period, directly or indirectly, solicit or endeavour to solicit the employment or engagement of any Key Employee (whether or not such person would thereby breach their contract of employment or engagement);

2.1.5 at any time after the Termination Date represent himself as being in any way connected with (other than as a former employee) or interested in the business of the Company or any Group Company or use any registered names, domain names or trading names the same as or that could reasonably be expected to be confused with any such names used by the Company or any Group Company.

2.1.6 before or after the Termination Date, and except in the proper performance of his or her duties of employment by the Company or any Group Company, directly or indirectly use for his or her own purposes or those of a third party or disclose to any third party any Confidential Information. The Grantee will use his or her best endeavours to prevent any unauthorised use or disclosure of Confidential Information. The obligations contained in this clause 2.1.6 will not apply to any disclosures required by law or to any information or documents which after the Termination Date are in the public domain other than by way of unauthorised disclosure.

2.2 The Grantee gives the covenants above to the Company as trustee for itself (and any company forming part of the Group).

2.3 Each restriction contained in this clause 2 is an entirely separate and independent restriction, despite the fact that they may be contained in the same phrase, and if any part is found to be unenforceable the remainder will remain valid and enforceable.

- 2.4 While the restrictions in this clause 2 are considered by the parties to be fair and reasonable in the circumstances, it is agreed that if any such restriction should be held to be void or ineffective for any reason but would be treated as valid and effective if some part of parts of the restriction were deleted, the restriction in question will apply with such deletion as may be necessary to make it valid and effective.
- 2.5 If, during the Grantee's employment or any period during which these restrictions apply, any person, firm, company or entity offers the Grantee any employment, engagement, arrangement or contract which might or would cause him or her to breach any of the restrictions, he or she will notify that person, firm, company or entity of the terms of these restrictions.
- 2.6 The period of any restraint on the Grantee's activities after the Termination Date imposed pursuant to clauses 2.1.1 to 2.1.4 shall be reduced pro rata by any period of garden leave served by the Grantee pursuant to his or her service agreement with the Company or any Group Company.
- 2.7 If the Grantee breaches any of the covenants contained in clauses 2.1.1 to 2.1.6, then any unvested Restricted Stock Units will lapse with immediate effect and the Grantee will be obliged to return all shares of Company stock issued or issuable in respect of Restricted Stock Units which have vested within the three years immediately preceding the breach or their equivalent value (determined by reference to the date of vesting) granted under this Agreement to the Company within 14 days of being notified by the Company of its discovery of the breach.
- 2.8 In this clause, the following definitions shall apply:

"Client"	means any person, firm, company or other business entity whom or which during the Relevant Period: (a) to whom the Company or any Group Company provided insurance or reinsurance; or (b) was an insurance intermediary which introduced such insurance or reinsurance business to the Company or any Group Company, and in each case with whom or which during the Relevant Period: i) the Grantee (or any person reporting to the Grantee) had Material Dealings in relation to Relevant Business; or ii) about whom or which the Grantee has had Confidential Information during the course of his or her employment.
"Competing Business"	means any business which at any time is in or which intends to be in competition with any Relevant Business.
"Confidential Information"	means any and all information which is of a confidential nature or which the Company reasonably regards as being confidential or a trade secret concerning the business, business performance or prospective business, financial information or arrangements, plans or internal affairs of the Company, any Group Company or any of their respective Clients or Prospective Clients including without prejudice to the generality of the foregoing all information, records and materials relating to: (1) underwriting premiums or quotes, income and receipts, claims records and levels, renewals, policy wording and terms, reinsurance quotas, profit commission; (2) syndicate or other business projections and forecasts; (3) Client lists, brokers lists and price sensitive information; (4) technical information, reports, interpretations, forecasts, corporate and business plans and accounts, business methods, financial details, projections and targets; (5) remuneration and personnel details;

	(6) planned products, planned services, marketing surveys, research reports, market share and pricing statistics, budgets, fee levels; (7) computer passwords, the contents of any databases, tables, know how documents or materials; (8) commissions, commission charges, pricing policies and all information about research and development; and (9) the Company's or any Group Company's suppliers', Clients' or Prospective Clients' names, addresses (including email addresses), telephone, facsimile or other contact numbers and contact names, the nature of their business operations, their requirements for services supplied by the Company or any Group Company and all confidential aspects of their relationship with the Company or any Group Company.
"directly or indirectly"	means (without prejudice to the generality of the expression) either alone or jointly with or on behalf of any other person and whether on his or her own account or in partnership with another or others or as the holder of any interest in or as officer, employee or agent of or consultant to any other person.
"Group"	means the Company, its subsidiaries or holding companies from time to time and any subsidiary of any holding company from time to time; and "Group Company" means any company within the Group.
"Key Employee"	means any director or officer of the Company or any Group Company and/or any employee (other than administrative or clerical personnel) of the Company or any Group Company, in each case who, at any time during the Relevant Period: i) was employed by the Company or any Group Company; and ii) with whom the Grantee has had Material Dealings or exercised control or had management responsibility for; and/or iii) has had access to or has obtained Confidential Information during the Relevant Period.
"Material Dealings"	means receiving orders, instructions or enquiries from, contracting or making preparations to contract with, making sales or presenting to or with, tendering for business from, having responsibility with or for, having personal knowledge of or otherwise having significant other contact.
"Prospective Client"	means any person, firm, company or other business entity who was at any time during the Relevant Period: (a) in negotiations with the Company or any Group Company for the provision of insurance or reinsurance; or (b) an insurance intermediary who may introduce such insurance or reinsurance business to the Company or any Group Company, and in each case with whom or which during the Relevant Period: i) the Grantee (or any person reporting to the Grantee) had Material Dealings in relation to Relevant Business; or ii) about whom or which the Grantee has had Confidential Information during the course of Grantee's employment. Provided that this definition shall not apply to any such person, firm, company or other business entity which has withdrawn from or discontinued such negotiations or discussions, having stated its intention to do so (other than

	through any unlawful activity by the Grantee).
“Relevant Business”	means any class or classes of insurance or reinsurance business which was underwritten in the twelve months immediately prior to the Termination Date by the Company or any Group Company and with which the Grantee was directly or indirectly materially concerned or involved or had personal knowledge in the course of Grantee’s duties during the Relevant Period.
“Relevant Period”	means (1) during employment, the twelve month period immediately prior to the action or activity that may be in breach of clauses 2.1.1 to 2.1.4 and (2) after termination of employment, the twelve month period immediately prior to the Termination Date.
“Restricted Period”	means the period beginning on the date hereof and ending one year following the Termination Date.
“Termination Date”	means the date on which the Grantee’s employment or engagement with the Company terminates for any reason.

3. CLAWBACK

- 3.1 If at any time after any Restricted Stock Units have vested under the terms of this Agreement the Committee becomes aware of any material wrongdoing, negligence or misconduct on the part of the Grantee that would have entitled the Company to terminate the Grantee's employment with or without notice for Cause, any unvested Restricted Stock Units will lapse with immediate effect and the Company will be entitled, in its absolute discretion, to recover from the Grantee up to 100% of the shares of Company common stock issued or issuable in respect of the Restricted Stock Units (which have vested within the 7 years prior to such determination by the Committee) or their equivalent value (determined by reference to the date of vesting) granted under this Agreement to the Company within 14 days of being notified in writing by the Company of its discovery of the material wrongdoing, negligence or misconduct.
- 3.2 Clause 3.1 is without prejudice to the Company's other remedies for such wrongdoing or any other clawback policy that the Company may adopt from time to time as required by applicable laws or the applicable listing rules of any securities exchange.
- 3.3 The Committee may review any Restricted Stock Units granted to the Grantee under the terms of this Agreement, in light of:
- there being a significant deterioration in the financial health of the Company, the Group or the business area or team in which the Grantee worked;
 - the Grantee having caused harm to the reputation of the Company or the Group;
 - the Grantee having deliberately misled the Company in relation to the financial performance of the Company, the Group or the business area or team in which he or she worked; and/or
 - the Grantee’s actions having amounted to gross misconduct, incompetence or negligence.

Following a review, the Committee may, in its sole discretion, determine that up to 100% of any unvested Restricted Stock Units granted under this Agreement will lapse with immediate effect and, in addition, the Company will be entitled in its absolute discretion to recover from the Grantee up to 100% of the shares issued or issuable on the vesting of the Restricted Stock Units granted under this Agreement (which have vested within the 7 years prior to such determination by the Committee) or their equivalent value (determined by reference to the date of vesting).

- 3.4 The Grantee agrees that any sums owed to the Company or any Group Company under this Agreement including any adjustment, forfeiture or repayment may be deducted from any sums due to the Grantee from the Company or any Group Company. For the avoidance of doubt, this is without prejudice to any right the Company or the Group may have at any time

to recover any sums from the Grantee and the Grantee agrees that such sums are recoverable by the Company or any Group Company as a debt.

3.5 In this Clause 3, "Cause" means:

- a. any serious negligence or gross misconduct by the Grantee in connection with or affecting the business or affairs of the Company or any member of the Group;
- b. the Grantee being convicted of any arrestable offence other than an offence under road traffic legislation in the UK; or
- c. the Grantee being convicted of an offence under any statutory enactment or regulation relating to insider dealing or market abuse.

4. CHOICE OF LAW

4.1 Any dispute or claim (including non-contractual disputes or claims) arising out of or in connection with this Agreement or its subject matter or formation shall be governed by and construed in accordance with the law of England and Wales.

5. ARBITRATION

5.1 If at any time any dispute or question shall arise between the parties arising out of or in connection with this Agreement or its or their validity, construction or performance then the same shall be referred to and finally resolved by arbitration under the London Court of International Arbitration Rules, which Rules are deemed to be incorporated by reference into this clause.

The number of arbitrators shall be three.

The seat, or legal place, of arbitration shall be London, England.

The language to be used in the arbitral proceedings shall be English.

The governing law of the contract shall be the substantive law of England and Wales.

Addendum for Australia, Canada, Hong Kong and Singapore. For residents of Australia, Canada, Hong Kong or Singapore, for so long as Grantee resides in his or her respective country and is subject to the laws of such country, Sections 3(e) and (h) shall be deleted and replaced as follows:

(e) The Grantee covenants with the Company and the Group that the Grantee will not, save with the prior written consent of the Committee (in its absolute discretion):

A. during the Restricted Period, directly or indirectly, be employed, engaged or retained by or otherwise concerned or interested in any Competing Business. For this purpose, the Grantee is directly or indirectly employed, engaged or retained by or concerned or interested in a Competing Business if:

- (i) the Grantee carries it on as principal or agent; or
- (ii) the Grantee is a partner, director, employee, secondee, consultant or agent in, of or to any person who carries on the Competing Business;
- (iii) the Grantee has any direct or indirect financial interest (as shareholder, creditor or otherwise) in any person who carries on the Competing Business; and/or
- (iv) the Grantee is a partner, director, employee, secondee, consultant or agent in, of or to any person who has a direct or indirect financial interest (as shareholder, creditor or otherwise) in any person who carries on the Competing Business,

disregarding any financial interest the Grantee may have in securities which are listed or dealt in on a recognised investment exchange if the Grantee is interested in securities which amount to less than 3% of the issued securities of that class and which, in all circumstances, carry less than 3% of the voting rights (if any) attaching to the issued securities of that class;

B. during the Restricted Period and whether directly or indirectly, either alone or with or on behalf of any person, firm, company or entity and whether on his or her own account or as principal, partner, shareholder, director, employee, consultant

or in any other capacity whatsoever, have any business dealings with any Client or Prospective Client in relation to or for the benefit of a Competing Business;

- C. during the Restricted Period and whether directly or indirectly, either alone or with or on behalf of any person, firm, company or entity and whether on his or her own account or as principal, partner, shareholder, director, employee, consultant or in any other capacity whatsoever, canvass or solicit business or custom from or seek to entice away any Client or Prospective Client from the Company or any Group Company in relation to or for the benefit of a Competing Business;
- D. during the Restricted Period, directly or indirectly, solicit or endeavour to solicit the employment or engagement of any Key Employee (whether or not such person would thereby breach their contract of employment or engagement);
- E. at any time after the Termination Date represent himself or herself as being in any way connected with (other than as a former employee) or interested in the business of the Company or any Group Company or use any registered names, domain names or trading names the same as or that could reasonably be expected to be confused with any such names used by the Company or any Group Company.
- F. before or after the Termination Date and except in the proper performance of his or her duties of employment for the Company or Group Company directly or indirectly use for his or her own purposes or those of a third party or disclose to any third party any Confidential Information. The Grantee will use his or her best endeavours to prevent any unauthorised use or disclosure of Confidential Information. The obligations contained in this subsection F will not apply to any disclosures required by law or to any information or documents which after the Termination Date are in the public domain other than by way of unauthorised disclosure.

The Grantee gives the covenants above to the Company as trustee for itself (and any company forming part of the Group).

Each restriction contained in this Section 3(e) is an entirely separate and independent restriction, despite the fact that they may be contained in the same phrase, and if any part is found to be unenforceable the remainder will remain valid and enforceable.

While the restrictions in this Section 3(e) are considered by the parties to be fair and reasonable in the circumstances, it is agreed that if any such restriction should be held to be void or ineffective for any reason but would be treated as valid and effective if some part of parts of the restriction were deleted, the restriction in question will apply with such deletion as may be necessary to make it valid and effective.

The period of any restraint on the Grantee's activities after the Termination Date imposed pursuant to sub-section A to D of Section 3(e) shall be reduced pro rata by any period of garden leave served by the Grantee pursuant to his or her service agreement with the Company or any Group Company.

The determination as to whether the Grantee has engaged in a Competitive Action shall be made by the Committee in its sole and absolute discretion. The Committee has sole and absolute discretion to determine whether, notwithstanding its determination that Grantee has engaged in a Competitive Action, recapture or forfeiture as provided herein shall not occur. The Committee's exercise or nonexercise of its discretion with respect to any particular event or occurrence by or with respect to the Grantee or any other recipient of restricted stock units shall not in any way reduce or eliminate the authority of the Committee to (i) determine that any event or occurrence by or with respect to the Grantee constitutes engaging in a Competitive Action or (ii) determine the related Competitive Action date.

In this Agreement, the following definitions shall apply:

"Client"	means any person, firm, company or other business entity whom or which during the Relevant Period: (a) to whom the Company or any Group Company provided insurance or reinsurance; or (b) was an insurance intermediary which introduced such insurance or reinsurance business to the Company or any Group Company, and in each case with whom or which during the Relevant Period: i) the Grantee (or any person reporting to the Grantee) had Material Dealings in relation to Relevant Business; or
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	ii) about whom or which the Grantee has had Confidential Information during the course of his or her employment.
“Competitive Action”	means any of the activities, individually or in the aggregate, described in sub-sections A through F of Section 3(e).
“Competing Business”	means any business which at any time is in or which intends to be in competition with any Relevant Business.
“Confidential Information”	means any and all information which is of a confidential nature or which the Company reasonably regards as being confidential or a trade secret concerning the business, business performance or prospective business, financial information or arrangements, plans or internal affairs of the Company, any Group Company or any of their respective Clients or Prospective Clients including without prejudice to the generality of the foregoing all information, records and materials relating to: (1) underwriting premiums or quotes, income and receipts, claims records and levels, renewals, policy wording and terms, reinsurance quotas, profit commission; (2) syndicate or other business projections and forecasts; (3) Client lists, brokers lists and price sensitive information; (4) technical information, reports, interpretations, forecasts, corporate and business plans and accounts, business methods, financial details, projections and targets; (5) remuneration and personnel details; (6) planned products, planned services, marketing surveys, research reports, market share and pricing statistics, budgets, fee levels; (7) computer passwords, the contents of any databases, tables, know how documents or materials; (8) commissions, commission charges, pricing policies and all information about research and development; and (9) the Company’s or any Group Company’s suppliers’, Clients’ or Prospective Clients’ names, addresses (including email addresses), telephone, facsimile or other contact numbers and contact names, the nature of their business operations, their requirements for services supplied by the Company or any Group Company and all confidential aspects of their relationship with the Company or any Group Company.
“directly or indirectly”	means (without prejudice to the generality of the expression) either alone or jointly with or on behalf of any other person and whether on his or her own account or in partnership with another or others or as the holder of any interest in or as officer, employee or agent of or consultant to any other person.
“Group”	means the Company, its subsidiaries or holding companies from time to time and any subsidiary of any holding company from time to time; and “Group Company” means any company within the Group.
“Key Employee”	means any director or officer of the Company or any Group Company and/or any employee (other than administrative or clerical personnel) of the Company or any Group Company, in each case who, at any time during the

	Relevant Period: i) was employed by the Company or any Group Company; and ii) with whom the Grantee has had Material Dealings or exercised control or had management responsibility for; and/or iii) has had access to or has obtained Confidential Information during the Relevant Period.
“Material Dealings”	means receiving orders, instructions or enquiries from, contracting or making preparations to contract with, making sales or presenting to or with, tendering for business from, having responsibility with or for, having personal knowledge of or otherwise having significant other contact.
“Prospective Client”	means any person, firm, company or other business entity who was at any time during the Relevant Period: (a) in negotiations with the Company or any Group Company for the provision of insurance or reinsurance; or (b) an insurance intermediary who may introduce such insurance or reinsurance business to the Company or any Group Company, and in each case with whom or which during the Relevant Period: i) the Grantee (or any person reporting to the Grantee) had Material Dealings in relation to Relevant Business; or ii) about whom or which the Grantee has had Confidential Information during the course of Grantee’s employment. Provided that this definition shall not apply to any such person, firm, company or other business entity which has withdrawn from or discontinued such negotiations or discussions, having stated its intention to do so (other than through any unlawful activity by the Grantee).
“Relevant Business”	means any class or classes of insurance or reinsurance business which was underwritten in the twelve months immediately prior to the Termination Date by the Company or any Group Company and with which the Grantee was directly or indirectly materially concerned or involved or had personal knowledge in the course of Grantee’s duties during the Relevant Period.
“Relevant Period”	means (1) during employment, the twelve month period immediately prior to the action or activity that may be in breach of clauses e(A) to e(D) and (2) after termination of employment, the twelve month period immediately prior to the Termination Date.
“ Termination Date”	means the date on which the Grantee’s employment or engagement with the Company terminates for any reason.

W. R. BERKLEY CORPORATION

DEFERRED COMPENSATION PLAN FOR OFFICERS

AS AMENDED AND RESTATED November 2, 2016

Section 1. Effective Date

This Plan was created as a spin-off from the W. R. Berkley Corporation Deferred Compensation Plan for Officers, as adopted September 1, 1986, and subsequently amended effective on January 1, 1989, January 1, 1991, and January 1, 2004 (the "Prior Plan"). On December 3, 2007, the Plan was amended and restated for purposes of complying with Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"). The Plan, as so amended and restated, shall apply only to amounts deferred with respect to calendar years 2005 and thereafter, and the Prior Plan shall govern all prior deferrals.

Section 2. Eligibility

Any officer of W. R. Berkley Corporation (the "Company"), or any President or Executive Vice President of any subsidiary or any officer of any subsidiary whose base salary is greater than or equal to \$200,000, is eligible to participate in the Plan; provided, however, that participation in the Plan shall be limited to a "select group of management or highly compensated employees" (as such term is used in DOL Reg. § 2520.104-23).

Section 3. Amount of Deferral

Prior to the beginning of each calendar year, a Participant may elect to defer receipt of:

- (a) all or a portion of the Bonus Pay Compensation payable to the Participant for that year;
- (b) all or a portion of the Base Salary of the Participant for that year;

and/or

- (c) all or part of the Profit Sharing Excess Contributions (as defined below). For the purposes hereof, a Participant's "Profit Sharing Excess Contributions" for any year means the excess of (a) the contributions that would be made by the Company to the W. R. Berkley Corporation Profit Sharing Plan (the "Profit Plan") on behalf of the Participant for such year (exclusive of any pre-tax (401(k)) contributions), without taking into account the Profit Plan's limitations on a participant's earnings and maximum annual additions under Sections 401(a) (17) and 415 of the Internal Revenue Code, over (b) the actual amount of Company contributions (exclusive of pre-tax (401(k)) contributions) allocated to the Participant under the Profit Plan for such year.

Deferral Election in First Year of Eligibility. Notwithstanding the provisions set forth in this Section 3 to the contrary, for any calendar year in which an individual first becomes eligible to participate in the Plan pursuant to Section 2 above (such

individual being an "*Eligible Employee*"), the Compensation Committee of the Board of Directors of the Company (the "*Compensation Committee*") or its designee may allow such Eligible Employee to elect to defer receipt of his/her Bonus Pay Compensation, Base Salary and/or Excess Profit Sharing Contribution (such amounts being, the "*Annual Compensation*") for the calendar year in which he or she first becomes an Eligible Employee; *provided, however*, that any such deferral may only apply to that portion of the Annual Compensation attributable to services to be performed after such election. Unless otherwise determined by the Compensation Committee, in accordance with Treasury Regulation Section 1.409A-2(a)(7)(i), such deferral election shall be deemed to apply to the portion of the Annual Compensation attributable to services to be performed after such election only if the election applies to no more than the amount equal to the total amount of the Annual Compensation for the calendar year multiplied by the ratio of the number of days remaining in the calendar year after the election over the total number of days in the calendar year. Any such deferral election must be made within thirty (30) days after the date such Eligible Employee

first becomes an Eligible Employee by delivery of a completed and executed deferral election form to the Compensation Committee or its designee. Each such deferral election form shall indicate the amount or percentage of such Eligible Employee's Annual Compensation for the calendar year to be deferred pursuant to the Plan, the specified year in the future in which the Deferred Compensation will be paid pursuant to Section 7 below (subject to earlier payment upon a Separation from Service or death), and the form of payment pursuant to Section 8 below. Each deferral election form shall be subject to the approval of the Compensation Committee or its designee and the Compensation Committee or its designee may choose for any reason or for no reason, in its sole discretion, to accept or reject a deferral election form prior to the time such election would otherwise become irrevocable. Deferral elections properly made pursuant to this paragraph and accepted by the Compensation Committee or its designee shall be irrevocable after 11:59 pm ET on the thirtieth (30th) day following the date the Eligible Employee first becomes an Eligible Employee hereunder.

All amounts deferred will be classified as "Deferred Compensation".

Section 4. Type of Plan

The Plan is a non-qualified voluntary deferred compensation type of plan. This Plan is maintained primarily to provide deferred compensation for a select group of management or highly compensated employees, and, therefore, is not intended to be a "qualified plan" within the meaning of Sections 401(a) and 501(a) of the Internal Revenue Code of 1986, as amended (the "*Code*"), and is not subject to any of the participation, vesting, funding or fiduciary responsibility provisions of the Employee Retirement Income Security Act of 1974, as amended and the rules and regulations promulgated thereunder ("*ERISA*").

Section 5. Funding

The Company will not fund the amount of any Participant's Deferred Compensation. The amount of Deferred Compensation is secured only by the Company's promise to pay it from the assets of the Company

Section 6. Investment Income

A reasonable rate of interest will be credited to a Participant's account, from the date of the deferral, and will be compounded quarterly. The interest rate will be established by the Compensation Committee of the Board of Directors prior to the beginning of each year.

Section 7. Deferral Period

A Participant may elect to defer his/her Bonus Pay Compensation and/or his/her Base Salary and/or his/her Excess Profit Sharing Contribution until the earlier of (a) a specified year in the future and (b) his/her "separation from service" with the Company (as such term is defined in Treasury Regulation § 1.409A-1(h) and hereinafter referred to as a "Separation from Service") (or if such Participant is a "specified employee" (as such term is defined in Treasury Regulation § 1.409A-1(i)), the six-month anniversary of such Separation from Service). The actual payment will be made or will commence within sixty days after the date specified or the actual date of Separation from Service, or if applicable, after the six-month anniversary of such Separation from Service.

Section 8. Form of Payment

A Participant may elect to receive his/her Deferred Compensation under the Plan in either a lump sum or in annual installments (not to exceed five), as specified by the Participant at the time the election to defer is made.

Section 9. Death Prior to Receipt

In the event that a Participant dies prior to receipt of any or all of the amounts payable to him/her pursuant to this Plan, any amounts that are then credited as Deferred Compensation will be paid to his/her designated beneficiary in a lump sum within sixty days following the Company's notification of the Participant's death. Such payment shall be made no later than the later of (i) the last day of the year in which death occurred and (ii) the 15th day of the third calendar month following the date of such death. In the event the Company is not notified of the Participant's death at least sixty (60) days prior to the later of such dates, the Participant's Deferred Compensation hereunder shall

continue to be paid in accordance with Sections 7 and 8 hereof. The Participant (or his/her designated beneficiary or estate) shall not be permitted, directly or indirectly, to designate the taxable year of the payment.

At the time the election to defer is made, a Participant may designate a beneficiary under this Plan. The Participant may change the beneficiary by writing to the General Counsel of the Company. If a beneficiary is not named, the value of the Participant's Deferred Compensation Account will be paid to his/her estate.

Section 10. Effect of Election

An election to defer Compensation for any year will be irrevocable once the term to which it applies has commenced, and can be revoked only due to an "unforeseeable emergency" (as such term is defined in Treasury Regulation § 1.409A-3(i)(3)), as determined by the Compensation Committee of the Board of Directors of the Company.

Section 11. Participant's Rights Unsecured

The right of any Participant to receive future payments under the provisions of the Plan will be an unsecured contractual claim against the general assets of the Company. The Plan will not be funded. The Company will not be required to establish any special or separate fund or to make any segregation of assets to assure the payment of any amounts under the Plan.

Section 12. Statement of Account

Statements will be sent to each Participant by February 15th each year as to the value of his/her Deferred Compensation Account as of the end of the preceding December.

Section 13. Assignability

No right to receive payments hereunder will be transferable or assignable by a Participant, except by will or by the laws of descent and distribution.

Section 14. Administration

This Plan will be administered on a day-to-day basis on behalf of the Compensation Committee of the Board of Directors of the Company by the General Counsel of the Company, who will have the authority to adopt rules and regulations for carrying out the Plan. The Compensation Committee of the Board of Directors of the Company will have the authority to interpret, construe and implement the provisions of the Plan and to prescribe the form of the request for deferral of compensation under the Plan.

Section 15. Amendment/Termination

This Plan may at any time or from time to time be amended, modified or terminated by the Board of Directors of the Company; provided, however, that any termination of the Plan must comply with the requirements of Treasury Regulation § 1.409A-3(j)(4)(ix). No amendment, modification or termination will, without the consent of the Participant, adversely affect any amounts credited to such Participant's Deferred Compensation Account; unless the Board determines, in its sole discretion, that such amendment, modification or termination is appropriate or necessary to cause this Plan to comply with Section 409A (including the distribution requirements thereunder) or any Deferred Compensation to be exempt from the tax penalty under Section 409A(a)(1)(B).

Section 16. Tax Treatment

Deferred Compensation and credited interest are taxed as ordinary income when payment is actually received. Distributions received from the Plan are not eligible for favorable tax treatment or rollovers as permitted under qualified plans. This Plan is maintained with the intention that income deferred pursuant to its terms will not be treated as taxable income to any Participant under the Code until such Participant receives actual payment of such deferred amounts. This Plan is intended to comply with the provisions of Section 409A and, to the extent that there are any ambiguities in this document, shall be interpreted and administered consistent with Section 409A. Notwithstanding the immediately prior sentence, if

any term or provision of this Plan is found to be noncompliant with Section 409A in any jurisdiction, such provision

shall be struck as void *ab initio* and a compliant term or provision shall be deemed substituted for such noncompliant provision that preserves, to the maximum lawful extent, the intent of the Plan, and any court or arbitrator so holding shall have authority and shall be instructed to substitute such compliant provision; *provided, however*, that if any such noncompliance is due to a deficiency of one or more terms or provisions, such appropriate terms or provisions shall be deemed to be added to cure such noncompliance that preserves, to the maximum lawful extent, the intent of the Plan, and any such court or arbitrator shall have authority and shall be instructed to supplement the Plan with such compliant terms or provisions. None of the Board, the Compensation Committee, the Company or their respective designees shall be liable to anyone for any federal, state, local, or foreign taxes, interest, or penalties incurred by anyone in connection with the participation in or receipt of benefits under the Plan, including, but not limited to, any taxes, interest or penalties incurred on account of the failure of the Plan or the operation of the Plan to comply with Section 409A.

The Company may withhold from any payments made under this Plan all applicable taxes, including but not limited to income, employment, and social insurance taxes, as shall be required or permitted by applicable law.

Section 17. Other Benefits

The computation and basis for other Company provided benefits may be affected if a Participant elects to defer a portion of his/her Base Salary.

Section 18. Governing Law

This Plan shall be construed in accordance with and governed by U.S. federal tax law (and ERISA) and the laws of the State of Delaware (without giving effect to the choice of law principles thereof).

Capitalized terms used herein but not defined shall have the meaning ascribed to them in the Plan.

To the extent not amended hereby, the Plan shall continue in full force and effect in accordance with its terms.

This amendment shall be governed by, and construed under, the laws of the state of Delaware, and all rights and remedies shall be governed by said laws, without regard to conflict of law principles.

W. R. BERKLEY CORPORATION DEFERRED COMPENSATION PLAN FOR OFFICERS ELECTION FORM- 2016

In accordance with and subject to the W. R. Berkley Corporation Deferred Compensation Plan for Officers (the "Plan"), I hereby request to defer the receipt of compensation for the year ending December 31, ____, as follows:

Amount of Bonus Pay to be Deferred:

___ (a) ALL (100%) OR
___ (b) _____ % (multiples of 10%) OR
(c) \$ _____ (multiples of \$1,000)

Amount of Base Salary to be Deferred:

___ (a) ALL (100%) OR

(b) _____ % (multiples of 10%) OR
____ (c) \$ _____ (multiples of \$1,000)

Amount of Excess Profit Sharing Contribution to be Deferred:

(a) ALL 100% OR
(b) _____ % (multiples of 10%) OR
(c) \$ _____ (multiples of \$1,000)

Period of Deferral:

____ (a) Year in which payments should be made or commence
(not later than my Separation from Service (as defined in the Plan) _____ OR
____ (b) Until my Separation from Service

Form of Distribution:

____ Lump sum OR
____ Annual installments _____
(not to exceed 5)

A Participant should contact his/her Tax Advisor prior to making an election to defer compensation.

I have received a copy of the Plan and agree to be bound by the terms and conditions thereof. I understand that, in the event of my death prior to receipt of all amounts payable to me pursuant to the Plan, the amount credited to my Deferred Compensation Account will be paid to my designated beneficiary in the form of a lump sum. I further understand that this election is subject to approval of the Company as provided by the terms and conditions thereof.

Beneficiary Name _____ Officer Name _____

Address _____ Address _____

Beneficiary Officer
Social Security No. _____ Social Security No. _____

____ Date _____

Signature of Officer

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: November 8, 2018

/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: November 8, 2018

/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 September 30, 2018 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

November 8, 2018

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.