

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, 2020

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

(Address of principal executive offices)

Greenwich

Connecticut

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.

Securities registered pursuant to Section 12(b) of the Act:

Title	Trading Symbol	Name
Common Stock, par value \$.20 per share	WRB	New York Stock Exchange
5.90% Subordinated Debentures due 2056	WRB-PC	New York Stock Exchange
5.75% Subordinated Debentures due 2056	WRB-PD	New York Stock Exchange
5.70% Subordinated Debentures due 2058	WRB-PE	New York Stock Exchange
5.10% Subordinated Debentures due 2059	WRB-PF	New York Stock Exchange
4.25% Subordinated Debentures due 2060	WRB-PG	New York Stock Exchange

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	☒	Accelerated filer	☐
Non-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 October 28, 2020: 178,220,903

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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, 2020	December 31, 2019
	(Unaudited)	(Audited)
Assets		
Investments:		
Fixed maturity securities (amortized cost of \$13,536,264 and \$13,976,647; allowance for expected credit losses of \$2,567 at September 30, 2020)	\$ 13,893,046	\$ 14,180,961
Real estate	2,106,474	2,105,950
Investment funds	1,163,707	1,213,535
Arbitrage trading account	595,727	400,809
Equity securities	435,303	480,620
Loans receivable (net of allowance for expected credit losses of \$5,843 at September 30, 2020)	84,771	91,799
Total investments	18,279,028	18,473,674
Cash and cash equivalents	2,571,447	1,023,710
Premiums and fees receivable (net of allowance for expected credit losses of \$23,033 at September 30, 2020)	2,162,192	1,997,186
Due from reinsurers (net of allowance for expected credit losses of \$7,741 at September 30, 2020)	2,323,833	2,133,683
Deferred policy acquisition costs	560,739	517,364
Prepaid reinsurance premiums	626,229	567,595
Trading account receivables from brokers and clearing organizations	252,223	423,543
Property, furniture and equipment	410,228	422,091
Goodwill	169,652	169,652
Accrued investment income	128,370	138,789
Federal and foreign income taxes	30,069	—
Other assets	698,360	762,743
Total assets	\$ 28,212,370	\$ 26,630,030
Liabilities and Equity		
Liabilities:		
Reserves for losses and loss expenses	\$ 13,459,359	\$ 12,583,249
Unearned premiums	4,054,471	3,656,507
Due to reinsurers	406,844	360,314
Trading account securities sold but not yet purchased	19,254	36,143
Federal and foreign income taxes	—	4,308
Other liabilities	1,159,957	1,244,888
Senior notes and other debt	1,629,077	1,427,575
Subordinated debentures	1,443,736	1,198,704
Total liabilities	22,172,698	20,511,688
Equity:		
Preferred stock, par value \$0.10 per share:		
Authorized 5,000,000 shares; issued and outstanding - none	—	—
Common stock, par value \$0.20 per share:		
Authorized 750,000,000 shares, issued and outstanding, net of treasury shares, 178,217,537 and 183,411,907 shares, respectively	70,535	70,535
Additional paid-in capital	1,064,719	1,056,042
Retained earnings	8,057,556	7,932,372
Accumulated other comprehensive loss	(170,886)	(257,299)
Treasury stock, at cost, 174,458,963 and 169,264,857 shares, respectively	(3,026,812)	(2,726,711)
Total stockholders' equity	5,995,112	6,074,939
Noncontrolling interests	44,560	43,403
Total equity	6,039,672	6,118,342
Total liabilities and equity	\$ 28,212,370	\$ 26,630,030

See accompanying notes to interim consolidated financial statements.

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,	
	2020	2019	2020	2019
REVENUES:				
Net premiums written	\$ 1,879,316	\$ 1,749,906	\$ 5,464,980	\$ 5,202,971
Change in net unearned premiums	(130,395)	(73,096)	(347,727)	(286,464)
Net premiums earned	1,748,921	1,676,810	5,117,253	4,916,507
Net investment income	142,650	161,692	402,844	508,279
Net investment gains (losses):				
Net realized and unrealized (losses) gains on investments	(7,772)	1,465	(89,404)	143,691
Change in allowance for expected credit losses on investments	46,750	—	29,093	—
Net investment gains (losses)	38,978	1,465	(60,311)	143,691
Revenues from non-insurance businesses	87,495	101,880	256,966	283,005
Insurance service fees	21,635	23,681	67,256	71,440
Other income	140	188	2,446	3,200
Total revenues	2,039,819	1,965,716	5,786,454	5,926,122
OPERATING COSTS AND EXPENSES:				
Losses and loss expenses	1,114,632	1,041,471	3,357,011	3,058,950
Other operating costs and expenses	593,969	581,045	1,753,142	1,760,961
Expenses from non-insurance businesses	85,036	101,743	256,032	280,141
Interest expense	39,768	38,475	114,874	119,913
Total operating costs and expenses	1,833,405	1,762,734	5,481,059	5,219,965
Income before income taxes	206,414	202,982	305,395	706,157
Income tax expense	(54,048)	(37,831)	(84,900)	(141,965)
Net income before noncontrolling interests	152,366	165,151	220,495	564,192
Noncontrolling interests	(688)	57	(1,975)	(1,554)
Net income to common stockholders	\$ 151,678	\$ 165,208	\$ 218,520	\$ 562,638
NET INCOME PER SHARE:				
Basic	\$ 0.82	\$ 0.87	\$ 1.17	\$ 2.95
Diluted	\$ 0.81	\$ 0.85	\$ 1.15	\$ 2.91

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,	
	2020	2019	2020	2019
Net income before noncontrolling interests	\$ 152,366	\$ 165,151	\$ 220,495	\$ 564,192
Other comprehensive income (loss):				
Change in unrealized currency translation adjustments	40,194	(36,682)	(36,553)	(31,414)
Change in unrealized investment gains (losses), net of taxes	38,273	(24,745)	98,016	219,679
Other comprehensive income (loss)	78,467	(61,427)	61,463	188,265
Comprehensive income	230,833	103,724	281,958	752,457
Noncontrolling interests	(685)	(66)	(1,973)	(1,659)
Comprehensive income to common stockholders	<u>\$ 230,148</u>	<u>\$ 103,658</u>	<u>\$ 279,985</u>	<u>\$ 750,798</u>

See accompanying notes to interim consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
COMMON STOCK:				
Beginning and end of period	\$ 70,535	\$ 70,535	\$ 70,535	\$ 70,535
ADDITIONAL PAID-IN CAPITAL:				
Beginning of period	\$ 1,076,043	\$ 1,058,416	\$ 1,056,042	\$ 1,039,633
Restricted stock units issued	(23,387)	(28,155)	(26,773)	(30,659)
Restricted stock units expensed	12,063	15,187	35,450	36,474
End of period	\$ 1,064,719	\$ 1,045,448	\$ 1,064,719	\$ 1,045,448
RETAINED EARNINGS:				
Beginning of period	\$ 7,927,280	\$ 7,826,015	\$ 7,932,372	\$ 7,558,619
Cumulative effect adjustment resulting from changes in accounting principles	—	—	(30,514)	—
Net income to common stockholders	151,678	165,208	218,520	562,638
Dividends (\$0.12, \$0.11, \$0.35 and \$0.82 per share, respectively)	(21,402)	(20,204)	(62,822)	(150,238)
End of period	\$ 8,057,556	\$ 7,971,019	\$ 8,057,556	\$ 7,971,019
ACCUMULATED OTHER COMPREHENSIVE LOSS:				
Unrealized investment gains (losses):				
Beginning of period	\$ 209,210	\$ 152,915	\$ 124,514	\$ (91,491)
Cumulative effect adjustment resulting from changes in accounting principles	—	—	24,952	—
Change in unrealized gains (losses) on securities without an allowance for expected credit losses	35,111	(25,005)	77,537	219,388
Change in unrealized gains on securities with an allowance for expected credit losses	3,159	383	20,477	396
End of period	247,480	128,293	247,480	128,293
Currency translation adjustments:				
Beginning of period	(458,560)	(413,711)	(381,813)	(418,979)
Net change in period	40,194	(36,682)	(36,553)	(31,414)
End of period	(418,366)	(450,393)	(418,366)	(450,393)
Total accumulated other comprehensive loss	\$ (170,886)	\$ (322,100)	\$ (170,886)	\$ (322,100)
TREASURY STOCK:				
Beginning of period	\$ (3,023,392)	\$ (2,717,410)	\$ (2,726,711)	\$ (2,720,466)
Stock exercised/vested	9,537	8,804	11,758	11,860
Stock repurchased	(12,957)	—	(311,859)	—
End of period	\$ (3,026,812)	\$ (2,708,606)	\$ (3,026,812)	\$ (2,708,606)
NONCONTROLLING INTERESTS:				
Beginning of period	\$ 44,275	\$ 43,318	\$ 43,403	\$ 41,947
Distributions	(400)	(237)	(816)	(459)
Net income	688	(57)	1,975	1,554
Other comprehensive (loss) income, net of tax	(3)	123	(2)	105
End of period	\$ 44,560	\$ 43,147	\$ 44,560	\$ 43,147

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,	
	2020	2019
CASH FROM OPERATING ACTIVITIES:		
Net income to common stockholders	\$ 218,520	\$ 562,638
Adjustments to reconcile net income to net cash from operating activities:		
Net investment losses (gains)	60,311	(143,691)
Depreciation and amortization	96,195	42,007
Noncontrolling interests	1,975	1,554
Investment funds	(1,260)	(77,284)
Stock incentive plans	37,842	38,440
Change in:		
Arbitrage trading account	(40,487)	(20,422)
Premiums and fees receivable	(175,636)	(206,867)
Reinsurance accounts	(204,396)	(116,359)
Deferred policy acquisition costs	(43,955)	(30,537)
Income taxes	(56,955)	(16,449)
Reserves for losses and loss expenses	879,277	443,454
Unearned premiums	407,227	336,664
Other	(41,713)	(18,104)
Net cash from operating activities	1,136,945	795,044
CASH FROM (USED IN) INVESTING ACTIVITIES:		
Proceeds from sale of fixed maturity securities	3,525,926	1,341,688
Proceeds from sale of equity securities	66,850	40,709
Distributions from investment funds	83,935	187,321
Proceeds from maturities and prepayments of fixed maturity securities	2,876,642	2,278,264
Purchase of fixed maturity securities	(6,074,429)	(3,853,108)
Purchase of equity securities	(77,840)	(66,305)
Real estate purchased	(42,405)	(176,538)
Change in loans receivable	1,202	3,156
Net purchases of property, furniture and equipment	(31,047)	(1,802)
Change in balances due to security brokers	36,561	54,620
Other	65	45
Net cash from (used in) investing activities	365,460	(191,950)
CASH FROM (USED IN) FINANCING ACTIVITIES:		
Repayment of senior notes and other debt	(302,453)	(448,409)
Net proceeds from issuance of debt	747,399	—
Cash dividends to common stockholders	(62,822)	(130,035)
Purchase of common treasury shares	(311,859)	—
Other, net	(18,465)	(20,750)
Net cash from (used in) financing activities	51,800	(599,194)
Net impact on cash due to change in foreign exchange rates	(6,468)	(8,952)
Net change in cash and cash equivalents	1,547,737	(5,052)
Cash and cash equivalents at beginning of year	1,023,710	817,602
Cash and cash equivalents at end of period	\$ 2,571,447	\$ 812,550

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 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, 2019.

The income tax provision has been computed based on the Company’s estimated annual effective tax rate. The effective income tax rate differs from the federal income tax rate of 21% principally because the utilization of losses in certain foreign jurisdictions was limited, which was partially offset by tax-exempt investment income and tax benefits related to equity-based compensation.

(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 7,575,168 and 7,389,781 common shares held in a grantor trust as of September 30, 2020 and 2019, 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,	
	2020	2019	2020	2019
Basic	185,765	190,862	187,338	190,593
Diluted	187,717	193,589	189,515	193,557

(3) Recent Accounting Pronouncements and Accounting Policies

Recently adopted accounting pronouncements:

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, Financial Instruments - Credit Losses, which amended the accounting guidance for credit losses on financial instruments. The updated guidance amended the then current other-than-temporary impairment model for available for sale debt securities by requiring the recognition of impairments relating to expected 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, such as reinsurance recoverables. The updated guidance was effective for reporting periods beginning after December 15, 2019.

The adoption of this guidance on January 1, 2020 resulted in the recognition of an allowance for expected credit losses in connection with operating assets (premiums and fees receivable and due from reinsurers) of \$5.7 million (net of tax) and a corresponding cumulative effect adjustment that decreased common stockholders’ equity. Certain investments (primarily fixed

maturity securities available for sale) established an allowance for expected credit loss of \$24.8 million (net of tax), with a cumulative effect adjustment decreasing retained earnings by \$24.8 million (net of tax) and increasing accumulated other comprehensive (loss) income ("AOCI") by \$25.0 million (net of tax), resulting in \$0.2 million net impact to total common stockholders' equity.

All other accounting and reporting standards that have become effective in 2020 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:

All 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.

Accounting policies:

The following accounting policies have been updated to reflect the Company's adoption of Financial Instruments - Credit Losses as described above.

Revenue recognition (related to premiums and fees receivable)

Insurance premiums are recognized as written at the inception of the policy. Reinsurance premiums are estimated based upon information received from ceding companies, and subsequent differences from such estimates are recorded in the period they are determined. Insurance and reinsurance premiums are primarily earned on a pro rata basis over the policy term. Fees for services are earned over the period that the services are provided. Premiums and fees receivable are reported net of an allowance for expected credit losses with the allowance being estimated based on current and future expected conditions, historical loss data and specific identification of collectability concerns where applicable. Changes in the allowance are reported within other operating costs and expenses.

Reinsurance ceded (related to due from reinsurers)

The unearned portion of premiums ceded to reinsurers is reported as prepaid reinsurance premiums and earned ratably over the policy term. The estimated amounts of reinsurance recoverable on unpaid losses are reported as due from reinsurers. To the extent any reinsurer does not meet its obligations under reinsurance agreements, the Company must discharge its liability. Amounts due from reinsurers are reflected net of funds held where the right of offset is present. The Company has provided an allowance for expected credit losses for estimated uncollectible reinsurance. The allowance is estimated based on the composition of the recoverable balance, considering reinsurer credit ratings, collateral received from financial institutions and funds withheld arrangements, length of collection periods, probability of default methodology, and specific identification of collectability concerns. Changes in the allowance are reported within losses and loss expenses.

Investments

For available for sale securities in an unrealized loss position where the Company intends to sell, or it is more likely than not that it will be required to sell the security before recovery in value, the amortized cost basis is written down to fair value through net investment gains (losses). For available for sale securities in an unrealized loss position where the Company does not intend to sell, or it is more likely than not that it will not be required to sell the security before recovery in value, the Company evaluates whether the decline in fair value has resulted from credit losses or all other factors (non-credit factors). In making this assessment, the Company considers the extent to which fair value is less than amortized cost, changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, an allowance for expected credit losses is recorded for the credit loss through net investment gains (losses), limited by the amount that the fair value is less than the amortized cost basis. The allowance is adjusted for any change in expected credit losses and subsequent recoveries through net investment gains (losses). The impairment related to non-credit factors is recognized in other comprehensive income.

For financial assets carried at amortized cost, which includes held to maturity securities and loans receivable, the Company estimates an allowance for expected credit losses based on relevant information about past events, including historical loss experience, current conditions and forecasts that affect the expected collectability of the amortized cost of the financial asset. The allowance for expected credit losses is presented as a reduction to amortized cost of the financial asset in the consolidated balance sheet and changes to the estimate for expected credit losses are recognized through net investment gains (losses).

The Company's credit assessment of allowance for expected credit losses uses a third party model for available for sale and held to maturity securities, as well as loans receivable. The allowance for expected credit losses is generally based on

the performance of the underlying collateral under various economic and default scenarios that 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. A discounted cash flow analysis is used to ascertain the amount of the allowance for expected credit losses, if any. In general, the model reverts to the rating-level long-term average marginal default rates based on 10 years of historical data, beyond the forecast period. For other inputs, the model in most cases reverts to the baseline long-term assumptions linearly over 5 years beyond the forecast period. The long-term assumptions are based on the historical averages.

The Company reports accrued investment income separately from fixed maturity securities, and has elected not to measure an allowance for expected credit losses for accrued investment income. Accrued investment income is written off through net investment income at the time the issuer of the bond defaults or is expected to default on payments.

(4) Consolidated Statements of Comprehensive Income

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

(In thousands)	Unrealized Investment Gains (Losses)	Currency Translation Adjustments	Accumulated Other Comprehensive (Loss) Income
As of and for the nine months ended September 30, 2020			
Changes in AOCI			
Beginning of period	\$ 124,514	\$ (381,813)	\$ (257,299)
Cumulative effect adjustment resulting from changes in accounting principles	24,952	—	24,952
Restated beginning of period	149,466	(381,813)	(232,347)
Other comprehensive income (loss) before reclassifications	76,474	(36,553)	39,921
Amounts reclassified from AOCI	21,542	—	21,542
Other comprehensive income (loss)	98,016	(36,553)	61,463
Unrealized investment gain related to noncontrolling interest	(2)	—	(2)
End of period	<u>\$ 247,480</u>	<u>\$ (418,366)</u>	<u>\$ (170,886)</u>
Amounts reclassified from AOCI			
Pre-tax	\$ 27,268 (1)	\$ —	\$ 27,268
Tax effect	(5,726) (2)	—	(5,726)
After-tax amounts reclassified	<u>\$ 21,542</u>	<u>\$ —</u>	<u>\$ 21,542</u>
Other comprehensive income (loss)			
Pre-tax	\$ 111,756	\$ (36,553)	\$ 75,203
Tax effect	(13,740)	—	(13,740)
Other comprehensive income (loss)	<u>\$ 98,016</u>	<u>\$ (36,553)</u>	<u>\$ 61,463</u>
As of and for the three months ended September 30, 2020			
Changes in AOCI			
Beginning of period	\$ 209,210	\$ (458,560)	\$ (249,350)
Other comprehensive income before reclassifications	39,488	40,194	79,682
Amounts reclassified from AOCI	(1,215)	—	(1,215)
Other comprehensive income	38,273	40,194	78,467
Unrealized investment gain related to noncontrolling interest	(3)	—	(3)
Ending balance	<u>\$ 247,480</u>	<u>\$ (418,366)</u>	<u>\$ (170,886)</u>
Amounts reclassified from AOCI			
Pre-tax	\$ (1,538) (1)	\$ —	\$ (1,538)
Tax effect	323 (2)	—	323
After-tax amounts reclassified	<u>\$ (1,215)</u>	<u>\$ —</u>	<u>\$ (1,215)</u>
Other comprehensive income			
Pre-tax	\$ 48,980	\$ 40,194	\$ 89,174
Tax effect	(10,707)	—	(10,707)
Other comprehensive income	<u>\$ 38,273</u>	<u>\$ 40,194</u>	<u>\$ 78,467</u>

As of and for the nine months ended September 30, 2019

Changes in AOCI

Beginning of period	\$	(91,491)	\$	(418,979)	\$	(510,470)
Other comprehensive income (loss) before reclassifications		218,592		(31,414)		187,178
Amounts reclassified from AOCI		1,087		—		1,087
Other comprehensive income (loss)		219,679		(31,414)		188,265
Unrealized investment loss related to noncontrolling interest		105		—		105
End of period	\$	128,293	\$	(450,393)	\$	(322,100)
Amounts reclassified from AOCI						
Pre-tax	\$	1,376 (1)	\$	—	\$	1,376
Tax effect		(289) (2)		—		(289)
After-tax amounts reclassified	\$	1,087	\$	—	\$	1,087
Other comprehensive income (loss)						
Pre-tax	\$	287,739	\$	(31,414)	\$	256,325
Tax effect		(68,060)		—		(68,060)
Other comprehensive income (loss)	\$	219,679	\$	(31,414)	\$	188,265

As of and for the three months ended September 30, 2019

Changes in AOCI

Beginning of period	\$	152,915	\$	(413,711)	\$	(260,796)
Other comprehensive loss before reclassifications		(27,023)		(36,682)		(63,705)
Amounts reclassified from AOCI		2,278		—		2,278
Other comprehensive loss		(24,745)		(36,682)		(61,427)
Unrealized investment loss related to noncontrolling interest		123		—		123
Ending balance	\$	128,293	\$	(450,393)	\$	(322,100)
Amounts reclassified from AOCI						
Pre-tax	\$	2,884 (1)	\$	—	\$	2,884
Tax effect		(606) (2)		—		(606)
After-tax amounts reclassified	\$	2,278	\$	—	\$	2,278
Other comprehensive loss						
Pre-tax	\$	(28,592)	\$	(36,682)	\$	(65,274)
Tax effect		3,847		—		3,847
Other comprehensive loss	\$	(24,745)	\$	(36,682)	\$	(61,427)

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

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

(5) Statements of Cash Flows

Interest payments were \$126,932,000 and \$145,930,000 for the nine months ended September 30, 2020 and 2019, respectively. Income taxes paid were \$96,000,000 and \$127,282,000 for the nine months ended September 30, 2020 and 2019, respectively.

(6) Investments in Fixed Maturity Securities

At September 30, 2020 and December 31, 2019, investments in fixed maturity securities were as follows:

(In thousands)	Amortized Cost	Allowance for Expected Credit Losses (1)	Gross Unrealized		Fair Value	Carrying Value
			Gains	Losses		
September 30, 2020						
Held to maturity:						
State and municipal	\$ 66,532	\$ (871)	\$ 13,406	\$ —	\$ 79,067	\$ 65,661
Residential mortgage-backed	6,856	—	1,109	—	7,965	6,856
Total held to maturity	73,388	(871)	14,515	—	87,032	72,517
Available for sale:						
U.S. government and government agency	676,493	—	21,080	(141)	697,432	697,432
State and municipal:						
Special revenue	2,195,851	—	93,278	(2,455)	2,286,674	2,286,674
State general obligation	356,321	—	31,586	—	387,907	387,907
Pre-refunded	257,570	—	22,521	(149)	279,942	279,942
Corporate backed	223,508	—	9,641	(549)	232,600	232,600
Local general obligation	396,831	—	41,975	(534)	438,272	438,272
Total state and municipal	3,430,081	—	199,001	(3,687)	3,625,395	3,625,395
Mortgage-backed securities:						
Residential	848,878	—	29,989	(2,513)	876,354	876,354
Commercial	199,217	—	7,168	(360)	206,025	206,025
Total mortgage-backed securities	1,048,095	—	37,157	(2,873)	1,082,379	1,082,379
Asset-backed	3,347,867	—	11,665	(53,093)	3,306,439	3,306,439
Corporate:						
Industrial	2,240,914	(606)	104,694	(18,404)	2,326,598	2,326,598
Financial	1,471,997	—	55,706	(3,067)	1,524,636	1,524,636
Utilities	325,809	—	30,270	(460)	355,619	355,619
Other	32,262	—	445	(20)	32,687	32,687
Total corporate	4,070,982	(606)	191,115	(21,951)	4,239,540	4,239,540
Foreign government	889,358	(1,090)	26,626	(45,550)	869,344	869,344
Total available for sale	13,462,876	(1,696)	486,644	(127,295)	13,820,529	13,820,529
Total investments in fixed maturity securities	\$ 13,536,264	\$ (2,567)	\$ 501,159	\$ (127,295)	\$ 13,907,561	\$ 13,893,046

(1) Represents the amount of impairment that has resulted from credit-related factors. The change in the allowance for expected credit losses, excluding the cumulative effect adjustment resulting from changes in accounting principles, is recognized in the consolidated statements of income. Amount excludes unrealized losses relating to non-credit factors.

	Amortized Cost	Gross Unrealized		Fair Value	Carrying Value
(In thousands)		Gains	Losses		
December 31, 2019					
Held to maturity:					
State and municipal	\$ 70,312	\$ 13,000	\$ —	\$ 83,312	\$ 70,312
Residential mortgage-backed	8,371	994	—	9,365	8,371
Total held to maturity	78,683	13,994	—	92,677	78,683
Available for sale:					
U.S. government and government agency	775,157	13,249	(1,475)	786,931	786,931
State and municipal:					
Special revenue	2,343,209	64,586	(4,152)	2,403,643	2,403,643
State general obligation	359,298	22,074	(97)	381,275	381,275
Pre-refunded	364,571	20,342	(128)	384,785	384,785
Corporate backed	255,230	7,232	(903)	261,559	261,559
Local general obligation	432,333	32,684	(647)	464,370	464,370
Total state and municipal	3,754,641	146,918	(5,927)	3,895,632	3,895,632
Mortgage-backed securities:					
Residential	1,298,145	23,230	(5,155)	1,316,220	1,316,220
Commercial	304,506	5,214	(346)	309,374	309,374
Total mortgage-backed securities	1,602,651	28,444	(5,501)	1,625,594	1,625,594
Asset-backed	2,802,588	9,532	(21,490)	2,790,630	2,790,630
Corporate:					
Industrial	2,260,073	72,900	(3,800)	2,329,173	2,329,173
Financial	1,447,589	37,681	(4,118)	1,481,152	1,481,152
Utilities	325,762	15,281	(402)	340,641	340,641
Other	5,219	230	—	5,449	5,449
Total corporate	4,038,643	126,092	(8,320)	4,156,415	4,156,415
Foreign government	924,284	16,465	(93,673)	847,076	847,076
Total available for sale	13,897,964	340,700	(136,386)	14,102,278	14,102,278
Total investments in fixed maturity securities	\$ 13,976,647	\$ 354,694	\$ (136,386)	\$ 14,194,955	\$ 14,180,961

The following table presents the rollforward of the allowance for expected credit losses for held to maturity securities for the nine months ended September 30, 2020:

(In thousands)	State and Municipal
Allowance for expected credit losses at January 1, 2020	\$ —
Cumulative effect adjustment resulting from changes in accounting principles	69
Provision for expected credit losses	802
Allowance for expected credit losses at September 30, 2020	\$ 871

The following table presents the rollforward of the allowance for expected credit losses for held to maturity securities for the three months ended September 30, 2020:

(In thousands)	State and Municipal
Allowance for expected credit losses at July 1, 2020	\$ 948
Provision for expected credit losses	(77)
Allowance for expected credit losses at September 30, 2020	\$ 871

The following table presents the rollforward of the allowance for expected credit losses for available for sale securities for the nine months ended September 30, 2020:

(In thousands)	Foreign Government	Corporate	Total
Allowance for expected credit losses at January 1, 2020	\$ —	\$ —	\$ —
Cumulative effect adjustment resulting from changes in accounting principles	35,645	—	35,645
Expected credit losses on securities for which credit losses were not previously recorded	12,494	7,058	19,552
Expected credit losses on securities for which credit losses were previously recorded	295	(3,767)	(3,472)
Reduction due to disposals	(47,344)	(2,685)	(50,029)
Allowance for expected credit losses at September 30, 2020	<u>\$ 1,090</u>	<u>\$ 606</u>	<u>\$ 1,696</u>

The following table presents the rollforward of the allowance for expected credit losses for available for sale securities for the three months ended September 30, 2020:

(In thousands)	Foreign Government	Corporate	Total
Allowance for expected credit losses at July 1, 2020	\$ 44,769	\$ 724	\$ 45,493
Expected credit losses on securities for which credit losses were not previously recorded	—	261	261
Expected credit losses on securities for which credit losses were previously recorded	(252)	(9)	(261)
Reduction due to disposals	(43,427)	(370)	(43,797)
Allowance for expected credit losses at September 30, 2020	<u>\$ 1,090</u>	<u>\$ 606</u>	<u>\$ 1,696</u>

During the three and nine months ended September 30, 2020, the Company decreased the allowance for expected credit losses utilizing its credit loss assessment process and inputs used in its credit loss model, primarily due to the disposition of securities which previously had an allowance recorded.

The amortized cost and fair value of fixed maturity securities at September 30, 2020, 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 (1)	Fair Value
Due in one year or less	\$ 1,372,865	\$ 1,364,023
Due after one year through five years	5,200,384	5,376,126
Due after five years through ten years	3,313,415	3,461,879
Due after ten years	2,593,778	2,615,189
Mortgage-backed securities	1,054,951	1,090,344
Total	<u>\$ 13,535,393</u>	<u>\$ 13,907,561</u>

(1) Amortized cost is reduced by the allowance for expected credit losses of \$871 thousand related to held to maturity securities.

At September 30, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, investments in equity securities were as follows:

(In thousands)	Cost	Gross Unrealized		Fair Value	Carrying Value
		Gains	Losses		
September 30, 2020					
Common stocks	\$ 184,196	\$ 8,042	\$ (31,380)	\$ 160,858	\$ 160,858
Preferred stocks	177,444	100,004	(3,003)	274,445	274,445
Total	<u>\$ 361,640</u>	<u>\$ 108,046</u>	<u>\$ (34,383)</u>	<u>\$ 435,303</u>	<u>\$ 435,303</u>
December 31, 2019					
Common stocks	\$ 175,928	\$ 16,967	\$ (26,090)	\$ 166,805	\$ 166,805
Preferred stocks	169,171	148,243	(3,599)	313,815	313,815
Total	<u>\$ 345,099</u>	<u>\$ 165,210</u>	<u>\$ (29,689)</u>	<u>\$ 480,620</u>	<u>\$ 480,620</u>

(8) Arbitrage Trading Account

At September 30, 2020 and December 31, 2019, the fair and carrying values of the arbitrage trading account were \$596 million and \$401 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 and call options in order to mitigate the impact of potential changes in market conditions on the merger arbitrage trading account. These options are reported at fair value. As of September 30, 2020, the fair value of long option contracts outstanding was \$73 thousand (notional amount of \$6.4 million) and the fair value of short option contracts outstanding was \$77 thousand (notional amount of \$11.4 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 consisted of the following:

(In thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Investment income earned on:				
Fixed maturity securities, including cash and cash equivalents and loans receivable	\$ 97,080	\$ 125,957	\$ 330,941	\$ 386,978
Investment funds	18,235	19,033	1,260	77,284
Arbitrage trading account	19,543	8,400	51,985	26,184
Real estate	7,666	7,987	18,807	17,468
Equity securities	1,907	1,392	6,194	3,984
Gross investment income	144,430	162,769	409,187	511,898
Investment expense	(1,780)	(1,077)	(6,343)	(3,619)
Net investment income	<u>\$ 142,650</u>	<u>\$ 161,692</u>	<u>\$ 402,844</u>	<u>\$ 508,279</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 \$136 million as of September 30, 2020.

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,	
	2020	2019	2020	2019
Real estate	\$ 312,181	\$ 412,275	\$ 2,140	\$ 17,279
Financial services	351,695	280,705	3,303	36,516
Energy	136,250	156,869	(13,689)	(10,342)
Transportation	144,265	147,034	(3,521)	12,222
Other funds	219,316	216,652	13,027	21,609
Total	<u>\$ 1,163,707</u>	<u>\$ 1,213,535</u>	<u>\$ 1,260</u>	<u>\$ 77,284</u>

The Company's share of the earnings or losses from 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, 2020	December 31, 2019
Properties in operation	\$ 1,651,343	\$ 1,351,249
Properties under development	455,131	754,701
Total	<u>\$ 2,106,474</u>	<u>\$ 2,105,950</u>

As of September 30, 2020, properties in operation included a long-term ground lease in Washington, D.C., two office complexes in New York City, office buildings in West Palm Beach and Palm Beach, Florida, an office building in London, and the completed portion of a mixed-use project in Washington D.C.. Properties in operation are net of accumulated depreciation and amortization of \$78,113,000 and \$59,832,000 as of September 30, 2020 and December 31, 2019, respectively. Related depreciation expense was \$19,818,000 and \$8,871,000 for the nine months ended September 30, 2020 and 2019, respectively. Future minimum rental income expected on operating leases relating to properties in operation is \$19,629,625 in 2020, \$82,022,840 in 2021, \$83,544,465 in 2022, \$77,429,542 in 2023, \$74,828,766 in 2024, \$71,126,366 in 2025 and \$672,867,459 thereafter.

The Company borrowed \$101,750,000 through a non-recourse loan secured by the West Palm Beach office building in 2018. The loan matures in November 2028 and carries a fixed interest rate of 4.21%. The carrying value does not reflect the outstanding financing, which is reflected within senior notes and other debt on the Company's consolidated balance sheet.

A mixed-use project in Washington, D.C. has been under development in 2020 and 2019, with the completed portion reported in properties in operation as of September 30, 2020.

(12) Loans Receivable

At September 30, 2020 and December 31, 2019, loans receivable were as follows:

(In thousands)	September 30, 2020	December 31, 2019
Amortized cost (net of allowance for expected credit losses):		
Real estate loans	\$ 52,089	\$ 58,541
Commercial loans	32,682	33,258
Total	<u>\$ 84,771</u>	<u>\$ 91,799</u>
Fair value:		
Real estate loans	\$ 53,848	\$ 59,853
Commercial loans	32,682	34,760
Total	<u>\$ 86,530</u>	<u>\$ 94,613</u>

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.

Loans receivable in non-accrual status were both \$0.2 million as of September 30, 2020 and December 31, 2019.

The following table presents the rollforward of the allowance for expected credit losses for loans receivable for the nine months ended September 30, 2020:

(In thousands)	Real Estate Loans	Commercial Loans	Total
Allowance for expected credit losses at January 1, 2020	\$ 1,502	\$ 644	\$ 2,146
Cumulative effect adjustment resulting from changes in accounting principles	(905)	548	(357)
Provision for expected credit losses	1,162	2,892	4,054
Allowance for expected credit losses at September 30, 2020	<u>\$ 1,759</u>	<u>\$ 4,084</u>	<u>\$ 5,843</u>

The following table presents the rollforward of the allowance for expected credit losses for loans receivable for the three months ended September 30, 2020:

(In thousands)	Real Estate Loans	Commercial Loans	Total
Allowance for expected credit losses at July 1, 2020	\$ 4,318	\$ 4,401	\$ 8,719
Provision for expected credit losses	(2,559)	(317)	(2,876)
Allowance for expected credit losses at September 30, 2020	<u>\$ 1,759</u>	<u>\$ 4,084</u>	<u>\$ 5,843</u>

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.

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.

(13) Net Investment Gains (Losses)

Net investment gains (losses) were as follows:

(In thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Net investment gains (losses):				
Fixed maturity securities:				
Gains	\$ 3,811	\$ 2,100	\$ 23,586	\$ 10,503
Losses	(39,162)	(4,984)	(53,243)	(11,879)
Equity securities (1):				
Net realized (losses) gains on investment sales	(176)	(11)	5,551	23,328
Change in unrealized gains (losses)	30,693	4,226	(61,859)	115,722
Investment funds	203	(456)	31,299	(398)
Real estate	3,841	417	(3,983)	6,184
Loans receivable	—	—	—	(970)
Other	(6,982)	173	(30,755)	1,201
Net realized and unrealized (losses) gains on investments in earnings before allowance for expected credit losses	(7,772)	1,465	(89,404)	143,691
Change in allowance for expected credit losses on investments (2):				
Fixed maturity securities	43,874	—	33,147	—
Loans receivable	2,876	—	(4,054)	—
Change in allowance for expected credit losses on investments	46,750	—	29,093	—
Net investment gains (losses)	38,978	1,465	(60,311)	143,691
Income tax (expense) benefit	(8,855)	(308)	13,622	(30,175)
After-tax net investment gains (losses)	\$ 30,123	\$ 1,157	\$ (46,689)	\$ 113,516
Change in unrealized investment gains (losses) on available for sale securities:				
Fixed maturity securities without allowance for expected credit losses	\$ 46,164	\$ (12,178)	\$ 89,363	\$ 308,945
Fixed maturity securities with allowance for expected credit losses	5,036	384	30,027	396
Investment funds	(198)	(2,689)	(3,632)	4,863
Other	(2,022)	(14,109)	(4,002)	(26,465)
Total change in unrealized investment gains (losses)	48,980	(28,592)	111,756	287,739
Income tax (expense) benefit	(10,707)	3,847	(13,740)	(68,060)
Noncontrolling interests	(3)	123	(2)	105
After-tax change in unrealized investment gains (losses) of available for sale securities	\$ 38,270	\$ (24,622)	\$ 98,014	\$ 219,784

(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 (losses) 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) The inclusion of the allowance for expected credit losses on investments commenced January 1, 2020 due to the adoption of ASU 2016-13. See Note 3 for more details.

(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, 2020 and December 31, 2019 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, 2020						
U.S. government and government agency	\$ 115,161	\$ 141	\$ 18	\$ —	\$ 115,179	\$ 141
State and municipal	204,907	2,809	24,290	878	229,197	3,687
Mortgage-backed securities	116,958	2,673	28,578	200	145,536	2,873
Asset-backed securities	1,443,178	15,094	665,759	37,999	2,108,937	53,093
Corporate	636,250	19,158	40,224	2,793	676,474	21,951
Foreign government	127,441	25,088	5,706	20,462	133,147	45,550
Fixed maturity securities	<u>\$ 2,643,895</u>	<u>\$ 64,963</u>	<u>\$ 764,575</u>	<u>\$ 62,332</u>	<u>\$ 3,408,470</u>	<u>\$ 127,295</u>
December 31, 2019						
U.S. government and government agency	\$ 83,837	\$ 618	\$ 53,089	\$ 857	\$ 136,926	\$ 1,475
State and municipal	365,184	4,245	127,210	1,682	492,394	5,927
Mortgage-backed securities	301,358	2,281	180,148	3,220	481,506	5,501
Asset-backed securities	755,259	2,307	774,508	19,183	1,529,767	21,490
Corporate	307,367	3,148	121,470	5,172	428,837	8,320
Foreign government	164,536	32,028	107,266	61,645	271,802	93,673
Fixed maturity securities	<u>\$ 1,977,541</u>	<u>\$ 44,627</u>	<u>\$ 1,363,691</u>	<u>\$ 91,759</u>	<u>\$ 3,341,232</u>	<u>\$ 136,386</u>

Substantially all of the securities in an unrealized loss position are rated investment grade, except for the securities in the foreign government classification. In general, fair value in all classifications were affected by market disruptions caused by COVID-19. A significant amount of the unrealized loss on foreign government securities is the result of changes in currency exchange rates.

A summary of the Company's non-investment grade fixed maturity securities that were in an unrealized loss position at September 30, 2020 is presented in the table below:

(\$ in thousands)	Number of Securities	Aggregate Fair Value	Gross Unrealized Loss
Foreign government	22	\$ 91,413	\$ 45,247
Corporate	13	28,816	6,343
Mortgage-backed securities	8	1,659	34
Total	<u>43</u>	<u>\$ 121,888</u>	<u>\$ 51,624</u>

For 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.

(15) Fair Value Measurements

The Company's fixed maturity available for sale securities, equity securities and its 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, 2020 and December 31, 2019 by level:

(In thousands)	Total	Level 1	Level 2	Level 3
September 30, 2020				
Assets:				
Fixed maturity securities available for sale:				
U.S. government and government agency	\$ 697,432	\$ —	\$ 697,432	\$ —
State and municipal	3,625,395	—	3,625,395	—
Mortgage-backed securities	1,082,379	—	1,082,379	—
Asset-backed securities	3,306,439	—	3,306,439	—
Corporate	4,239,540	—	4,239,540	—
Foreign government	869,344	—	869,344	—
Total fixed maturity securities available for sale	13,820,529	—	13,820,529	—
Equity securities:				
Common stocks	160,858	152,508	—	8,350
Preferred stocks	274,445	—	265,117	9,328
Total equity securities	435,303	152,508	265,117	17,678
Arbitrage trading account	595,727	307,915	287,812	—
Total	\$ 14,851,559	\$ 460,423	\$ 14,373,458	\$ 17,678
Liabilities:				
Trading account securities sold but not yet purchased	\$ 19,254	\$ 19,254	\$ —	\$ —
December 31, 2019				
Assets:				
Fixed maturity securities available for sale:				
U.S. government and government agency	\$ 786,931	\$ —	\$ 786,931	\$ —
State and municipal	3,895,632	—	3,895,632	—
Mortgage-backed securities	1,625,594	—	1,625,594	—
Asset-backed securities	2,790,630	—	2,790,630	—
Corporate	4,156,415	—	4,156,415	—
Foreign government	847,076	—	847,076	—
Total fixed maturity securities available for sale	14,102,278	—	14,102,278	—
Equity securities:				
Common stocks	166,805	157,752	—	9,053
Preferred stocks	313,815	—	307,310	6,505
Total equity securities	480,620	157,752	307,310	15,558
Arbitrage trading account	400,809	381,061	19,748	—
Total	\$ 14,983,707	\$ 538,813	\$ 14,429,336	\$ 15,558
Liabilities:				
Trading account securities sold but not yet purchased	\$ 36,143	\$ 36,143	\$ —	\$ —

The following tables summarize changes in Level 3 assets and liabilities for the nine months ended September 30, 2020 and for the year ended December 31, 2019:

(In thousands)	Gains (Losses) Included in:								
	Beginning Balance	Earnings (Losses)	Other Comprehensive Income	Impairments	Purchases	(Sales)	Paydowns / Maturities	Transfers In / (Out)	Ending Balance
Nine Months Ended September 30, 2020									
Assets:									
Equity securities:									
Common stocks	\$ 9,053	\$ 363	\$ —	\$ —	\$ —	\$ (1,066)	\$ —	\$ —	\$ 8,350
Preferred stocks	6,505	(177)	—	—	3,000	—	—	—	9,328
Total	<u>\$ 15,558</u>	<u>\$ 186</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,000</u>	<u>\$ (1,066)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 17,678</u>
Year Ended December 31, 2019									
Assets:									
Fixed maturities securities available for sale:									
Asset-backed securities	\$ 99	\$ (26)	\$ 61	\$ —	\$ —	\$ (134)	\$ —	\$ —	\$ —
Total	<u>99</u>	<u>(26)</u>	<u>61</u>	<u>—</u>	<u>—</u>	<u>(134)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Equity securities:									
Common stocks	8,596	2,005	—	—	—	(1,548)	—	—	9,053
Preferred stocks	3,945	(42)	—	—	2,602	—	—	—	6,505
Total	<u>12,541</u>	<u>1,963</u>	<u>—</u>	<u>—</u>	<u>2,602</u>	<u>(1,548)</u>	<u>—</u>	<u>—</u>	<u>15,558</u>
Arbitrage trading account	<u>17,308</u>	<u>(8,731)</u>	<u>—</u>	<u>—</u>	<u>14,767</u>	<u>(38,233)</u>	<u>—</u>	<u>14,889</u>	<u>—</u>
Total	<u>\$ 29,948</u>	<u>\$ (6,794)</u>	<u>\$ 61</u>	<u>\$ —</u>	<u>\$ 17,369</u>	<u>\$ (39,915)</u>	<u>\$ —</u>	<u>\$ 14,889</u>	<u>\$ 15,558</u>
Liabilities:									
Trading account securities sold but not yet purchased	<u>\$ 793</u>	<u>\$ 133</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,609</u>	<u>\$ (8,535)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

For the nine months ended September 30, 2020, there were no securities transferred into or out of Level 3. For the year ended December 31, 2019, there were two common stocks transferred into Level 3 in the arbitrage trading account where publicly traded prices were no longer available, and both were sold by year end.

(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,	
	2020	2019
Net reserves at beginning of period	\$ 10,697,998	\$ 10,248,883
Cumulative effect adjustment resulting from changes in accounting principles	5,927	—
Restated net reserves at beginning of period	10,703,925	10,248,883
Net provision for losses and loss expenses:		
Claims occurring during the current year (1)	3,328,827	3,007,364
Increase in estimates for claims occurring in prior years (2) (3)	849	22,340
Loss reserve discount accretion	27,335	29,246
Total	3,357,011	3,058,950
Net payments for claims:		
Current year	570,924	767,945
Prior years	2,077,945	1,907,979
Total	2,648,869	2,675,924
Foreign currency translation	(21,003)	(49,455)
Net reserves at end of period	11,391,064	10,582,454
Ceded reserves at end of period	2,068,295	1,814,501
Gross reserves at end of period	\$ 13,459,359	\$ 12,396,955

(1) Claims occurring during the current year are net of loss reserve discounts of \$8 million and \$15 million for the nine months ended September 30, 2020 and 2019, respectively.

(2) The change 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 \$19 million and increased by \$12 million for the nine months ended September 30, 2020 and 2019, 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 \$12 million and \$17 million for the nine months ended September 30, 2020 and 2019, respectively.

The ongoing COVID-19 global pandemic has impacted, and will likely continue to impact, the Company's results through its effect on claim frequency and severity. Loss cost trends have been impacted and will likely be further impacted by COVID-19-related claims in certain lines of business, as well as by other effects of COVID-19 associated with economic conditions, inflation, and social distancing and work from home rules, for example. Although it is still too early to determine the net impact, it appears that the losses incurred due to COVID-19-related claims are being offset, to a certain extent, by lower claim frequency in certain lines of our businesses, including commercial auto, workers' compensation, and other liability. However, given the continuing nature of the pandemic, the impact of COVID-19 could ultimately increase or decrease overall loss cost trends and is likely to have differing impacts on the Company's different lines of business.

Most of the COVID-19-related claims reported to the Company to date involve certain short-tailed lines of business, including contingency and event cancellation, business interruption, and film production delay. The Company expects additional claims to be reported for these lines of business. The Company has also received COVID-19-related claims for longer-tailed casualty lines of business such as workers' compensation and other liability; however, the estimated incurred loss impact for these reported claims appears to be modest at this time. Given the continuing uncertainty regarding the pandemic's pervasiveness and the time needed to develop widespread treatments and vaccines, and the related economic impacts, the future impact that the pandemic may have on claim frequency and severity remains uncertain at this time. In workers' compensation, for example, nearly two-thirds of the states have enacted rules, legislation or administrative orders creating a presumption that certain "essential" workers who contract COVID-19 did so through the course of their employment. Several other states are considering similar actions, including varying the definition of "essential" workers. While the ultimate impact of these presumptions are unknown at this time, the Company believes that such state actions will likely increase workers' compensation claims with respect to workers deemed "essential," although this impact may be partially offset by lower workers' compensation claim frequency with respect to non-essential workers.

The Company has estimated the potential COVID-19 impact to its workers' compensation, contingency and event cancellation, and other lines of business under a number of possible scenarios; however, due to COVID-19's evolving impact and the still limited amount of available data, there remains a high degree of uncertainty around the Company's COVID-19 reserves. In addition, several states (and international jurisdictions), through regulation, legislation and/or judicial action, continue to seek to expand policy coverage terms beyond the policy's intended coverage, including, for example, but not

limited to, property coverages, where there are attempts to extend business interruption coverage where there is no physical damage or loss to property, and attempts to disregard policy exclusions for communicable disease. Accordingly, losses arising from these actions, and the other factors described above, could exceed the Company's reserves established for those related policies.

For the nine months ended September 30, 2020, the Company has recognized losses for COVID-19-related claims activity, net of reinsurance, of approximately \$143 million, of which \$121 million relates to the Insurance segment and \$22 million relates to the Reinsurance & Monoline Excess segment. Of the \$143 million of COVID-19-related losses, \$69 million are reported losses and \$74 million is booked as IBNR.

During the nine months ended September 30, 2020, favorable prior year development (net of additional and return premiums) of \$12 million included \$19 million of favorable development for the Insurance segment, partially offset by \$7 million of adverse development for the Reinsurance & Monoline Excess segment.

The overall favorable development for the Insurance segment was primarily attributable to favorable development on workers' compensation business, partially offset by adverse development on professional liability business. The favorable workers' compensation development was spread across many prior accident years, including prior to 2010, but was especially significant in accident year 2019. The favorable workers' compensation development reflects a continuation of the benign loss cost trends experienced during recent years, particularly the favorable claim frequency trends. Our ongoing workers' compensation claims management efforts, including active medical case management and use of networks and specialty vendors to control medical and pharmaceutical benefit costs, have also added to the favorable workers' compensation prior year development. The adverse professional liability development was mainly concentrated in accident years 2016 through 2018 and was largely driven by higher than expected large losses being reported in the directors and officers and lawyers professional liability lines of business.

The adverse development for the Reinsurance & Monoline Excess segment was mainly driven by non-proportional reinsurance assumed liability business written in the U.K. for accident years 2016 through 2018, partially offset by favorable development on excess workers' compensation business. The adverse development was driven by a greater than expected number of reported large losses.

During the nine months ended September 30, 2019, favorable prior year development (net of additional and return premiums) of \$17 million included \$18 million of favorable development for the Insurance segment, partially offset by \$1 million of adverse development for the Reinsurance & Monoline Excess segment.

The overall favorable development for the Insurance segment was primarily attributable to favorable development on workers' compensation business, partially offset by adverse development on general liability, professional liability, and commercial auto liability business. The favorable workers' compensation development was mainly attributable to accident years 2014 through 2018, and 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). The adverse general liability development was mainly related to accident years 2015 through 2017 and was driven by a higher than expected number of large losses being reported in the period. The adverse professional liability development was mainly from accident years 2013 through 2016 and was driven by an increased frequency of large losses relating to lawyers professional and directors and officers liability. The adverse commercial auto liability development was primarily related to accident years 2015 through 2018 (with most in 2018), and was driven by a higher than expected number of large losses.

(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, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Fixed maturity securities	\$ 13,893,046	\$ 13,907,561	\$ 14,180,961	\$ 14,194,955
Equity securities	435,303	435,303	480,620	480,620
Arbitrage trading account	595,727	595,727	400,809	400,809
Loans receivable	84,771	86,530	91,799	94,613
Cash and cash equivalents	2,571,447	2,571,447	1,023,710	1,023,710
Trading account receivables from brokers and clearing organizations	252,223	252,223	423,543	423,543
Liabilities:				
Due to broker	58,893	58,893	27,116	27,116
Trading account securities sold but not yet purchased	19,254	19,254	36,143	36,143
Subordinated debentures	1,443,736	1,530,810	1,198,704	1,274,088
Senior notes and other debt	1,629,077	1,898,483	1,427,575	1,582,290

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.

In October 2020, the Company redeemed \$350 million aggregate principal amount of 5.625% subordinated debentures due 2053.

(18) Premiums and Reinsurance Related Information

The following is a summary of insurance and reinsurance financial information:

(In thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Written premiums:				
Direct	\$ 2,018,530	\$ 1,853,881	\$ 5,875,379	\$ 5,566,728
Assumed	244,015	239,169	750,784	662,412
Ceded	(383,229)	(343,144)	(1,161,183)	(1,026,169)
Total net premiums written	<u>\$ 1,879,316</u>	<u>\$ 1,749,906</u>	<u>\$ 5,464,980</u>	<u>\$ 5,202,971</u>
Earned premiums:				
Direct	\$ 1,877,234	\$ 1,797,726	\$ 5,511,791	\$ 5,294,773
Assumed	237,815	209,094	699,025	595,946
Ceded	(366,128)	(330,010)	(1,093,563)	(974,212)
Total net premiums earned	<u>\$ 1,748,921</u>	<u>\$ 1,676,810</u>	<u>\$ 5,117,253</u>	<u>\$ 4,916,507</u>
Ceded losses and loss expenses incurred	<u>\$ 209,706</u>	<u>\$ 172,009</u>	<u>\$ 677,761</u>	<u>\$ 584,323</u>
Ceded commissions earned	<u>\$ 89,104</u>	<u>\$ 76,001</u>	<u>\$ 255,742</u>	<u>\$ 220,110</u>

The following table presents the rollforward of the allowance for expected credit losses for premiums and fees receivable for the nine months ended September 30, 2020:

(In thousands)

Allowance for expected credit losses at January 1, 2020	\$	19,823
Cumulative effect adjustment resulting from changes in accounting principles		1,270
Provision for expected credit losses		1,940
Allowance for expected credit losses at September 30, 2020	\$	23,033

The following table presents the rollforward of the allowance for expected credit losses for premiums and fees receivable for the three months ended September 30, 2020:

(In thousands)

Allowance for expected credit losses at July 1, 2020	\$	22,106
Provision for expected credit losses		927
Allowance for expected credit losses at September 30, 2020	\$	23,033

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 an allowance for expected credit losses. The following table presents the rollforward of the allowance for expected credit losses associated with due from reinsurers for the nine months ended September 30, 2020:

(In thousands)

Allowance for expected credit losses at January 1, 2020	\$	690
Cumulative effect adjustment resulting from changes in accounting principles		5,927
Provision for expected credit losses		1,124
Allowance for expected credit losses at September 30, 2020	\$	7,741

The following table presents the rollforward of the allowance for expected credit losses associated with due from reinsurers for the three months ended September 30, 2020:

(In thousands)

Allowance for expected credit losses at July 1, 2020	\$	7,175
Provision for expected credit losses		566
Allowance for expected credit losses at September 30, 2020	\$	7,741

(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 \$35 million and \$36 million for the nine months ended September 30, 2020 and 2019, respectively. A summary of RSUs issued in the nine months ended September 30, 2020 and 2019 follows:

(\$ in thousands)	Units	Fair Value
2020	953,519	\$ 59,683
2019	839,263	\$ 59,435

(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) Leases

Lessees are required to recognize a right-of-use asset and a lease liability for leases with terms of more than 12 months on the balance sheet. All leases disclosed within this footnote are classified as operating leases. Recognized right-of-use asset and lease liability are reported within other assets and other liabilities, respectively, in the consolidated balance sheet. Lease expense is reported in other operating costs and expenses in the consolidated statement of income and accounted for on a straight-line basis over the lease term.

To determine the discount rate used to calculate present value of future minimum lease payments, the Company uses its incremental borrowing rate during the lease commencement period in line with the respective lease duration. In certain cases, the Company has the option to renew the lease. Lease renewal future payments are included in the present value of the future minimum lease payments when the Company determines it is reasonably certain to renew.

The main leases entered into by the Company are for office space used by the Company's operating units across the world. Additionally, the Company, to a lesser extent, has equipment leases mainly for office equipment. Further information relating to operating lease expense and other operating lease information are as follows:

(In thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Leases:				
Lease cost	\$ 11,016	\$ 10,734	\$ 33,130	\$ 32,969
Cash paid for amounts included in the measurement of lease liabilities reported in operating cash flows	\$ 11,560	\$ 11,241	\$ 33,869	\$ 34,030
Right-of-use assets obtained in exchange for new lease liabilities	\$ 1,344	\$ 23,211	\$ 5,639	\$ 31,095

(\$ in thousands)	As of September 30,	
	2020	2019
Right-of-use assets	\$ 172,473	\$ 194,553
Lease liabilities	\$ 211,808	\$ 226,291
Weighted-average remaining lease term	6.7 years	7.2 years
Weighted-average discount rate	5.93 %	5.97 %

Contractual maturities of the Company's future minimum lease payments are as follows:

(In thousands)	September 30, 2020
Contractual Maturities:	
2020	\$ 12,162
2021	46,835
2022	41,637
2023	37,737
2024	31,439
Thereafter	78,806
Total undiscounted future minimum lease payments	248,616
Less: Discount impact	(36,808)
Total lease liability	\$ 211,808

(22) 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 & Monoline Excess - 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, as well as operations that solely retain risk on an excess basis.

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

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

	Revenues					Net Income (Loss) to Common Stockholders
(In thousands)	Earned Premiums (1)	Investment Income	Other	Total (2)	Pre-Tax Income (Loss)	
Three months ended September 30, 2020						
Insurance	\$ 1,531,093	\$ 87,828	\$ 9,463	\$ 1,628,384	\$ 178,971	\$ 130,266
Reinsurance & Monoline Excess	217,828	40,306	—	258,134	61,532	49,070
Corporate, other and eliminations (3)	—	14,516	99,807	114,323	(73,067)	(57,781)
Net investment gains	—	—	38,978	38,978	38,978	30,123
Total	\$ 1,748,921	\$ 142,650	\$ 148,248	\$ 2,039,819	\$ 206,414	\$ 151,678
Three months ended September 30, 2019						
Insurance	\$ 1,493,854	\$ 99,628	\$ 11,611	\$ 1,605,093	\$ 202,390	\$ 162,994
Reinsurance & Monoline Excess	182,956	43,768	—	226,724	46,863	38,240
Corporate, other and eliminations (3)	—	18,296	114,138	132,434	(47,736)	(37,184)
Net investment gains	—	—	1,465	1,465	1,465	1,158
Total	\$ 1,676,810	\$ 161,692	\$ 127,214	\$ 1,965,716	\$ 202,982	\$ 165,208
Nine months ended September 30, 2020						
Insurance	\$ 4,481,092	\$ 255,392	\$ 25,953	\$ 4,762,437	\$ 431,464	\$ 315,733
Reinsurance & Monoline Excess	636,161	101,477	—	737,638	110,611	88,947
Corporate, other and eliminations (3)	—	45,975	300,715	346,690	(176,369)	(139,471)
Net investment losses	—	—	(60,311)	(60,311)	(60,311)	(46,689)
Total	\$ 5,117,253	\$ 402,844	\$ 266,357	\$ 5,786,454	\$ 305,395	\$ 218,520
Nine months ended September 30, 2019						
Insurance	\$ 4,396,071	\$ 332,072	\$ 38,542	\$ 4,766,685	\$ 612,777	\$ 488,228
Reinsurance & Monoline Excess	520,436	127,791	—	648,227	144,353	115,630
Corporate, other and eliminations (3)	—	48,416	319,103	367,519	(194,664)	(154,736)
Net investment gains	—	—	143,691	143,691	143,691	113,516
Total	\$ 4,916,507	\$ 508,279	\$ 501,336	\$ 5,926,122	\$ 706,157	\$ 562,638

(1) Certain amounts included in earned premiums of each segment are related to inter-segment transactions.

(2) Revenues for Insurance from foreign countries for the three months ended September 30, 2020 and 2019 were \$183 million and \$185 million, respectively, and for the nine months ended September 30, 2020 and 2019 were \$500 million and \$535 million, respectively. Revenues for Reinsurance & Monoline Excess from foreign countries for the three months ended September 30, 2020 and 2019 were \$77 million and \$65 million, respectively, and for the nine months ended September 30, 2020 and 2019 were \$212 million and \$186 million, respectively.

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

(In thousands)	Identifiable Assets	
	September 30, 2020	December 31, 2019
Insurance	\$ 21,060,144	\$ 20,005,802
Reinsurance & Monoline Excess	4,697,249	4,710,819
Corporate, other and eliminations	2,454,977	1,913,409
Consolidated	<u>\$ 28,212,370</u>	<u>\$ 26,630,030</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,	
	2020	2019	2020	2019
Insurance:				
Other liability	\$ 561,595	\$ 527,253	\$ 1,653,189	\$ 1,523,534
Short-tail lines (1)	326,019	310,423	917,466	905,365
Workers' compensation	271,802	321,872	852,101	979,059
Commercial automobile	203,047	191,136	583,024	560,340
Professional liability	168,630	143,170	475,312	427,773
Total Insurance	1,531,093	1,493,854	4,481,092	4,396,071
Reinsurance & Monoline Excess:				
Casualty reinsurance	130,186	106,532	383,375	292,471
Monoline excess (2)	43,577	40,639	126,800	119,020
Property reinsurance	44,065	35,785	125,986	108,945
Total Reinsurance & Monoline Excess	217,828	182,956	636,161	520,436
Total	\$ 1,748,921	\$ 1,676,810	\$ 5,117,253	\$ 4,916,507

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

(2) Monoline excess includes operations that solely retain risk on an excess basis.

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 2020 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 ongoing COVID-19 pandemic, including the related impact on the U.S. and global economies; 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, including claims for cybersecurity related risks; natural and man-made catastrophic losses, including as a result of terrorist activities, epidemics or pandemics, such as COVID-19; the impact of climate change, which may increase the frequency and severity of catastrophe events; 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 2019; the ability or willingness 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 cyber security issues; 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 2020 and beyond to differ materially from those expressed in any forward-looking statement we make. Any projections of growth in our revenues would not necessarily result in commensurate levels of earnings. Our future financial performance is dependent upon factors discussed in our Annual Report on Form 10-K, elsewhere in this Form 10-Q and our other SEC filings. Forward-looking statements speak only as of the date on which they are made. Except to the extent required by applicable laws, the Company does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

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

Overview

W. R. Berkley Corporation is an insurance holding company that is among the largest commercial lines writers in the United States and operates worldwide in two segments of the property and casualty business: Insurance and Reinsurance & Monoline Excess. 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 capital 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 low levels for an extended period. A portion of the Company's fixed maturity securities include investments in collateralized loan obligations with exposure to a diverse group of industries. As of September 30, 2020, approximately 97% of the Company's collateralized loan obligation portfolio has an average rating of "AA" or higher. As a result, the Company believes that its collateralized loan obligation portfolio is well-positioned despite the current market environment.

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

Effective January 1, 2020, the Company adopted new accounting standard ASU 2016-13 Financial Instruments - Credit Losses. Refer to Note 3 in the financial statements for further information on the accounting guidance and impact of its adoption on the Company's results and financial position.

The ongoing COVID-19 pandemic, including the related impact on the U.S. and global economies, has materially and adversely affected our results of operations. For the nine months ended September 30, 2020, the Company recorded approximately \$143 million for COVID-19-related losses, net of reinsurance, and reinstatement premiums of approximately \$18 million. The ultimate impact of COVID-19 on the economy and on the Company's results of operations, financial position and liquidity is uncertain and not within the Company's control. The scope, duration and magnitude of the direct and indirect effects of COVID-19 continue to evolve in ways that are difficult or impossible to anticipate. In addition, because COVID-19 did not begin to affect the Company's operations and financial position until late in the first quarter of 2020, its impact on the Company's first nine months of 2020 is not necessarily indicative of its impact for the remainder of 2020 or beyond. Despite the effects of COVID-19 to date, the Company's financial position and liquidity improved commencing in the second quarter.

The impact of the COVID-19 pandemic on our results of operations, financial position and liquidity is expected to include, among others:

Adverse Legislative and Regulatory Action. Legislative and regulatory initiatives taken or that may be taken in response to COVID-19, such as those that seek to retroactively mandate or provide a presumption of coverage for losses which our insurance policies would not otherwise cover and were not priced to cover, may adversely affect us, particularly in our workers' compensation and property coverages businesses.

Claim Losses Related to COVID-19 May Exceed Reserves. Given the great uncertainties associated with COVID-19 and its impact and the limited information upon which our current assumptions and assessments have been made, our reserves and underlying estimated level of claim losses and costs arising from COVID-19 may materially change.

Claim Losses and Adjustment Expenses May Increase. As the effects of COVID-19 on industry practices and economic, legal, judicial, social and other environmental conditions continue to evolve, unexpected and unintended issues related to claims and coverages may emerge (including in the area of property coverages where physical damage requirements and communicable disease exclusions are currently being challenged).

Reinsurance. Reinsurers may dispute the applicability of reinsurance to COVID-19 related losses (including the application of reinsurance reinstatements) and, as a result, our reinsurers may refuse to pay reinsurance recoverables related thereto or they may not pay them on a timely basis. In addition, we may be unable to renew our current reinsurance coverages or purchase new coverages with respect to certain exposures under our policies, including COVID-19-related exposures.

Premium Volumes May Be Negatively Impacted. Reduced economic activity relating to the COVID-19 pandemic will likely decrease demand for our insurance products and services. In addition, we may alter our view on the insurance coverages that are appropriate to offer in various jurisdictions, which could further negatively impact our premium volumes.

Investments. Further disruptions in global financial markets due to the continuing impact of COVID-19 could cause us to incur additional unrealized and/or realized investment losses, including impairments in our fixed income portfolio and other investments.

Credit Risk. As credit risk is generally a function of the economy, we face greater credit risk from our policyholders, independent agents and brokers in connection with the payment and remittance of premiums as a result of the economic conditions caused by COVID-19. Similarly, our credit risk related to the reimbursement of deductibles from policyholders and in connection with reinsurance recoverables has increased.

Operational Disruptions and Costs. Our operations could be disrupted if key members of our senior management or a significant percentage of our workforce or the workforce of our agents, brokers, suppliers or other third party service providers are unable to continue to work because of illness, government directives or otherwise. In response to the COVID-19 pandemic, we have implemented remote working policies which have resulted in disruptions to our business routines, heightened risk to cybersecurity attacks and data security incidents and a greater dependency on internet and telecommunication access and capabilities.

Critical Accounting Estimates

The following presents a discussion of accounting policies and estimates relating to reserves for losses and loss expenses, assumed premiums and allowance for expected credit losses on 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 2019:

(In thousands) Severity (+/-)	Frequency (+/-)		
	1%	5%	10%
1%	\$ 81,566	\$ 245,508	\$ 450,437
5%	245,508	415,944	628,988
10%	450,437	628,988	852,178

Our net reserves for losses and loss expenses of approximately \$11.4 billion as of September 30, 2020 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 \$2.6 billion, or 23%, of the Company's net loss reserves as of September 30, 2020 relate to the Reinsurance & Monoline Excess segment. There is a higher degree of uncertainty and greater variability regarding estimates of excess workers' compensation and assumed reinsurance loss reserves. In the case of excess workers' compensation, our policies generally attach at \$1 million or higher. The claims which reach our layer therefore tend to involve the most serious injuries and many remain open for the lifetime of the claimant, which extends the claim settlement tail. These claims also occur less frequently but tend to be larger than primary claims, which increases claim variability. In the case of assumed reinsurance our loss reserve 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 also extended. Management considers the impact of delayed reporting and the extended tail in its selection of loss development factors for these lines of business.

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, 2020	December 31, 2019
Insurance	\$ 8,800,434	\$ 8,193,381
Reinsurance & Monoline Excess	2,590,630	2,504,617
Net reserves for losses and loss expenses	11,391,064	10,697,998
Ceded reserves for losses and loss expenses	2,068,295	1,885,251
Gross reserves for losses and loss expenses	\$ 13,459,359	\$ 12,583,249

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, 2020			
Other liability	\$ 1,495,595	\$ 2,754,905	\$ 4,250,500
Workers' compensation (1)	956,982	905,652	1,862,634
Professional liability	417,451	824,648	1,242,099
Commercial automobile	427,154	355,200	782,354
Short-tail lines (2)	303,236	359,611	662,847
Total Insurance	3,600,418	5,200,016	8,800,434
Reinsurance & Monoline Excess (1) (3)	1,454,609	1,136,021	2,590,630
Total	<u>\$ 5,055,027</u>	<u>\$ 6,336,037</u>	<u>\$ 11,391,064</u>
December 31, 2019			
Other liability	\$ 1,421,378	\$ 2,522,957	\$ 3,944,335
Workers' compensation (1)	918,619	964,102	1,882,721
Professional liability	399,411	713,433	1,112,844
Commercial automobile	412,036	300,339	712,375
Short-tail lines (2)	271,192	269,914	541,106
Total Insurance	3,422,636	4,770,745	8,193,381
Reinsurance & Monoline Excess (1) (3)	1,469,363	1,035,254	2,504,617
Total	<u>\$ 4,891,999</u>	<u>\$ 5,805,999</u>	<u>\$ 10,697,998</u>

(1) Reserves for workers' compensation and Reinsurance & Monoline Excess are net of an aggregate net discount of \$490 million and \$530 million as of September 30, 2020 and December 31, 2019, 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.

(3) Reinsurance & Monoline Excess includes property and casualty reinsurance, as well as operations that solely retain risk on an excess basis.

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, 2020 and 2019 are as follows:

(In thousands)	2020	2019
Net increase in prior year loss reserves	\$ (849)	\$ (22,340)
Increase in prior year earned premiums	12,869	39,567
Net favorable prior year development	<u>\$ 12,020</u>	<u>\$ 17,227</u>

The ongoing COVID-19 global pandemic has impacted, and will likely continue to impact, the Company's results through its effect on claim frequency and severity. Loss cost trends have been impacted and will likely be further impacted by COVID-19-related claims in certain lines of business, as well as by other effects of COVID-19 associated with economic conditions, inflation, and social distancing and work from home rules, for example. Although it is still too early to determine the net impact, it appears that the losses incurred due to COVID-19-related claims are being offset, to a certain extent, by lower claim frequency in certain lines of our businesses, including commercial auto, workers' compensation, and other

liability. However, given the continuing nature of the pandemic, the impact of COVID-19 could ultimately increase or decrease overall loss cost trends and is likely to have differing impacts on the Company's different lines of business.

Most of the COVID-19-related claims reported to the Company to date involve certain short-tailed lines of business, including contingency and event cancellation, business interruption, and film production delay. The Company expects additional claims to be reported for these lines of business. The Company has also received COVID-19-related claims for longer-tailed casualty lines of business such as workers' compensation and other liability; however, the estimated incurred loss impact for these reported claims appears to be modest at this time. Given the continuing uncertainty regarding the pandemic's pervasiveness and the time needed to develop widespread treatments and vaccines, and the related economic impacts, the future impact that the pandemic may have on claim frequency and severity remains uncertain at this time. In workers' compensation, for example, nearly two-thirds of the states have enacted rules, legislation or administrative orders creating a presumption that certain "essential" workers who contract COVID-19 did so through the course of their employment. Several other states are considering similar actions, including varying the definition of "essential" workers. While the ultimate impact of these presumptions are unknown at this time, the Company believes that such state actions will likely increase workers' compensation claims with respect to workers deemed "essential," although this impact may be partially offset by lower workers' compensation claim frequency with respect to non-essential workers.

The Company has estimated the potential COVID-19 impact to its workers' compensation, contingency and event cancellation, and other lines of business under a number of possible scenarios; however, due to COVID-19's evolving impact and the still limited amount of available data, there remains a high degree of uncertainty around the Company's COVID-19 reserves. In addition, several states (and international jurisdictions), through regulation, legislation and/or judicial action, continue to seek to expand policy coverage terms beyond the policy's intended coverage, including, for example, but not limited to, property coverages, where there are attempts to extend business interruption coverage where there is no physical damage or loss to property, and attempts to disregard policy exclusions for communicable disease. Accordingly, losses arising from these actions, and the other factors described above, could exceed the Company's reserves established for those related policies.

For the nine months ended September 30, 2020, the Company has recognized losses for COVID-19-related claims activity, net of reinsurance, of approximately \$143 million, of which \$121 million relates to the Insurance segment and \$22 million relates to the Reinsurance & Monoline Excess segment. Of the \$143 million of COVID-19-related losses, \$69 million are reported losses and \$74 million is booked as IBNR.

During the nine months ended September 30, 2020, favorable prior year development (net of additional and return premiums) of \$12 million included \$19 million of favorable development for the Insurance segment, partially offset by \$7 million of adverse development for the Reinsurance & Monoline Excess segment.

The overall favorable development for the Insurance segment was primarily attributable to favorable development on workers' compensation business, partially offset by adverse development on professional liability business. The favorable workers' compensation development was spread across many prior accident years, including prior to 2010, but was especially significant in accident year 2019. The favorable workers' compensation development reflects a continuation of the benign loss cost trends experienced during recent years, particularly the favorable claim frequency trends. Our ongoing workers' compensation claims management efforts, including active medical case management and use of networks and specialty vendors to control medical and pharmaceutical benefit costs, have also added to the favorable workers' compensation prior year development. The adverse professional liability development was mainly concentrated in accident years 2016 through 2018 and was largely driven by higher than expected large losses being reported in the directors and officers and lawyers professional liability lines of business.

The adverse development for the Reinsurance & Monoline Excess segment was mainly driven by non-proportional reinsurance assumed liability business written in the U.K. for accident years 2016 through 2018, partially offset by favorable development on excess workers' compensation business. The adverse development was driven by a greater than expected number of reported large losses.

During the nine months ended September 30, 2019, favorable prior year development (net of additional and return premiums) of \$17 million included \$18 million of favorable development for the Insurance segment, offset by \$1 million of adverse development for the Reinsurance & Monoline Excess segment. The overall favorable development for the Insurance segment was primarily attributable to favorable development on workers' compensation business, partially offset by adverse development on general liability, professional liability, and commercial auto liability business. The favorable workers' compensation development was mainly attributable to accident years 2014 through 2018, and 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). The adverse general liability development was mainly related to accident years 2015 through 2017 and was driven by a higher than expected number of large losses being reported in the period. The adverse professional liability development was mainly from accident years 2013 through 2016 and was driven by an increased

frequency of large losses relating to lawyers professional and directors and officers liability. The adverse commercial auto liability development was primarily related to accident years 2015 through 2018 (with most in 2018), and was driven by a higher than expected number of large losses.

Reserve Discount. The Company discounts its liabilities for certain workers' compensation reserves. The amount of workers' compensation reserves that were discounted was \$1,650 million and \$1,731 million at September 30, 2020 and December 31, 2019, respectively. The aggregate net discount for those reserves, after reflecting the effects of ceded reinsurance, was \$490 million and \$530 million at September 30, 2020 and December 31, 2019, respectively. At September 30, 2020, discount rates by year ranged from 0.7% to 6.5%, with a weighted average discount rate of 3.6%.

Substantially all of the workers' compensation discount (97% of total discounted reserves at September 30, 2020) 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, 2020), 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 \$44 million at September 30, 2020 and \$43 million at December 31, 2019. 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.

Allowance for Expected Credit Losses on Investments.

Fixed Maturity Securities – For fixed maturity securities in an unrealized loss position where the Company intends to sell, or it is more likely than not that it will be required to sell the security before recovery in value, the amortized cost basis is written down to fair value through net investment gains (losses). For fixed maturity securities in an unrealized loss position where the Company does not intend to sell, or it is more likely than not that it will not be required to sell the security before recovery in value, the Company evaluates whether the decline in fair value has resulted from credit losses or all other factors (non-credit factors). In making this assessment, the Company considers the extent to which fair value is less than amortized cost, changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, an allowance for expected credit losses is recorded for the credit loss through net investment gains (losses), limited by the amount that the fair value is less than the amortized cost basis. Effective January 1, 2020, the allowance is adjusted for any change in expected credit losses and subsequent recoveries through net investment gains (losses). The impairment related to non-credit factors is recognized in other comprehensive income (loss) .

The Company's credit assessment of allowance for expected credit losses uses a third party model for available for sale and held to maturity securities, as well as loans receivable. The allowance for expected credit losses is generally based on the performance of the underlying collateral under various economic and default scenarios that 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. A discounted cash flow analysis is used to ascertain the amount of the allowance for expected credit losses, if any. In general, the model reverts to the rating-level long-term average marginal default rates based on 10 years of historical data, beyond the forecast period. For other inputs, the model in most cases reverts to the baseline long-

term assumptions linearly over 5 years beyond the forecast period. The long-term assumptions are based on the historical averages.

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.

A summary of the Company's non-investment grade fixed maturity securities that were in an unrealized loss position at September 30, 2020 is presented in the table below:

(\$ in thousands)	Number of Securities	Aggregate Fair Value	Gross Unrealized Loss
Foreign government	22	\$ 91,413	\$ 45,247
Corporate	13	28,816	6,343
Mortgage-backed securities	8	1,659	34
Total	43	\$ 121,888	\$ 51,624

As of September 30, 2020, the Company has recorded an allowance for expected credit losses on fixed maturity securities of \$3 million. The Company has evaluated the remaining 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.

Loans Receivable – For loans receivable, the Company estimates an allowance for expected credit losses based on relevant information about past events, including historical loss experience, current conditions and forecasts that affect the expected collectability of the amortized cost of the financial asset. The allowance for expected credit losses is presented as a reduction to amortized cost of the financial asset in the consolidated balance sheet and changes to the estimate for expected credit losses are recognized through net investment gains (losses). Loans receivable are reported net of an allowance for expected credit losses of \$6 million and \$2 million as of September 30, 2020 and December 31, 2019, respectively.

Fair Value Measurements. The Company's fixed maturity available for sale securities, equity securities, and its 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. 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, 2020:

(\$ in thousands)	Carrying Value	Percent of Total
Pricing source:		
Independent pricing services	\$ 13,638,784	98.7 %
Syndicate manager	42,383	0.3
Directly by the Company based on:		
Observable data	139,362	1.0
Total	<u>\$ 13,820,529</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, 2020, 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, 2020 and 2019

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, 2020 and 2019. 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)	2020		2019	
Insurance:				
Gross premiums written	\$	5,841,328	\$	5,565,862
Net premiums written		4,754,791		4,601,077
Net premiums earned		4,481,092		4,396,071
Loss ratio		65.5 %		62.3 %
Expense ratio		30.6 %		31.3 %
GAAP combined ratio		96.1 %		93.6 %
Reinsurance & Monoline Excess:				
Gross premiums written	\$	784,835	\$	663,279
Net premiums written		710,189		601,894
Net premiums earned		636,161		520,436
Loss ratio		66.5 %		61.6 %
Expense ratio		32.1 %		35.2 %
GAAP combined ratio		98.6 %		96.8 %
Consolidated:				
Gross premiums written	\$	6,626,163	\$	6,229,141
Net premiums written		5,464,980		5,202,971
Net premiums earned		5,117,253		4,916,507
Loss ratio		65.6 %		62.2 %
Expense ratio		30.8 %		31.7 %
GAAP combined ratio		96.4 %		93.9 %

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, 2020 and 2019:

(In thousands, except per share data)	2020		2019	
Net income to common stockholders	\$	218,520	\$	562,638
Weighted average diluted shares		189,515		193,557
Net income per diluted share	\$	1.15	\$	2.91

The Company reported net income to common stockholders of \$219 million in 2020 compared to \$563 million in 2019. The \$344 million decrease in net income was primarily due to an after-tax decrease in net investment gains of \$161 million (primarily resulting from disruption in global financial markets related to COVID-19), an after-tax decrease in underwriting income of \$88 million primarily from COVID-19-related losses and other catastrophe losses, an after-tax decrease in net investment income of \$83 million primarily due to less income from investment funds, reduced investment yields in fixed maturity securities and repositioning a larger portion of the investment portfolio to cash and cash equivalents, an increase in tax expense of \$27 million due to a change in the effective tax rate, an after-tax decrease in foreign currency gains of \$4 million, an after-tax decrease in profits from non-insurance businesses of \$2 million, and an after-tax decrease in other income of \$1 million, partially offset by an after-tax decrease in corporate expenses of \$11 million, an after-tax increase in profit from insurance service businesses of \$7 million and an after-tax decrease in interest expense of \$4 million. The number of weighted average diluted shares decreased by approximately 4 million for 2020 compared to 2019 mainly reflecting shares repurchased in 2020.

Premiums. Gross premiums written were \$6,626 million in 2020, an increase of 6% from \$6,229 million in 2019. The increase was due to a \$275 million increase in the Insurance segment and a \$122 million increase in the Reinsurance & Monoline Excess segment. Approximately 79.0% of premiums expiring in 2020 were renewed, and 79.9% of premiums expiring in 2019 were renewed.

Average renewal premium rates for insurance and facultative reinsurance increased 10.7% in 2020 when adjusted for changes in exposures, and increased 13.0% excluding workers' compensation.

A summary of gross premiums written in 2020 compared with 2019 by line of business within each business segment follows:

- **Insurance** - gross premiums increased 5% to \$5,841 million in 2020 from \$5,566 million in 2019. Gross premiums increased \$195 million (10%) for other liability, \$121 million (17%) for professional liability, \$79 million (6%) for short-tail lines, and \$34 million (5%) for commercial auto, and decreased \$153 million (15%) for workers' compensation.
- **Reinsurance & Monoline Excess** - gross premiums increased 18% to \$785 million in 2020 from \$663 million in 2019. Gross premiums increased \$79 million (22%) for casualty reinsurance, \$27 million (19%) for property reinsurance and \$16 million (10%) for monoline excess.

Net premiums written were \$5,465 million in 2020, an increase of 5% from \$5,203 million in 2019. Ceded reinsurance premiums as a percentage of gross written premiums were 18% in 2020 and 16% in 2019. The cession rate increased primarily because of reinstatement premiums associated with COVID-19 related claims activity.

Premiums earned increased 4% to \$5,117 million in 2020 from \$4,917 million in 2019. 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 2020 are related to business written during both 2020 and 2019. Audit premiums were \$111 million in 2020 compared with \$149 million in 2019.

Net Investment Income. Following is a summary of net investment income for the nine months ended September 30, 2020 and 2019:

(\$ in thousands)	Amount		Average Annualized Yield	
	2020	2019	2020	2019
Fixed maturity securities, including cash and cash equivalents and loans receivable	\$ 330,941	\$ 386,978	2.9 %	3.5 %
Investment funds	1,260	77,284	0.1	7.5
Arbitrage trading account	51,985	26,184	12.4	8.0
Real estate	18,807	17,468	1.2	1.1
Equity securities	6,194	3,984	2.4	2.1
Gross investment income	409,187	511,898	2.8	3.6
Investment expenses	(6,343)	(3,619)	—	—
Total	\$ 402,844	\$ 508,279	2.7 %	3.5 %

Net investment income decreased 21% to \$403 million in 2020 from \$508 million in 2019 due primarily to a \$76 million decrease in income from investment funds (as a result of the impact of the disruption in global financial markets associated with COVID-19 during 2020), a \$56 million decrease in income from fixed maturity securities mainly driven by lower investment yields and repositioning a larger portion of the investment portfolio to cash and cash equivalents, and a \$2 million increase in investment expense, partially offset by a \$26 million increase from the arbitrage trading account, a \$1 million increase in real estate and a \$2 million increase from equity securities. The Company shortened the duration of its fixed maturity security portfolio, thereby reducing the potential impact of mark-to-market on the portfolio and positioning the Company to react quickly to changes in the current interest rate environment. Average invested assets, at cost (including cash and cash equivalents), were \$19.8 billion in 2020 and \$19.1 billion in 2019.

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 \$67 million in 2020 from \$71 million in 2019. The decrease is primarily due to a reduction of assigned risk plan business.

Net Realized and Unrealized Gains (Losses) 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 losses on investments were \$89 million in 2020 compared with net gains of \$144 million in 2019. The losses of \$89 million in 2020 reflect net realized losses on investments of \$27 million and an increase in unrealized losses on equity securities of \$62 million driven by the disruption in global financial markets associated with COVID-19 during the first nine months of 2020. In 2019, the gains of \$144 million reflected net realized gains on investment sales of \$28 million and an increase in unrealized gains on equity securities of \$116 million.

Change in Allowance for Expected Credit Losses on Investments. Effective January 1, 2020, the Company adopted accounting guidance for credit losses on financial instruments. The cumulative effective adjustment from the change in accounting principle was \$25 million after-tax, which decreased opening retained earnings and increased AOCI. Based on credit factors, the allowance for expected credit losses is increased or decreased depending on the percentage of unrealized loss relative to amortized cost by security, changes in rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. For the nine months ended September 30, 2020, the pre-tax change in allowance for expected credit losses on investments decreased by \$29 million (\$23 million after-tax), which is reflected in net investment gains (losses), primarily due to disposition of securities which previously had an allowance recorded.

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 \$257 million in 2020 and \$283 million in 2019. The decrease mainly relates to a reduction in revenues from the aviation-related businesses impacted by COVID-19.

Losses and Loss Expenses. Losses and loss expenses increased to \$3,357 million in 2020 from \$3,059 million in 2019. The consolidated loss ratio was 65.6% in 2020 and 62.2% in 2019. Catastrophe losses, net of reinsurance recoveries, were \$297 million (including losses of approximately \$143 million related to COVID-19) in 2020 and \$70 million in 2019. Favorable prior year reserve development (net of premium offsets) was \$12 million in 2020 and \$17 million in 2019. The loss ratio excluding catastrophe losses and prior year reserve development was 60.0% in 2020 and 61.2% in 2019.

A summary of loss ratios in 2020 compared with 2019 by business segment follows:

- **Insurance** - The loss ratio was 65.5% in 2020 and 62.3% in 2019. Catastrophe losses were \$245 million in 2020 compared with \$54 million in 2019. The Company reflected a best estimate (net of reinsurance) based upon available information for COVID-19-related losses of approximately \$121 million, which was included in catastrophe losses and primarily related to contingency and event cancellation coverage, workers' compensation and short-tail lines. Favorable prior year reserve development was \$19 million in 2020 and \$18 million in 2019. The loss ratio excluding catastrophe losses and prior year reserve development decreased 1.1 points to 60.4% in 2020 from 61.5% in 2019.
- **Reinsurance & Monoline Excess** - The loss ratio was 66.5% in 2020 and 61.6% in 2019. Catastrophe losses were \$53 million in 2020 compared with \$16 million in 2019. The Company reflected a best estimate (net of reinsurance) based upon available information for COVID-19-related losses of approximately \$22 million, which was included in catastrophe losses and primarily related to excess workers' compensation and short-tail lines. Adverse prior year reserve development was \$7 million in 2020 and \$1 million in 2019. The loss ratio excluding catastrophe losses and prior year reserve development decreased 1.1 points to 57.2% in 2020 from 58.3% in 2019.

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

(\$ in thousands)	2020	2019
Policy acquisition and insurance operating expenses	\$ 1,574,507	\$ 1,560,350
Insurance service expenses	64,029	77,513
Net foreign currency gains	(23,845)	(29,084)
Other costs and expenses	138,451	152,182
Total	\$ 1,753,142	\$ 1,760,961

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 increased 1% and net premiums earned increased 4% from 2019. The expense ratio (underwriting expenses expressed as a

percentage of premiums earned) was 30.8% in 2020 and 31.7% in 2019. The improvement is primarily attributable to higher net premiums earned and lower travel and entertainment expenses due to the global pandemic. However, to the extent our net premiums earned decrease, due to the impact of the COVID-19 pandemic or otherwise, our expense ratio would be expected to increase.

Service expenses, which represent the costs associated with the fee-based businesses, decreased to \$64 million in 2020 from \$78 million in 2019. The decrease is primarily due to a reduction of assigned risk plan business.

Net foreign currency gains result from transactions denominated in a currency other than a company's operating functional currency. Net foreign currency gains were \$24 million in 2020 compared to gains of \$29 million in 2019, mainly resulting from the continued strengthening of the U.S. dollar in relation to the Argentine peso and U.K. sterling in 2020.

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 \$138 million in 2020 from \$152 million in 2019, primarily due to a reduction in non-recurring performance-based compensation costs which occurred in 2019.

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 \$256 million in 2020 compared to \$280 million in 2019. The decrease mainly relates to a reduction of aviation-related business impacted by COVID-19 in 2020.

Interest Expense. Interest expense was \$115 million in 2020 compared with \$120 million in 2019. During 2019, the Company repaid at maturity \$489 million aggregate principal amount of senior notes and other debt. In December 2019, the Company issued \$300 million aggregate principal amount of 5.10% subordinated debentures due 2059. In May 2020, the Company issued \$300 million aggregate principal amount of 4.00% senior notes due 2050. In September 2020, the Company issued an additional \$170 million aggregate principal amount of 4.00% senior notes due 2050 and issued \$250 million aggregate principal amount of 4.25% subordinated debentures due 2060 and repaid \$300 million aggregate principal amount of 5.375% senior notes at maturity. Accordingly, the timing of the debt repayments in 2019 and 2020 and issuances in 2019 and 2020 led to the decrease in interest expense for the nine months ended September 30, 2020 compared to 2019. In October 2020, the Company redeemed \$350 million aggregate principal amount of 5.625% subordinated debentures due 2053, which we expect will lead to a debt extinguishment charge of pre-tax \$8 million in the fourth quarter.

Income Taxes. The effective income tax rate was 27.8% in 2020 and 20.1% in 2019. The effective income tax rate differs from the federal income tax rate of 21% principally because the utilization of losses in certain foreign jurisdictions was limited, which was partially offset by tax-exempt investment income and tax benefits related to equity-based compensation.

The Company has not provided U.S. deferred income taxes on the undistributed earnings of approximately \$107 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, 2020 and 2019

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, 2020 and 2019. 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)	2020		2019	
Insurance:				
Gross premiums written	\$	1,981,816	\$	1,850,012
Net premiums written		1,628,316		1,529,113
Net premiums earned		1,531,093		1,493,854
Loss ratio		64.4 %		61.8 %
Expense ratio		29.7 %		31.2 %
GAAP combined ratio		94.1 %		93.0 %
Reinsurance & Monoline Excess:				
Gross premiums written	\$	280,729	\$	243,038
Net premiums written		251,000		220,793
Net premiums earned		217,828		182,956
Loss ratio		59.1 %		64.6 %
Expense ratio		31.2 %		33.7 %
GAAP combined ratio		90.3 %		98.3 %
Consolidated:				
Gross premiums written	\$	2,262,545	\$	2,093,050
Net premiums written		1,879,316		1,749,906
Net premiums earned		1,748,921		1,676,810
Loss ratio		63.7 %		62.1 %
Expense ratio		30.0 %		31.5 %
GAAP combined ratio		93.7 %		93.6 %

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, 2020 and 2019:

(In thousands, except per share data)	2020		2019	
Net income to common stockholders	\$	151,678	\$	165,208
Weighted average diluted shares		187,717		193,589
Net income per diluted share	\$	0.81	\$	0.85

The Company reported net income to common stockholders of \$152 million in 2020 compared to \$165 million in 2019. The \$13 million decrease in net income was primarily due to an after-tax increase in foreign currency losses of \$22 million from the weakening U.S. dollar compared to certain currencies, an increase of \$15 million in tax expense due to a change in the effective tax rate, an after-tax decrease in net investment income of \$15 million mainly from reduced investment yields in fixed maturity securities and repositioning a larger portion of the investment portfolio to cash and cash equivalents, and an after-tax increase in interest expense of \$1 million, partially offset by an after-tax increase in net investment gains of \$29 million mainly due to unrealized gains related to equity securities, an after-tax decrease in corporate expenses of \$4 million, an after-tax increase in underwriting income of \$3 million, an after-tax increase in profit from insurance service businesses of \$2 million, and an after-tax increase in profits from non-insurance businesses of \$2 million. The number of weighted average diluted shares was reduced by approximately 6 million for the three months ended September 30, 2020, mainly due to the repurchase of common shares in 2020, compared to the three months ended September 30, 2019.

Premiums. Gross premiums written were \$2,263 million in 2020, an increase of 8% from \$2,093 million in 2019. The increase was due to a \$132 million increase in the Insurance segment and a \$38 million increase in the Reinsurance & Monoline Excess segment. Approximately 78.5% of premiums expiring in 2020 were renewed, and 79.7% of premiums expiring in 2019 were renewed.

Average renewal premium rates for insurance and facultative reinsurance increased 12.1% in 2020 when adjusted for changes in exposures, and increased 14.5% excluding workers' compensation.

A summary of gross premiums written in 2020 compared with 2019 by line of business within each business segment follows:

- **Insurance** - gross premiums increased 7% to \$1,982 million in 2020 from \$1,850 million in 2019. Gross premiums increased \$69 million (11%) for other liability, \$51 million (21%) for professional liability, \$35 million (17%) for commercial auto, and \$25 million (6%) for short-tail lines, and decreased \$48 million (16%) for workers' compensation.
- **Reinsurance & Monoline Excess** - gross premiums increased 16% to \$281 million in 2020 from \$243 million in 2019. Gross premiums increased \$14 million (29%) for property reinsurance, \$13 million (22%) for monoline excess, and \$11 million (8%) for casualty reinsurance.

Net premiums written were \$1,879 million in 2020, a 7% increase from \$1,750 million in 2019. Ceded reinsurance premiums as a percentage of gross written premiums were 17% in 2020 and 16% in 2019.

Premiums earned increased 4% to \$1,749 million in 2020 from \$1,677 million in 2019. 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 2020 are related to business written during both 2020 and 2019. Audit premiums were \$27 million in 2020 and \$49 million in 2019.

Net Investment Income. Following is a summary of net investment income for the three months ended September 30, 2020 and 2019:

(\$ in thousands)	Amount		Average Annualized Yield	
	2020	2019	2020	2019
Fixed maturity securities, including cash and cash equivalents and loans receivable	\$ 97,080	\$ 125,957	2.5 %	3.4 %
Investment funds	18,235	19,033	6.2	5.7
Arbitrage trading account	19,543	8,400	13.8	7.1
Real estate	7,666	7,987	1.5	1.5
Equity securities	1,907	1,392	2.2	2.1
Gross investment income	144,430	162,769	2.9	3.4
Investment expenses	(1,780)	(1,077)	—	—
Total	\$ 142,650	\$ 161,692	2.8 %	3.4 %

Net investment income decreased 12% to \$143 million in 2020 from \$162 million in 2019 due primarily to a \$29 million decrease in fixed maturity securities as a result of lower investment yields and repositioning a larger portion of the investment portfolio to cash and cash equivalents and a \$1 million decrease in income from investment funds, partially offset by a \$11 million increase from the arbitrage trading account. The Company has maintained a shortened duration of its fixed maturity security portfolio that has reduced the potential impact of mark-to-market on the portfolio and positioned the Company to react quickly to changes in the current interest rate environment. Average invested assets, at cost (including cash and cash equivalents), were \$20.3 billion in 2020 and \$19.2 billion in 2019.

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 \$22 million in 2020 from \$24 million in 2019. The decrease is primarily due to a reduction of assigned risk plan business.

Net Realized and Unrealized Gains (Losses) 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 losses on investments were \$8 million in 2020 compared with gains of \$1 million in 2019. The losses of \$8 million in 2020 reflected net realized losses on investments of \$39 million and an increase in unrealized gains on equity securities of \$31 million. In 2019, the gains of \$1 million reflected net realized gains on investment sales of \$3 million and an increase in unrealized gains on equity securities of \$4 million.

Change in Allowance for Expected Credit Losses on Investments. Effective January 1, 2020, the Company adopted accounting guidance for credit losses on financial instruments. The cumulative effective adjustment from the change in accounting principle was \$25 million after-tax, which decreased opening retained earnings and increased AOCI. Based on credit factors, the allowance for expected credit losses is increased or decreased depending on the percentage of unrealized loss relative to amortized cost by security, changes in rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. For the three months ended September 30, 2020, the pre-tax change in allowance for expected credit losses on investments decreased by \$47 million (\$37 million after-tax), which is reflected in net investment gains (losses), primarily due to disposition of securities which previously had an allowance recorded..

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 \$87 million in 2020 and \$102 million in 2019. The decrease mainly relates to reduction in revenues from the aviation-related businesses impacted by COVID-19.

Losses and Loss Expenses. Losses and loss expenses increased to \$1,115 million in 2020 from \$1,041 million in 2019. The consolidated loss ratio was 63.7% in 2020 and 62.1% in 2019. Catastrophe losses, net of reinsurance recoveries, were \$73 million in 2020 compared to \$31 million in 2019. No additional COVID-19-related losses were recognized in the three months ended September 30, 2020. Favorable prior year reserve development (net of premium offsets) was \$5 million in 2020 and \$4 million in 2019. The loss ratio excluding catastrophe losses and prior year reserve development was 59.8% in 2020 and 60.4% in 2019.

A summary of loss ratios in 2020 compared with 2019 by business segment follows:

- **Insurance** - The loss ratio was 64.4% in 2020 and 61.8% in 2019. Catastrophe losses were \$74 million in 2020 compared with \$15 million in 2019. The increase in catastrophe losses was attributable to heightened hurricanes, tropical storms and U.S. wild fires on the west coast. Favorable prior year reserve development was \$7 million in 2020 and \$1 million in 2019. The loss ratio excluding catastrophe losses and prior year reserve development decreased 0.9 points to 60.0% in 2020 from 60.9% in 2019.
- **Reinsurance & Monoline Excess** - The loss ratio was 59.1% in 2020 and 64.6% in 2019. Catastrophe losses were (\$1) million in 2020 compared with \$16 million in 2019. The (\$1) million was attributable to reclassified COVID-19 related IBNR to the Insurance segment. Adverse prior year reserve development was \$2 million in 2020 compared to favorable prior year reserve development of \$3 million in 2019. The loss ratio excluding catastrophe losses and prior year reserve development increased 1.6 points to 58.9% in 2020 from 57.3% in 2019.

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

(\$ in thousands)	2020	2019
Policy acquisition and insurance operating expenses	\$ 523,349	\$ 528,399
Insurance service expenses	21,034	26,171
Net foreign currency losses (gains)	5,078	(22,590)
Other costs and expenses	44,508	49,065
Total	\$ 593,969	\$ 581,045

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 decreased 1% and net premiums earned increased 4% from 2019. The expense ratio (underwriting expenses expressed as a percentage of premiums earned) was 30.0% in 2020 and 31.5% in 2019. The improvement is primarily attributable to higher net premiums earned and lower expenses mainly attributable to reduced travel and entertainment expenses due to the global pandemic. However, to the extent our net premiums earned decrease, due to the impact of the COVID-19 pandemic or otherwise, our expense ratio would be expected to increase.

Service expenses, which represent the costs associated with the fee-based businesses, decreased to \$21 million in 2020 from \$26 million in 2019. The decrease is primarily due to a reduction of assigned risk plan business.

Net foreign currency gains (losses) result from transactions denominated in a currency other than a company's operating functional currency. Net foreign currency losses were \$5 million in 2020 compared to net foreign currency gains of \$23 million in 2019. The losses in 2020 mainly result from the weakening of the U.S. dollar in relation to the U.K. sterling, partially offset by the U.S. dollar strengthening to the Argentine peso.

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 \$45 million in 2020 from \$49 million in 2019.

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 \$85 million in 2020 compared to \$102 million in 2019. The decrease mainly relates to a reduction of the aviation-related businesses impacted by COVID-19 in 2020.

Interest Expense. Interest expense was \$40 million in 2020 compared with \$38 million in 2019. During 2019, the Company repaid at maturity \$489 million aggregate principal amount of senior notes and other debt. In December 2019, the Company issued \$300 million aggregate principal amount of 5.10% subordinated debentures due 2059. In May 2020, the Company issued \$300 million aggregate principal amount of 4.00% senior notes due 2050. In September 2020, the Company issued an additional \$170 million aggregate principal amount of 4.00% senior notes due 2050 and issued \$250 million aggregate principal amount of 4.25% subordinated debentures due 2060 and repaid \$300 million aggregate principal amount of 5.375% senior notes at maturity. Accordingly, the timing of the debt repayments in 2019 and 2020 and issuances in 2019 and 2020 led to the increase in interest expense for the three months ended September 30, 2020 compared to 2019. However, these refinancings of our debt at lower interest rates are expected to reduce our interest expense. In October 2020, the Company redeemed \$350 million aggregate principal amount of 5.625% subordinated debentures due 2053, which we expect will lead to a debt extinguishment charge of pre-tax \$8 million in the fourth quarter.

Income Taxes. The effective income tax rate was 26.2% in 2020 and 18.6% in 2019. The effective income tax rate differs from the federal income tax rate of 21% principally because the utilization of losses in certain foreign jurisdictions was limited, which was partially offset by tax-exempt investment income and tax benefits related to equity-based compensation.

The Company has not provided U.S. deferred income taxes on the undistributed earnings of approximately \$107 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 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 2.3 years at September 30, 2020 down from 2.8 years at December 31, 2019, as the Company repositioned a larger portion of its investment portfolio to cash and cash equivalents. The Company's fixed maturity investment portfolio and investment-related assets as of September 30, 2020 were as follows:

(\$ in thousands)	Carrying Value	Percent of Total
Fixed maturity securities:		
U.S. government and government agencies	\$ 697,432	3.3 %
State and municipal:		
Special revenue	2,305,308	11.0
State general obligation	429,652	2.1
Pre-refunded	285,224	1.4
Corporate backed	232,600	1.1
Local general obligation	438,272	2.1
Total state and municipal	3,691,056	17.7
Mortgage-backed securities:		
Agency	613,680	2.9
Residential-Prime	260,362	1.2
Commercial	206,025	1.0
Residential-Alt A	9,168	—
Total mortgage-backed securities	1,089,235	5.2
Asset-backed securities	3,306,439	15.9
Corporate:		
Industrial	2,326,598	11.2
Financial	1,524,636	7.3
Utilities	355,619	1.7
Other	32,687	0.2
Total corporate	4,239,540	20.3
Foreign government and foreign government agencies	869,344	4.2
Total fixed maturity securities	13,893,046	66.6
Equity securities:		
Preferred stocks	274,445	1.3
Common stocks	160,858	0.8
Total equity securities	435,303	2.1
Cash and cash equivalents	2,571,447	12.3
Real estate	2,106,474	10.1
Investment funds	1,163,707	5.6
Arbitrage trading account	595,727	2.9
Loans receivable	84,771	0.4
Total investments	\$ 20,850,475	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, mainly in the financial institutions sector.

Investment Funds. At September 30, 2020, the carrying value of investment funds was \$1,164 million, including investments in real estate funds of \$312 million, financial services funds of \$352 million, energy funds of \$136 million, transportation funds of \$144 million and other funds of \$220 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, 2020, real estate properties in operation included a long-term ground lease in Washington D.C., two office complexes in New York City, office buildings in West Palm Beach and Palm Beach, Florida, an office building in London, and the completed portion of a mixed-use project in Washington D.C. In addition, part of the previously mentioned mixed-use project in Washington D.C. is under development. The Company expects to fund further development costs for the project 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, net of allowance for expected credit losses, of \$85 million and an aggregate fair value of \$87 million at September 30, 2020. The amortized cost of loans receivable is net of an allowance for expected credit losses of \$6 million as of September 30, 2020. Loans receivable include real estate loans of \$52 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 \$33 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 2.3 years at September 30, 2020, down from 2.8 years at December 31, 2019.

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 increased to \$1,137 million in the first nine months of 2020 from \$795 million in the first nine months of 2019, primarily due to an increase in premium receipts, net of reinsurance and commissions settled and the timing of loss and loss expense payments as well as tax payments to tax 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 generally targets an average duration for its investment portfolio that is within 1.5 years 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 79% invested in cash, cash equivalents and marketable fixed maturity securities as of September 30, 2020. 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.

At September 30, 2020, the Company held more than \$1.6 billion of cash and liquid investments at the holding company.

Debt. At September 30, 2020, the Company had senior notes, subordinated debentures and other debt outstanding with a carrying value of \$3,073 million and a face amount of \$3,099 million, including \$300 million aggregate principal amount of its 4.00% senior notes due 2050 issued in May 2020 as well as \$170 million aggregate principal amount of 4.00% senior notes due 2050 and \$250 million aggregate principal amount of 4.25% subordinated debentures due 2060 issued in September 2020. The maturities of the outstanding debt are \$4 million in 2021, \$427 million in 2022, \$11 million in 2025, \$102 million in 2028, \$250 million in 2037, \$350 million in 2044, \$470 million in 2050, \$350 million in 2053 (which was redeemed in October 2020), \$400 million in 2056, \$185 million in 2058, \$300 million in 2059 and \$250 million in 2060.

Equity. At September 30, 2020, total common stockholders' equity was \$6.0 billion, common shares outstanding were 178,217,537 and stockholders' equity per outstanding share was \$33.64. During the three months ended September 30, 2020, the Company repurchased 216,764 shares of its common stock for \$13 million. During the nine months ended September 30, 2020, the Company repurchased 5,820,867 shares of its common stock for \$312 million. 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 \$9.1 billion at September 30, 2020. The percentage of the Company's capital attributable to senior notes, subordinated debentures and other debt was 34% at September 30, 2020 and 30% at December 31, 2019.

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, 2020, 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, 2019, other than as updated by the Company's quarterly report on Form 10-Q for the quarterly period ended June 30, 2020.

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

Set forth below is a summary of the shares repurchased by the Company during the three months ended September 30, 2020, and the number of shares remaining authorized for purchase by the Company:

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
July 2020	—	\$ —	—	7,493,920
August 2020	84,288	\$ 60.133	84,288	7,409,632
September 2020	132,476	\$ 59.548	132,476	7,277,156

Item 6. Exhibits

<u>Number</u>	
(10.1)	Form of 2020 Performance-Based Restricted Stock Unit Agreement Under the W. R. Berkley Corporation 2018 Stock Incentive Plan
(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 5, 2020

/s/ W. Robert Berkley, Jr.

W. Robert Berkley, Jr.

President and Chief Executive Officer

Date: November 5, 2020

/s/ Richard M. Baio

Richard M. Baio

Executive 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 _____, 2020, 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 binding and incorporated herein as set forth in Exhibit B.

W I T N E S S E T H:

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 obligations and on the terms and conditions set forth herein; and

WHEREAS, the Company grants these restricted stock units in exchange for Grantee’s performance of the “Obligations” (as defined in Section 3 below) set forth in this Agreement, and to give Grantee a proprietary interest in the Company’s success, aligning Grantee’s interest with those of the other Company stockholders; 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 and acknowledge that if Grantee engages in certain activities during the “Relevant Period” (as defined in Section 3 below) that breach the Obligations set forth in this Agreement or engages in “Misconduct” (as defined in Section 3 below), Grantee’s interests will no longer be aligned with the Company’s interests and therefore 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 (as may be amended from time to time, 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 1. NonTransferability. 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 2. **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 applicable employment laws 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. Further, 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 applicable employment laws 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 breached one or more of Grantee's Obligations or agrees to enter into, or has entered into, an agreement (written, oral or otherwise) breach one or more of Grantee's Obligations 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 breached one or more of Grantee's Obligations or has agreed

to enter into or has entered into an agreement (written, oral or otherwise) to breach one or more of Grantee's Obligations, 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 repay 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 repayment obligation to the Company of the portion due under (i) above by returning the shares of Stock delivered to the Grantee on the Settlement Date, provided that any amounts due under (ii) and (iii) above must be repaid to the Company in addition to the return of the shares.

- C. Grantee acknowledges it is contrary to the interests of the Company to retain the amounts required to be repaid to the Company pursuant to this Section 3(d) if Grantee has (x) chosen to breach or to agree to breach one or more of Grantee's Obligations or (y) engaged in Misconduct. Grantee acknowledges that (1) breaching one or more of Grantee's Obligations during the Relevant Period within the geographic areas set forth in Section 3(e) below or (2) engaging in 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. The amounts forfeited or repaid 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 repaid provisions set forth herein shall not reduce, eliminate or in any way affect the Company's right to enforce the forfeiture or repaid provisions in any other agreement with Grantee or with other grantees.
- D. The term "Relevant 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. This Agreement is in addition to and shall not supersede or preclude the Company from enforcing the terms of any separate agreement to which Grantee is bound containing covenants imposing obligations on post-employment activities or its other rights under applicable law.

i. For purposes of this Agreement, the Grantee has breached Grantee's "Obligations" if, either directly or indirectly, and whether as an employee, consultant, independent contractor, partner, joint venturer or otherwise, the Grantee (i) who is employed by, or was previously 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 or learned Confidential Information (defined below) and (y) in which the Company is engaged in business during all or part of the Relevant Period, (ii) who is employed by, or was 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 or learned Confidential Information and (y) in which the subsidiary/subsidiaries is or are engaged in business during all or part of the Relevant Period, (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) discloses, 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 breached one or more of Grantee's Obligations and if so whether and to what extent to demand repayment shall be made by the Committee in its sole and absolute discretion. The Committee has sole and absolute discretion to interpret and apply the Agreement, and to determine whether, notwithstanding its determination that Grantee has breached one or more of Grantee's Obligations, repayment or forfeiture as provided herein shall not occur in whole or in part. The Committee's exercise or non-exercise 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 breaching an Obligation or (ii) determine the related date of Grantee's breach of the Obligation.

ii. 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 and if so whether and to what extent to demand repayment shall be made by the Committee in its sole and absolute discretion. The Committee has sole and absolute discretion to interpret and apply the Agreement, and to determine whether, notwithstanding its determination that Grantee has engaged in Misconduct, repayment or forfeiture as provided herein shall not occur in whole or in part. The Committee's exercise or non-exercise 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.

iii. 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 Relevant 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 breached an Obligation during the Relevant Period, unless the Grantee can provide dispositive evidence, which shall be determined in the Committee's sole discretion, that a breach of an Obligation did not occur.

iv. **Certain Definitions.** (i) "Client" shall mean any insured, agent, broker, 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 that the Company/subsidiary has not made known to the general public or authorized disclosure of to the general public, and that is not generally known to the public through proper means, including but not limited to:

SECTION 1. underwriting premiums or quotes, pricing models and formulas, income and receipts, claims records and levels, renewals, policy wording and terms, reinsurance quotas, and profit commission;

SECTION 2. operating unit or other business projections and forecasts;

SECTION 3. Client lists, brokers lists and price sensitive information;

SECTION 4. technical information, including computer programs, reports, interpretations, forecasts, corporate and business plans and accounts, business methods, financial details, projections and targets;

SECTION 5. remuneration and confidential personnel details concerning other Company employees or contractors;

SECTION 6. planned products, planned services, marketing surveys, research reports, market share and pricing statistics, budgets, and fee levels;

SECTION 7. computer passwords, the contents of any databases, tables, internal templates, know-how and training documents or materials;

SECTION 8. commissions, commission charges, pricing policies and all information about research and development; and

(9) the Company's, 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.

Grantee acknowledges that in the course of performing services for the Company, the Grantee has had and will have access to Confidential Information.

(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 business-related contact or received or learned 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) with whom or which the Committee determines Grantee knew or should have known that the Company has been in negotiations during the Look Back Period to provide insurance or reinsurance or related services.

v. 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 9. **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 breached, nor entered into an agreement (written, oral or otherwise) to breach, an Obligation 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 or electronic documentation 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 or electronic documentation 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 or electronic documentation representing the number of then vested Restricted Stock Units.

SECTION 10. **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 11. **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 12. **Company; Grantee.**

vi. 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.

vii. 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 13. **Compliance with Law.** Notwithstanding any of the provisions hereof, the Grantee hereby agrees that 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 14. **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 15. **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:

viii. any adjustments, recapitalization, reorganizations or other changes in the Company’s capital structure or its business;

ix. any merger or consolidation of the Company;

x. any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, or any preferred stocks ahead of or affecting the Stock or the rights thereof or convertible into or exchangeable for Stock;

- xi. the dissolution or liquidation of the Company;
- xii. any sale or transfer of all or any part of its assets or business; or
- xiii. any other corporate act or proceeding.

SECTION 16. **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 17. **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 18. **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 19. **Waiver of Right to Trial by Jury.** AS ALLOWED BY APPLICABLE LAW, BOTH PARTIES HEREBY WAIVE AND RELEASE ANY CLAIM UNDER FEDERAL, STATE OR LOCAL 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 20. **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 21. **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 covenants 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 22. **Binding Effect.** This Agreement shall be binding upon the heirs, executors, administrators and successors of the parties hereto.

SECTION 23. **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 24. **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 25. **Severability/Reformation.** 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 as to any jurisdiction, the court shall substitute a valid, enforceable provision that preserves, to the maximum lawful extent, the terms and intent of such provisions of this Agreement, and shall modify the Agreement so that the scope of the provision is reduced only to the minimum extent necessary to cause the modified provision to be valid, legal and enforceable. If any of the provisions of, or covenants contained in, this Agreement are hereafter construed to be invalid or unenforceable as to any jurisdiction, the same shall not affect the remainder of the provisions or the enforceability thereof, including as to other jurisdictions or as to other grantees or other agreements.

SECTION 26. **Definitions.** The following terms shall have the following meanings:

xiv. “**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.

xv. “**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.

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

xvii. “**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.

xviii. "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 (i) unrealized gains and losses on equity securities pursuant to Financial Accounting Standards Board Accounting Standards Update 2016-01 ("ASU 2016-01") and (ii) credit losses on financial instruments pursuant to Financial Accounting Standards Board Accounting Standards Update 2016-13 ("ASU 2016-13").

xix. "Performance Period" means the Tranche 1 Performance Period, Tranche 2 Performance Period or Tranche 3 Performance Period, respectively.

xx. "ROE Relative Performance" means the Average Return on Equity less the Treasury Note Rate of Return, expressed in basis points.

xxi. "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)*
Less than +500 basis points	0%
≥+500 basis points	80.0%
≥+633 basis points	90.0%
≥+766 basis points	100.0% (target)
≥+900 basis points	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%.

xxii. "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.

xxiii. "Stockholders' Equity" means stockholders' equity without the application of the accounting for (i) unrealized gains or losses on equity securities pursuant to ASU 2016-01 and (ii) credit losses on financial instruments pursuant to ASU 2016-13.

xxiv. "Tranche 1 Performance Period" means the period commencing July 1, 2020 and ending on June 30, 2023.

xxv. "Tranche 2 Performance Period" means the period commencing July 1, 2021 and ending on June 30, 2024.

xxvi. "Tranche 3 Performance Period" means the period commencing July 1, 2022 and ending on June 30, 2025.

xxvii. “Treasury Note Rate of Return” means the five-year Treasury Note rate on June 30, 2020, which is 0.289%.

xxviii. “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 27. **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 28. **Protected Conduct**. Nothing in this Agreement (a) 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), (b) requires notice to or approval from the Company before doing so, or (c) prohibits Grantee from cooperating in an investigation conducted by such a government agency. Further, Grantee is hereby advised that under the Defend Trade Secrets Act of 2016 (DTSA), no individual will be held criminally or civilly liable under federal, state or local 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 filed in a lawsuit or other proceeding if such filing is made under seal. Also, the DTSA further provides that an individual who files 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 pursuant to 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 L16 Perf (7.30.2020)

Exhibit A

to the Restricted Stock Unit Agreement dated
as of [REDACTED] Under the W. R. Berkley Corporation
2018 Stock Incentive Plan

NAME OF GRANTEE: [REDACTED]

TARGET NUMBER OF TRANCHE 1 RESTRICTED STOCK UNITS AWARDED TO GRANTEE: [REDACTED]

TARGET NUMBER OF TRANCHE 2 RESTRICTED STOCK UNITS AWARDED TO GRANTEE: [REDACTED]

TARGET NUMBER OF TRANCHE 3 RESTRICTED STOCK UNITS AWARDED TO GRANTEE: [REDACTED]

TOTAL TARGET NUMBER OF RESTRICTED STOCK UNITS AWARDED TO GRANTEE: [REDACTED]

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.

EXHIBIT B

JURISDICTION SPECIFIC MODIFICATIONS

I. States of the United States of America

A. **California**. For so long as Grantee primarily resides and works 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 express public policy of the State of California; (ii) the Obligations 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.

B. **Massachusetts**. For so long as Massachusetts General Laws Part I Title XXI Chapter 149 Section 24 L applies to the obligations of Grantee under this Agreement: (i) the Obligations in Sections 3(e)(i), (ii), (iv) and (v) shall 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 are not enforceable if the Grantee has been terminated without cause or laid off; (iii) the second and third sentences of Section 19 are amended to replace "Delaware" with "Massachusetts"; and (iv) this Agreement is amended to add the following new Section 25:

SECTION 25. The Company and Grantee agree that the grant of the Restricted Stock Units to Grantee is fair and reasonable consideration for the obligations of Grantee in this Agreement. The Company and Grantee agree that the grant of the Restricted Stock Units is consideration for the Grantee's Obligations under Section 3(d) and Section 3(e)(i) and (ii) (as applicable) of this Agreement (as such Obligations are modified by Exhibit B hereto) during the duration of such Obligations. For the avoidance of doubt, Grantee has the right to consult with an attorney prior to accepting this award. Grantee acknowledges that Grantee has been given at least ten business days to accept this award.

C. **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 shall be construed or interpreted in a manner contrary to the express public policy of the State of North Dakota; (ii) the Obligations 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.

D. **Oklahoma**. For so long as Grantee resides in and is subject to the laws of Oklahoma: (i) the Obligations in Sections 3(e)(i) and (ii) shall not apply and (ii) "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.

E. **Washington**. For so long as Grantee primarily resides and works in Washington and is subject to the laws of Washington: (a) the Obligations in Sections 3(e)(i) and 3(e)(ii) shall only apply post-employment if Grantee's annualized earnings from the Company exceed \$100,000.00 per year (adjusted annually in accordance with Section 5 of Washington HP 1450); (b) the Obligations in Sections 3(e)(i) and 3(e)(ii) shall not be enforced against Grantee if Grantee is terminated from employment without cause or if Grantee is laid off unless the Company pays the Grantee during the Relevant Period an amount equal to the Grantee's base salary at the time of termination less any compensation earned by Grantee

during the Relevant Period; and (c) Section 19 shall not apply. Grantee further understands that for the limited purposes of the application of Sections 3(e)(i) and 3(e)(ii), “cause” to terminate Grantee’s employment exists if Grantee has (i) committed, admitted committing, or plead guilty to a felony or crime involving moral turpitude, fraud, theft, misappropriation, or dishonesty, (ii) violated a material term of this Agreement or Company policy, (iii) engaged in insubordination, or failed or refused to perform assigned duties of Grantee’s position despite reasonable opportunity to perform, (iv) failed to exercise reasonable care and diligence in the exercise of Grantee’s duties for the Company, or (iv) engaged in conduct or omissions that Grantee knew, or should have known (with the exercise of reasonable care), would cause, or be likely to cause, harm to the Company or its reputation in the business community. Grantee agrees that this Restricted Stock Unit grant is independent consideration for the Obligations.

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 5, 2020

/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 5, 2020

/s/ Richard M. Baio

Richard M. Baio

Executive 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, 2020 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
Executive Vice President - Chief Financial Officer and Treasurer

November 5, 2020

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.