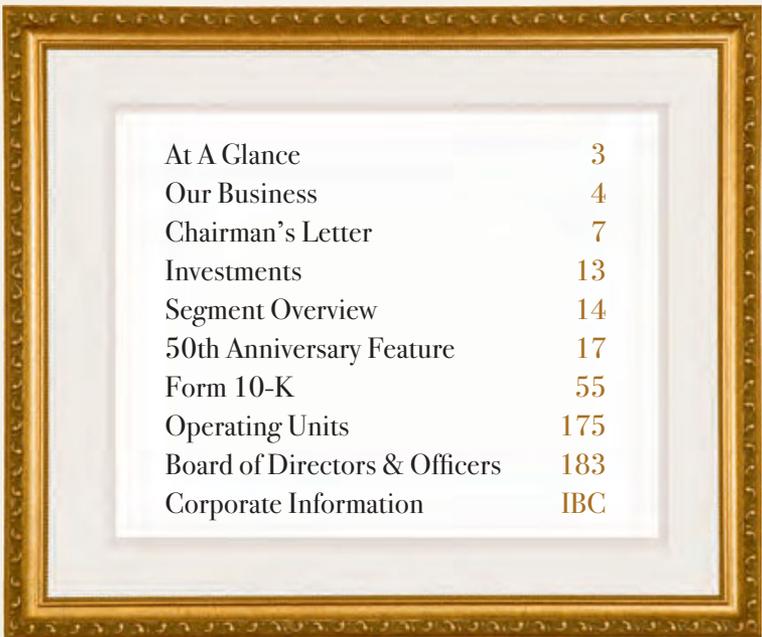


# W. R. Berkley Corporation



*Celebrating Fifty Years*



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# 2016

## *Financial Highlights*

By taking advantage of challenging opportunities and bringing together talented people and capital, we feel confident we will be able to continue to deliver outstanding returns.

COMBINED RATIO  
averaged 94.8% over the past 5 years.

94.3%

TOTAL REVENUES  
increased 48% over the past 5 years.

\$7.7B

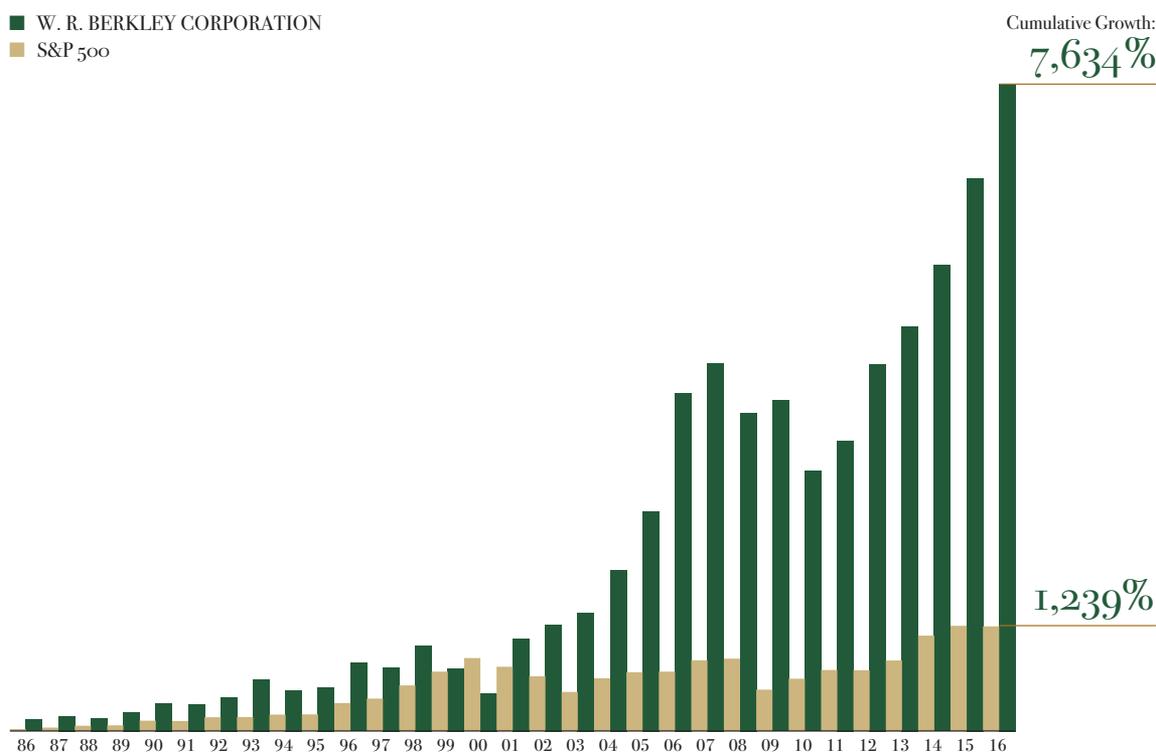
BOOK VALUE PER SHARE  
grew 45% over the past 5 years.

\$41.65

TOTAL RETURN  
5-year cumulative growth in  
stock price plus dividends was 108%.

24.3%

## Relative Stock Price Performance

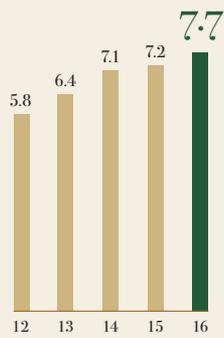


In thousands, except per share data

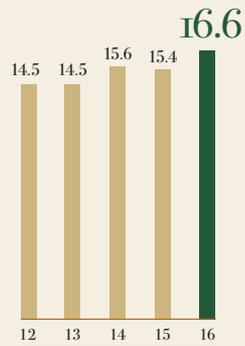
Years ended December 31,	2012	2013	2014	2015	2016
Total revenues	\$5,823,554	\$6,408,534	\$7,128,928	\$7,206,457	\$7,654,184
Net premiums written	4,898,539	5,500,173	5,996,947	6,189,515	6,423,913
Net investment income	586,763	544,291	600,885	512,645	564,163
Net realized investment gains	201,451	127,586	254,852	125,663	285,119
Insurance service fees	103,133	107,513	117,443	139,440	138,944
Net income to common stockholders	510,592	499,925	648,884	503,694	601,916
Net income per common share:					
Basic	3.72	3.69	5.07	4.06	4.91
Diluted	3.56	3.55	4.86	3.87	4.68
Return on common stockholders' equity	12.9%	11.6%	15.0%	11.0%	13.1%
<b>AT YEAR END</b>					
Total assets	\$20,155,896	\$20,551,796	\$21,716,691	\$21,730,967	\$23,364,844
Total investments	14,467,440	14,458,630	15,591,824	15,351,467	16,649,792
Reserves for losses and loss expenses	9,751,086	10,080,941	10,369,701	10,669,150	11,197,195
Common stockholders' equity	4,306,217	4,336,035	4,589,945	4,600,246	5,047,208
Common shares outstanding	136,018	132,233	126,749	123,308	121,194
Common stockholders' equity per share	31.66	32.79	36.21	37.31	41.65

## At A Glance

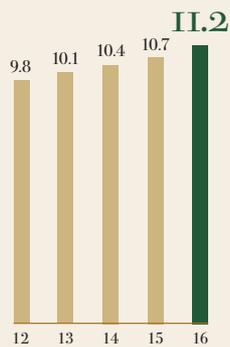
**TOTAL REVENUES**  
(dollars in billions)



**INVESTMENTS**  
Market Value  
(dollars in billions)



**RESERVES FOR LOSSES  
AND LOSS EXPENSES**  
(dollars in billions)



**COMMON  
STOCKHOLDERS' EQUITY\***  
(dollars in billions)



\*Net of \$1.3 billion in special dividends and shares repurchased from 2012-2016

# *Our Business*

*TODAY, AS YESTERDAY AND TOMORROW,*  
the combined expertise of underwriting, risk  
management, claims handling and investing will  
deliver outstanding risk-adjusted returns.

## *Insurance*

The Insurance units underwrite commercial insurance business, including excess and surplus lines and admitted lines throughout the United States, as well as insurance business in the United Kingdom, Continental Europe, South America, Canada, Scandinavia, Australia and Asia.

2016 RESULTS: Total revenues were \$6.2 billion. Pre-tax income was \$823 million.

## *Reinsurance*

The Reinsurance units write reinsurance business on a facultative and treaty basis, primarily in the United States, United Kingdom, Continental Europe, Australia, the Asia-Pacific Region and South Africa.

2016 RESULTS: Total revenues were \$719 million. Pre-tax income was \$75 million.

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**W. R. Berkley Corporation,**  
*founded in 1967, is one of the nation's premier commercial  
 lines property casualty insurance providers. Each of the operating  
 units within Berkley participates in a niche market requiring  
 specialized knowledge about a territory or product.*

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Our competitive advantage lies in our long-term strategy of decentralized operations, allowing each of our units to identify and respond quickly and effectively to changing market conditions and local customer needs. This decentralized structure provides financial accountability and incentives to local management and enables us to attract and retain the highest caliber professionals. We have the expertise and resources to utilize our strengths in the present environment, and the flexibility to anticipate, innovate and respond to whatever opportunities and challenges the future may hold.

#### HOW WE ARE DIFFERENT:

##### Risk-Adjusted Returns

Management company-wide is focused on obtaining the best potential returns with a real understanding of the amount of risk being assumed. Superior risk-adjusted returns are generated over the insurance cycle.

##### Accountability

The business is operated with an ownership perspective and a clear sense of fiduciary responsibility to shareholders.

##### People-Oriented Strategy

New businesses are started when opportunities are identified and, most importantly, when the right talent is found to lead a business. Of the Company's 54 operating units, 47 were developed internally and seven were acquired.

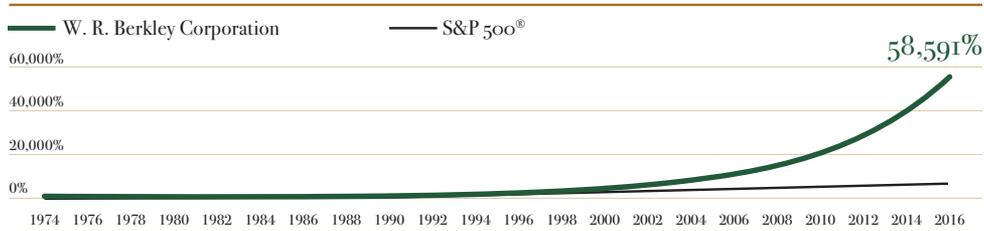
##### Responsible Financial Practices

Risk exposures are managed proactively. A strong balance sheet, including a high-quality investment portfolio, ensures ample resources to grow the business profitably whenever there are opportunities to do so.

##### Transparency

Consistent and objective standards are used to measure performance—and, the same standards are used regardless of the environment.

# W. R. Berkley Corporation's Performance vs. the S&P 500<sup>®</sup>



Notes: W. R. Berkley Corporation's book value per share has been adjusted for stock dividends paid from 1975 to 1983. Stock dividends were 6% in each year from 1975 to 1978, 14% in 1979, and 7% in each year from 1980 to 1983. The Company has paid cash dividends each year since 1976.

## ANNUAL PERCENTAGE CHANGE

Year	In Per-Share Book Value of W. R. Berkley Corporation with Dividends Included (1)	In S&P 500 <sup>®</sup> with Dividends Included (2)	Relative Results (1)-(2)
1974	50.0%	-26.4%	76.4%
1975	12.5%	37.2%	-24.7%
1976	29.6%	23.6%	6.0%
1977	28.6%	-7.4%	36.0%
1978	24.4%	6.4%	18.0%
1979	18.2%	18.2%	0.0%
1980	9.4%	32.3%	-22.9%
1981	14.5%	-5.0%	19.5%
1982	-9.0%	21.4%	-30.4%
1983	-11.6%	22.4%	-34.0%
1984	-16.9%	6.1%	-23.0%
1985	59.6%	31.6%	28.0%
1986	106.8%	18.6%	88.2%
1987	23.5%	5.1%	18.4%
1988	22.5%	16.6%	5.9%
1989	13.2%	31.7%	-18.5%
1990	7.8%	-3.1%	10.9%
1991	20.8%	30.5%	-9.7%
1992	13.5%	7.6%	5.9%
1993	16.7%	10.1%	6.6%
1994	-10.8%	1.3%	-12.1%
1995	34.5%	37.6%	-3.1%
1996	7.9%	23.0%	-15.1%
1997	15.9%	33.4%	-17.5%
1998	1.9%	28.6%	-26.7%
1999	-18.1%	21.0%	-39.1%
2000	17.1%	-9.1%	26.2%
2001	7.6%	-11.9%	19.5%
2002	31.2%	-22.1%	53.3%
2003	26.7%	28.7%	-2.0%
2004	25.6%	10.9%	14.7%
2005	21.9%	4.9%	17.0%
2006	30.1%	15.8%	14.3%
2007	16.3%	5.5%	10.8%
2008	-4.1%	-37.0%	32.9%
2009	23.3%	26.5%	-3.2%
2010	15.4%	15.1%	0.3%
2011	12.2%	2.1%	10.1%
2012	14.8%	16.0%	-1.2%
2013	4.8%	32.4%	-27.6%
2014	14.8%	13.7%	1.1%
2015	4.3%	1.4%	3.0%
2016	15.7%	12.0%	3.7%
<b>Average Annual Gain – 1974–2016</b>			
	17.3%	12.3%	5.0%
<b>Overall Gain – 1973–2016</b>			
	52,324%	8,096%	
<i>Overall gain 1973–2016 with dividends compounded – 58,591%</i>			

# *Chairman's Letter*



*Left to Right: W. Robert Berkley, Jr., President and Chief Executive Officer & William R. Berkley, Executive Chairman*

## *To Our Shareholders:*

We were pleased with our results in 2016. A 13.1% after tax return was a great way to complete almost 50 years in business. On April 17, 2017 we will celebrate our 50th anniversary. Over that period of time, the initial capital of our company, \$2,500, has become almost \$9 billion in market value and in addition, we have distributed over \$4.2 billion of cash to our shareholders.

These outstanding results are truly more than anyone could ever imagine back in the midst of our first year at Harvard Business School—and we were optimists. From our first year of public ownership in 1973 to the end of the first quarter of 2017, investors have seen the value of their shares grow over 130,000%, which translates to a compound growth rate of over 18%.

We are proud of our results for many reasons. First and foremost, our enterprise exists to provide outstanding returns to our owners—and we have certainly done that. We have achieved this result by delivering outstanding service to our customers through specialized knowledge and expertise that give us a distinct competitive advantage. We succeed because we have great people who are committed to our shared corporate goal of meeting our customers' needs. Finally, we do it all in a way that allows us to make a positive contribution to our society.

All of this is far beyond any expectations that existed when we started the company in 1967. At the beginning, we wanted to manage other people's money, delivering better returns with

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The initial capital of our company, \$2,500, has become almost \$9 billion in market value and in addition, we have distributed over \$4.2 billion of cash to our shareholders.

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less risk than other investment managers. The one common characteristic that existed then and remains in place today is the goal to deliver the best possible risk-adjusted return, whether it is as an investor or in the insurance business. It is always our obligation to the people who entrust their capital to us to deliver on this commitment. It isn't by coincidence that the word "risk" comes before "return" in our mantra. We are a Company that from the beginning focused first on examining and understanding risk and second on optimizing the concomitant returns. We are pleased to say that for the past fifty years we have achieved that goal. We expect to continue to do that with the same cultural beliefs that represent the bedrock values of our enterprise. Long-term values, long-term returns—always understanding the risk being assumed.

As we mark our fiftieth anniversary, our Company must look ahead to the future and build upon what we have accomplished. The past was an evolution from managing other people's money to becoming a property casualty insurance enterprise where we managed our own money. We entered the insurance industry to compete as both a manager of our own funds and an underwriter, whose job is to assess risk and price risk. Both tasks require mathematical analysis and logic.

We accessed the property casualty insurance business through the initial process of acquiring two insurance companies, each

in a separate transaction: Houston General Insurance Company in Fort Worth, Texas, followed by Traders & General Insurance Company in Dallas, Texas. We then went on to convert a mutual company—Union Insurance Company (mutual) in Lincoln Nebraska—to a stock company in a unique way. Today, Union Insurance Company is the oldest continuing part of our insurance enterprise. The two Texas companies were sold to The Equitable Life Assurance Society of the United States. This transaction was the game changer. After this sale, we had the capital to build our enterprise and overcome the mistakes we made at the beginning.

We continued to expand the regional insurance business and in 1975, entered the reinsurance business. In 1979, we moved into the specialty business through the acquisition of Admiral Insurance Company. Our growth continued for the next two decades primarily through new ventures and occasionally through acquisitions, such as Continental Western in Des Moines, Iowa in 1986.

At the turn of the century, we encountered a few bumps in all segments of our business. Through determination and focus, we managed through these issues, keeping in mind that we had a fiduciary obligation to our customers, our people and our owners.

The Company's returns started to skyrocket in the middle of the first decade of the 21st century to a level we had not achieved in 20 years. We were getting returns well in excess of 20% after tax,

2016 RETURN ON  
SHAREHOLDERS' EQUITY

13%

FIVE YEAR GROWTH IN  
BOOK VALUE PER SHARE

45%

and the leverage of our investment returns was extraordinary. We continued to build on this success and, in spite of the difficulties of the economic debacle of 2008, our financial strength and prudent risk management allowed our business to continue to do exceptionally well. We were able to take advantage of our strengths, increasing the pace of starting new units. This was a moment when many very capable people were looking for a new permanent home.

We were able to find exceptionally talented teams of people and build extraordinary new business units that expanded our specialty core substantially. The number of operating units grew from twenty-two in 2001 to forty in 2008 and we firmly established ourselves as a leading player in the specialty business. While declining interest rates put pressure on investment returns, strong underwriting results helped to maintain our overall profitability. Our relative competitive strength was being enhanced as this extraordinary talent joined us.

Simultaneously, our Latin American business that was started in Argentina in 1996 grew through internal expansion and acquisition. It has prospered and now represents a strong international foothold. We now do business in Brazil, Uruguay, Colombia, and Mexico. Our Argentine business, to this day, has been an outstanding performer, whatever the local situation. Over

the years, our international business has expanded to the U.K., Continental Europe, Australia, Scandinavia, and Southeast Asia, as well as globally through Lloyd's of London.

W. R. Berkley Corporation continues to grow primarily through start-up enterprises. In 2016, we started five new businesses, expanding into additional specialty niches where knowledge and expertise can add value for our customers. We combine our capital and infrastructure with outstanding teams of people to enter new areas of the market with a competitive advantage that few can match. In addition, we have expanded and enhanced our central platform to facilitate the creation of these new businesses and add efficiencies, while refocusing our business to achieve better returns in the current lower interest rate environment.

Generally our results in these new ventures have been very positive. Some have been better than others, but we have been able to compound our growth and continue to achieve a rate of return that sets us apart from most of our competitors.

Our target return on capital continues to be 15% after tax—a challenging goal in an interest rate environment such as the current one. While it is a goal that was somewhat easier to earn when the risk-free rate of return was substantially higher, we remain focused on delivering superior value creation to our shareholders.

We believe this is still an attainable goal with our current revised portfolio structure. We recognize that trade-offs must occur to achieve this return in the current economic environment. We do not want to change our risk profile, but we do have significantly more liquidity than we need. Thus, we can give up a little liquidity and some short-term predictability in our quarterly returns to improve our current return on equity. We expect that in spite of the current uncertainty in the market, we can achieve our ROE goal.

Insurance companies make money through assuming underwriting risk with what is hopefully a margin of profitability. Achieving underwriting profitability is the mark of a fine insurance company. Insurers also make money by investing their capital, reserves for future loss payments, and premiums that are not yet earned. How well a company invests this money is a significant determinant of its level of profitability. It is critical to understand that most of these funds are fiduciary funds and the investing risk must always be made with the clear knowledge that the money might be called upon for claim payments with little notice.

Satisfactory returns in the current investment environment are extraordinarily difficult to attain. The risks related to potential inflation and rising interest rates require great care in building a fixed income portfolio with an appropriate balance of risk and return. One has to be careful that the duration and quality of securities does not exceed the exposure inherent with one's

liabilities. The issue is to always try to attain the highest available interest rate while maintaining the appropriate quality. At the same time, owning longer-term securities creates greater exposure to the risk of a market value decline as inflation pushes up rates. Thus, the investment returns available might not result in satisfactory overall risk-adjusted returns for our shareholders. We therefore have rebalanced our portfolio to include real estate and private equity components. We believe that the change in our investment strategy will give us substantially higher, although somewhat more variable, returns. We do this without increasing our exposure to rising interest rates.

Our results in recent years have demonstrated our ability to perform well in a low interest rate environment. We have increased our focus on underwriting profits and worked diligently to keep expenses at an appropriate level. Without giving up the autonomy of our operating units that makes our Company so unique, our structure has been adjusted to provide enhanced opportunities to process business more efficiently. We have examined the true costs of insurance protection that we deliver to our customers, including the frictional costs that might not create value for the people who wish to ameliorate risk. The current world requires us to use technology and focus on transparency to deliver value to our customers. We need to be conscious of the value proposition put forward in our increasingly competitive world.

# 41

YEARS OF CONSECUTIVE  
DIVIDEND PAYMENTS

# 54

INDEPENDENT  
OPERATING UNITS

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## The one common characteristic that existed then and remains in place today is the goal to deliver the best possible risk-adjusted return.

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Each day new products and methods of distribution are developed. New technology makes pricing and risk management more subject to automated analytical tools, attaining greater accuracy. It is just such a world where our Company, which is large enough to have resources but small enough to be nimble, can prosper.

The world is no longer based only on the laws of large numbers and mass markets, but it is more focused on predictive models and better data analytics. Products are designed to meet the specialized coverage needs of specialized risks and types of businesses that have unique exposures. The exposures that come about in this ever more complex world require more expertise, as well as distribution that provides real customer knowledge. The pace of change is accelerating. The value of knowledge is increasing. Customized service and products—not the old one-size-fits-all—is the current world.

The past several years have borne out these changes. We have been able to achieve better returns without increasing our risk by using new tools and building better old ones. Based on the past year and looking toward our expectations for the current year, we are optimistic that our investment returns and our overall returns will prove to meet or exceed our targets.

None of this could be accomplished without the support and dedication of our employees, the relationships with our outstanding agents and brokers and the advice of our Board of

Directors. The past fifty years have built a good foundation for an even brighter future.

We have this bright future only because of people who have been present over these past fifty years. There were many who went out of their way to assist a young man who worked hard but did not realize how much help he would require. I was a good investor but needed capital.

In the summer between my first and second year at Harvard Business School, I worked at Fidelity Management and Research, spending much time doing projects for Ned Johnson, the president of this giant of the mutual fund industry. We got along well, and he allowed me to consult during the school year. He planned to have Fidelity buy 33% of my new company for \$25,000. His lawyers explained why Fidelity could not do that. When Ned called me into his office to deliver the bad news that his lawyers had advised him it was not appropriate for Fidelity to make the investment, he handed me a Fidelity check for \$25,000. He said he knew I was counting on the money, so I should consider it a consulting fee. I learned a lot from that experience—if you want to do what you promised, there almost always is a way.

I was fortunate to have had similar experiences with important and influential people who always chose the helping hand approach to life. John Gutfreund, the managing partner at Salomon Bros., stepped up to provide essential financing when his firm did not

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## The past fifty years have built a good foundation for an even brighter future.

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fully place a private stock offering. Salomon wrote their own check in order to complete the placement. There were many people like that, who actually did what they said.

There are many other individuals who deserve special mention. The list is very long, and unfortunately I have limited space. I am fortunate to have had two directors for an exceedingly long time. The first is Jack Nusbaum, my long-time friend and one of the original directors of our Company. He has put up with me for over fifty years and much of our success is a result of his advice. The second is Mark Shapiro, a director for 43 years who started out providing investment banking advice and has been a wonderful sounding board over these many years. He has always been willing to step back and improve our perspective on the issues.

When I examine these years, and reflect on the bumps in the road, I recall how I used to tell my family that they had to understand the demands of the business, because the business had no ability to understand. The result was incredible tolerance and patience from all my children—Lisa, Rob and Lauren. My wife, Marge, who was my first secretary, was a real trooper and never complained about late nights or dinners alone. She was always there, supportive and cheering.

Rob, who is now CEO, is clearly the person who I believe can carry on the enterprise with the same character and culture that allows us to be the outstanding performer our shareholders have grown to expect. He has taken on the job with over twenty years of experience and a demonstrated desire and ability to lead the Company in this complex world. I am confident in his abilities.

This annual report contains pictures of all our employees. Each of them makes an important contribution to the ongoing success of our enterprise. Our Company can only be as good as the sum of the people who work within the enterprise. We strive to be the very best, and if we get there, it is a function of the efforts of this team of people. Thank you all for the first fifty years.

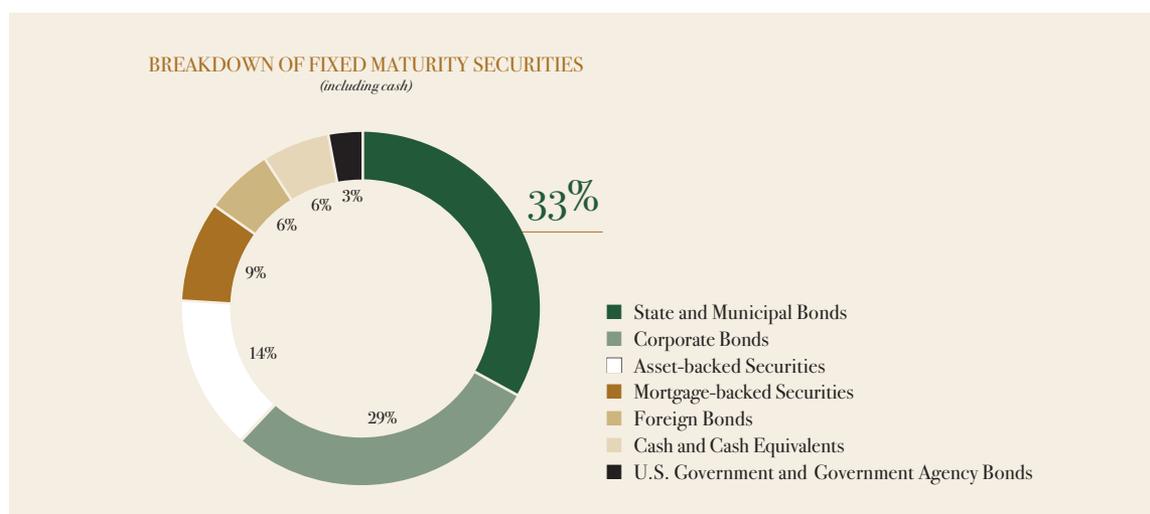


William R. Berkley  
*Executive Chairman*

# Investments

Over the past few years, we have shortened the duration of our fixed-income portfolio to 3.1 years to manage the yield curve as well as the impact of potential inflation.

These changes have reduced the potential impact of mark-to-market on our portfolio and positioned us to take advantage of rising interest rates. In addition, due to the prolonged low interest rate environment, we have allocated a portion of our portfolio to investments designed to generate capital gains.



## INVESTMENT DATA

(Dollars in millions)	2015	2016
Cash and invested assets:		
Invested assets	\$15,351	\$16,650
Cash and cash equivalents	\$764	\$795
Total	\$16,115	\$17,445
Net investment income	\$513	\$564
Net realized gains on investment sales	\$126	\$285

# *Segment Overview*

Each of our business segments – Insurance and Reinsurance – comprises individual operating units that serve a market defined by geography, products, services, or types of customers. Our growth is based on meeting the needs of customers, maintaining a high-quality balance sheet, and allocating capital to our best opportunities.

We combine capital with outstanding people and wrap it all in a culture that is focused on optimizing risk-adjusted returns. It creates a permanent competitive advantage that can only be acquired over many years with consistent discipline.

## 2016 Segment Data

### 2016 ASSETS AND RESERVES (dollars in billions)

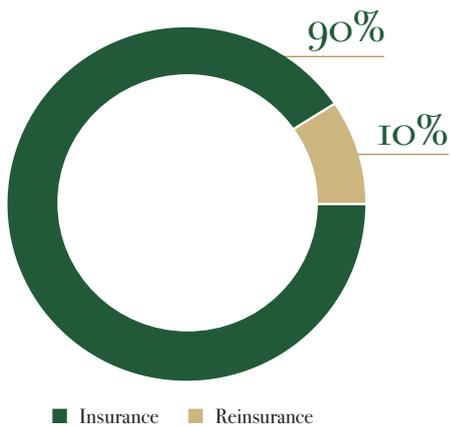
#### *Insurance*



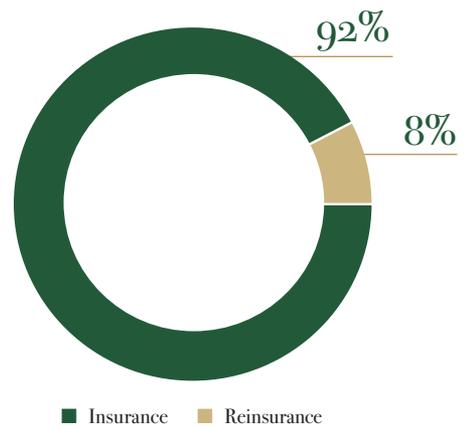
#### *Reinsurance*



### 2016 REVENUES



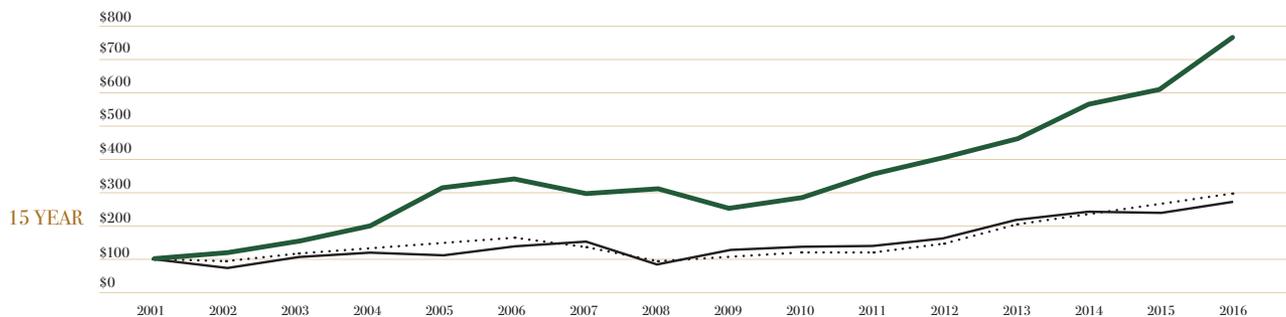
### 2016 PRE-TAX INCOME



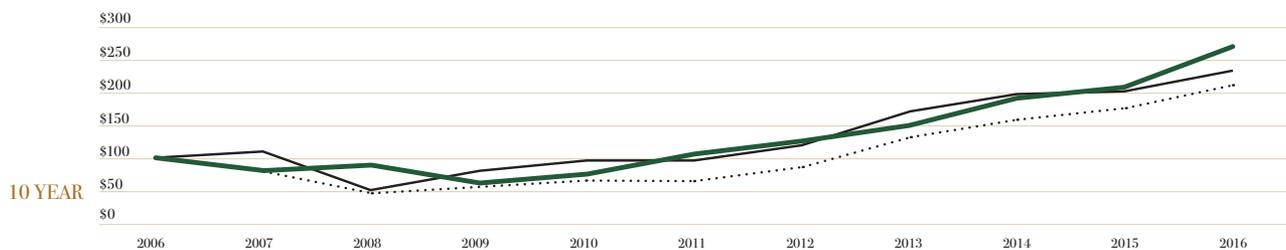
# Comparison of *Cumulative Total Returns*

— W. R. Berkley Corporation    — S&P 500® Index    ····· S&P 500® Property & Casualty Insurance Index

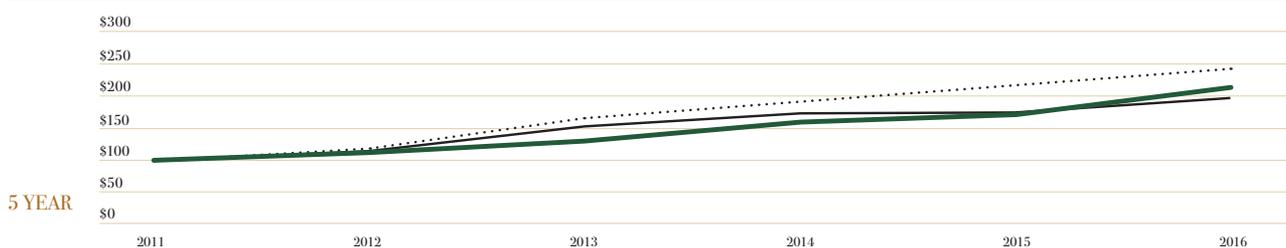
*Assumes initial investment of \$100 on January 01, 2012, 2007, and 2002, respectively; with dividends reinvested.*



	DEC. 01	DEC. 02	DEC. 03	DEC. 04	DEC. 05	DEC. 06	DEC. 07	DEC. 08	DEC. 09	DEC. 10	DEC. 11	DEC. 12	DEC. 13	DEC. 14	DEC. 15	DEC. 16
W. R. Berkley Corporation	\$100.00	\$111.71	\$149.11	\$202.57	\$308.39	\$336.78	\$292.79	\$307.18	\$246.64	\$276.86	\$351.20	\$398.92	\$462.88	\$562.91	\$606.60	\$756.71
S&P 500® Index	\$100.00	\$77.90	\$100.24	\$111.15	\$116.61	\$135.03	\$142.45	\$89.75	\$113.50	\$130.59	\$133.35	\$154.69	\$204.79	\$232.83	\$236.05	\$264.28
S&P 500® Property and Casualty Insurance Index	\$100.00	\$88.98	\$112.46	\$124.20	\$142.97	\$161.31	\$140.02	\$98.81	\$110.87	\$121.09	\$120.78	\$145.07	\$200.62	\$232.20	\$254.33	\$294.28



	DEC. 06	DEC. 07	DEC. 08	DEC. 09	DEC. 10	DEC. 11	DEC. 12	DEC. 13	DEC. 14	DEC. 15	DEC. 16
W. R. Berkley Corporation	\$100.00	\$86.94	\$91.21	\$73.24	\$82.21	\$104.28	\$118.45	\$137.44	\$167.15	\$180.12	\$224.69
S&P 500® Index	\$100.00	\$105.49	\$66.46	\$4.05	\$96.71	\$98.76	\$114.56	\$151.66	\$172.43	\$174.81	\$195.72
S&P 500® Property and Casualty Insurance Index	\$100.00	\$86.80	\$61.25	\$68.73	\$75.07	\$74.87	\$89.93	\$124.37	\$143.94	\$157.66	\$182.42



	DEC. 11	DEC. 12	DEC. 13	DEC. 14	DEC. 15	DEC. 16
W. R. Berkley Corporation	\$100.00	\$113.59	\$131.80	\$160.28	\$172.72	\$215.46
S&P 500® Index	\$100.00	\$116.00	\$153.57	\$174.60	\$177.01	\$198.18
S&P 500® Property and Casualty Insurance Index	\$100.00	\$120.11	\$166.10	\$192.25	\$210.57	\$243.65

The S&P 500® Property and Casualty Insurance Index consists of Allstate Corporation, Chubb, Ltd., Cincinnati Financial Corporation, Progressive Corporation, The Travelers Companies, Inc., and XL Group, plc.

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*C E L E B R A T I N G*  
*Our People*  
*for*  
50  
YEARS

W. R. Berkley Corporation is made up of dedicated, detail-oriented people committed to delivering the highest quality insurance products and services to specialized markets worldwide. We believe that every person in the organization is important and every task they accomplish makes a difference in our results.

Everything Counts, Everyone Matters<sup>®</sup>





*WE ARE  
Dedicated  
Responsible  
Strategic  
Knowledgeable  
& Caring*











# *DEDICATED*

*We are committed to delivering superior risk-adjusted returns to our shareholders by providing outstanding products and services to our customers.*











# *RESPONSIBLE*

*We have a clear sense of responsibility to our shareholders,  
our customers and the society in which we live and work.*











# *STRATEGIC*

*We make thoughtful decisions every day in every aspect of our business that build value over the long term and prepare us for whatever challenges and opportunities the future may hold.*











# *KNOWLEDGEABLE*

*We believe that knowledge and expertise in underwriting, risk management, claims handling and investing is the best way to deliver value to our shareholders, customers and all other stakeholders.*











# *CARING*

*We achieve success by working together with shared values for a common goal in a way that allows us to make a positive contribution to our society.*











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W. R. Berkley Corporation  
FORM 10-K

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended  
December 31, 2016  
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)*

**475 Steamboat Road, Greenwich, CT**

*(Address of principal executive offices)*

**22-1867895**

*(I.R.S. Employer  
Identification Number)*

**06830**

*(Zip Code)*

**Registrant's telephone number, including area code: (203) 629-3000**

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value \$.20 per share	New York Stock Exchange
5.625% Subordinated Debentures due 2053	New York Stock Exchange
5.9% Subordinated Debentures due 2056	New York Stock Exchange
5.75% Subordinated Debentures due 2056	New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Annual Report on Form 10-K or any amendment to this Annual Report on Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates (computed by reference to the price at which the common stock was last sold) as of the last business day of the registrant’s most recently completed second fiscal quarter was \$5,857,187,550.

Number of shares of common stock, \$.20 par value, outstanding as of February 22, 2017: 121,213,179

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company’s definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2016, are incorporated herein by reference in Part III.

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SAFE HARBOR STATEMENT  
UNDER THE PRIVATE SECURITIES  
LITIGATION REFORM ACT OF 1995

This is a "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995. This document may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Some of the forward-looking statements can be identified by the use of forward-looking words such as "believes," "expects," "potential," "continued," "may," "will," "should," "seeks," "approximately," "predicts," "intends," "plans," "estimates," "anticipates" or the negative version of those words or other comparable words. Any forward-looking statements contained in this report including statements related to our outlook for the industry and for our performance for the year 2017 and beyond, are based upon our 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 that the future plans, estimates or expectations contemplated by us will be achieved. They are subject to various risks and uncertainties, including but not limited to:

- the cyclical nature of the property casualty industry;
  - the impact of significant competition, including new alternative entrants to the industry;
  - the long-tail and potentially volatile nature of the insurance and reinsurance business;
  - product demand and pricing;
  - claims development and the process of estimating reserves;
  - investment risks, including those of our portfolio of fixed maturity securities and investments in equity securities, including investments in financial institutions, municipal bonds, mortgage-backed securities, loans receivable, investment funds, including real estate, merger arbitrage, energy related and private equity investments;
  - the effects of emerging claim and coverage issues;
  - the uncertain nature of damage theories and loss amounts;
  - natural and man-made catastrophic losses, including as a result of terrorist activities;
  - general economic and market activities, including inflation, interest rates and volatility in the credit and capital markets;
  - the impact of conditions in the financial markets and the global economy, and the potential effect of legislative, regulatory, accounting or other initiatives taken in response to it, on our results and financial condition;
  - foreign currency and political risks (including those associated with the United Kingdom's expected withdrawal from the European Union, or "Brexit") relating to our international operations;
  - our ability to attract and retain key personnel and qualified employees;
  - continued availability of capital and financing;
  - the success of our new ventures or acquisitions and the availability of other opportunities;
  - the availability of reinsurance;
  - our retention under the Terrorism Risk Insurance Program Reauthorization Act of 2015 ("TRIPRA");
  - 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 relating to our policyholders, independent agents and brokers;
  - changes in the ratings assigned to us or our insurance company subsidiaries by rating agencies;
  - the availability of dividends from our insurance company subsidiaries;
  - potential difficulties with technology and/or data security;
  - the effectiveness of our controls to ensure compliance with guidelines, policies and legal and regulatory standards;
- and

- other risks detailed in this Form 10-K and from time to time in our other filings with the Securities and Exchange Commission (“SEC”).

We describe these risks and uncertainties in greater detail in Item 1A, Risk Factors. These risks and uncertainties could cause our actual results for the year 2017 and beyond to differ materially from those expressed in any forward-looking statement we make. Any projections of growth in our revenues would not necessarily result in commensurate levels of earnings. Our future financial performance is dependent upon factors discussed elsewhere in this Form 10-K and our other SEC filings. Forward-looking statements speak only as of the date on which they are made.

**PART I**  
**ITEM 1. BUSINESS**

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

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

Commencing with the first quarter of 2016, the Company changed the aggregation of its reported segments. Operating units in the Insurance-Domestic segment and Insurance-International segment, previously reported separately, were combined into the Insurance segment. The segment disclosures for prior periods have been revised to be consistent with the new reportable business segment presentation.

Our two reporting segments are composed of individual operating units that serve a market defined by geography, products, services or types of customers. Each of our operating units is positioned close to its customer base and participates in a niche market requiring specialized knowledge about a territory or product. This strategy of decentralized operations allows each of our units to identify and respond quickly and effectively to changing market conditions and local customer needs, while capitalizing on the benefits of centralized capital, investment and reinsurance management, and corporate actuarial, financial, enterprise risk management and legal staff support.

Our business approach is focused on meeting the needs of our customers, maintaining a high quality balance sheet, and allocating capital to our best opportunities. New businesses are started when opportunities are identified and when the right talent and expertise are found to lead a business. Of our 54 operating units, 47 have been organized and developed internally and seven have been added through acquisition.

Net premiums written, as reported based on United States generally accepted accounting principles ("GAAP"), for each of our operating segments for each of the past five years were as follows:

(In thousands)	Year Ended December 31,				
	2016	2015	2014	2013	2012
<b>Net premiums written:</b>					
Insurance	\$ 5,775,913	\$ 5,591,397	\$ 5,345,663	\$ 4,750,572	\$ 4,234,342
Reinsurance	648,000	598,118	651,284	749,601	664,197
Total	\$ 6,423,913	\$ 6,189,515	\$ 5,996,947	\$ 5,500,173	\$ 4,898,539
<b>Percentage of net premiums written:</b>					
Insurance	89.9%	90.3%	89.1%	86.4%	86.4%
Reinsurance	10.1	9.7	10.9	13.6	13.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Twenty-eight of our twenty-nine insurance company subsidiaries rated by A.M. Best Company, Inc. ("A.M. Best") have ratings of A+ (Superior) (the second highest rating out of 15 possible ratings), and one is rated A (Excellent) (the third highest rating). A.M. Best's ratings are based upon factors of concern to policyholders, insurance agents and brokers and are not directed toward the protection of investors. A.M. Best states: "The Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk." A.M. Best reviews its ratings on a periodic basis, and its ratings of the Company's subsidiaries are therefore subject to change.

Our twenty-four insurance company subsidiaries rated by Standard & Poor's ("S&P") have financial strength ratings of A+ (the seventh highest rating out of twenty-seven possible ratings).

Our Moody's ratings are A2 for Berkley Insurance Company, Berkley Regional Insurance Company and Admiral Insurance Company (the sixth highest rating out of twenty-one possible ratings).

The following sections describe our reporting segments and their operating units in greater detail. These operating units underwrite on behalf of one or more affiliated insurance companies within the group. Certain operating units are identified by us herein for descriptive purposes only and are not legal entities. Unless otherwise indicated, all references in this Form 10-K to “W. R. Berkley,” “we,” “us,” “our,” the “Company” or similar terms refer to W. R. Berkley Corporation together with its subsidiaries and operating units. W. R. Berkley Corporation is a Delaware corporation formed in 1970.

### Insurance

Our U.S.-based operating units underwrite commercial insurance business primarily throughout the United States, although many units offer coverage globally, focusing on the following general areas:

*Excess & Surplus Lines:* A number of our operating units are dedicated to the U.S. excess and surplus lines market. They serve a highly diverse group of customers that often have complex risk or unique exposures that typically fall outside the underwriting guidelines of the standard insurance market. Lines of business underwritten by our excess and surplus lines operating units include premises operations, commercial automobile, property, products liability and professional liability lines. Products are generally distributed through wholesale agents and brokers.

*Industry Specialty:* Certain other operating units focus on providing specialty coverages to customers within a particular industry that are best served by underwriters and claims professionals with specialized knowledge of that industry. They offer multiple lines of business with policies tailored to address these unique exposures, often with the flexibility of providing coverages on either an admitted or a non-admitted basis in the U.S. Each operating unit delivers its products through one or more distribution channels, including retail and wholesale agents, brokers, and managing general agents (MGAs), depending on the customer and the particular risks insured.

*Product Specialty:* Other operating units specialize in providing specific lines of insurance coverage, such as workers’ compensation or professional liability, to a wide range of customers. They offer insurance products, analytical tools and risk management services such as loss control and claims management that enable clients to manage their risk appropriately. Business is typically written on an admitted basis, although some units may offer non-admitted products in the U.S. and offer products internationally. Independent agents and brokers are the primary means of distribution.

*Regional:* Certain operating units offer standard insurance products and services focused on meeting the specific needs of a geographically differentiated customer base. Key clients of these units are small-to-mid-sized businesses. These regionally focused operating units provide a broad array of commercial insurance products to customers primarily in 45 states and the District of Columbia and have developed expertise in niches that reflect local economies. They are organized geographically in order to provide them with the flexibility to adapt quickly to local market conditions and customer needs.

In addition, through our non-U.S. insurance operating units, we write business in more than 60 countries worldwide, with branches or offices in 20 locations outside the United States, including the United Kingdom, Continental Europe, South America, Canada, Mexico, Scandinavia, Asia and Australia. In each of our operating territories, we have built decentralized structures that allow products and services to be tailored to each regional customer base. Our businesses are managed by teams of professionals with expertise in local markets and knowledge of regional environments.

In addition to providing insurance products, certain operating units also provide a wide variety of fee-based services, including claims, administrative and consulting services.

Operating units comprising the Insurance segment are as follows:

*Acadia Insurance* is a Northeast regional property casualty underwriter offering a broad portfolio of products exclusively through local independent agents in Connecticut, Maine, Massachusetts, New Hampshire, New York and Vermont. In addition to its general offerings, Acadia has specialized expertise in insuring regional industries such as construction, lumber and fishing.

*Admiral Insurance* provides excess and surplus lines coverage for commercial risks that generally consist of hard-to-place, specialized risks that involve moderate to high degrees of hazard. Its lines of business include general liability, professional liability, property, and excess and umbrella coverage. Admiral’s professional liability and program operations include special coverages for technology, ambulatory surgery centers, chiropractors and concierge physicians. Its products are distributed exclusively by wholesale brokers.

*American Mining Insurance Group* specializes in mono-line workers' compensation coverage for mining and mining related industries throughout the United States and for high hazard risks in select states.

*Berkley Accident and Health* underwrites accident and health insurance and reinsurance products in four primary areas: medical stop loss, managed care, special risk and group captive. It has a diversified product and service portfolio serving a range of clients from small employers, health care organizations, and membership groups to Fortune 500 companies.

*Berkley Agribusiness Risk Specialists* offers insurance for larger commercial risks across the United States involved in the supply, storage, handling, processing and distribution of commodities related to the agriculture and food industries.

*Berkley Alliance Managers* specializes in professional liability for the design professional, construction professional and certified public accounting industries. The Berkley Design Professional division specializes in architects, engineers and consultants. In addition to professional liability, the Berkley Construction Professional division provides pollution liability and protective coverages to contractors and owners across all forms of non-environmental construction.

*Berkley Aviation* offers a wide range of aviation insurance products on a global basis, including coverage for airlines, airplanes, helicopters, miscellaneous general aviation operations, non-owned aircraft, fixed-base operations, control towers, airports and other specialized niche programs. In the U.S., it places its business on an admitted and non-admitted basis nationwide.

*Berkley Canada* underwrites specialty, casualty and surety lines of business on behalf of the Canadian branch of Berkley Insurance Company. It specializes in commercial casualty and professional liability, and offers a broad portfolio of risk products that include commercial general liability, umbrella, professional liability, directors and officers, commercial property and surety, in addition to niche products for specific industries such as technology, life sciences and travel.

*Berkley Custom Insurance* focuses on the excess casualty insurance market and offers umbrella liability, pollution liability, excess liability, construction wrap-ups and completed operations coverages to wholesalers, retailers, manufacturers, insurance companies, financial institutions and construction companies.

*Berkley Cyber Risk Solutions* focuses on insurance and risk management products that respond to the changing cyber security vulnerabilities of organizations around the world. It offers specialty commercial insurance coverages on a worldwide basis to clients of all sizes.

*Berkley FinSecure* serves the insurance needs of financial institutions, credit unions, mortgage lenders, mortgage servicers and trust managers. It offers a comprehensive range of property, casualty, professional liability, and specialty lines insurance products and loss control services, including financial institution-specific commercial package policies, workers' compensation, umbrella, commercial auto, management liability and crime coverages, and financial institution bonds.

*Berkley Fire & Marine* offers a broad range of preferred inland marine and related property risks and services to customers throughout the United States, both regionally and nationwide. Products are distributed through independent agents and brokers.

*Berkley Global Product Recall Management* provides worldwide insurance protection and technical assistance to help clients with the prevention, management and indemnification of product recall and contamination events.

*Berkley Healthcare Professional* provides customized, comprehensive professional liability solutions for the full spectrum of healthcare providers.

*Berkley Latinoamérica* is a leading provider of property, casualty, automobile, surety, group life and workers' compensation products and services in its operating territories of Argentina, Brazil, the Caribbean, Colombia, Mexico and Uruguay.

*Berkley Life Sciences* offers a comprehensive spectrum of property, casualty, and specialty products such as professional and management liability to the life sciences industry on a global basis, including both primary and excess liability coverages. It serves pharmaceutical and biotech companies, medical device companies, dietary supplement companies, medical and research related software developers, contract research and manufacturing organizations, research institutions and organizations, and other related businesses.

*Berkley Medical Excess* insures healthcare organizations such as hospitals and clinics that retain a portion of their risk exposure through a self-funded mechanism and seek to maximize the effectiveness and efficiency of their excess risk financing program.

*Berkley Mid-Atlantic Group* provides commercial property casualty coverages to a wide variety of businesses in Delaware, the District of Columbia, Maryland, Ohio, Pennsylvania, and Virginia. Focusing on middle market accounts, it complements its standard writings with specialized products in areas such as construction.

*Berkley Net Underwriters* focuses on small and medium-sized commercial risks, using a web-based system to allow producers to quote, bind and service workers' compensation insurance products on behalf of W. R. Berkley Corporation member companies. Berkley Net Underwriters also manages W. R. Berkley's assigned risk servicing carrier operations.

*Berkley North Pacific* provides local underwriting, claims and risk management services from its home office in Seattle, Washington and branch offices in Boise, Idaho, Spokane, Washington and Salt Lake City, Utah. It operates with a select group of agents in Idaho, Montana, Oregon, Utah and Washington to sell and service property and casualty policies for larger middle-market standard businesses and specialty lines, such as construction.

*Berkley Offshore Underwriting Managers* is a specialist global underwriter of energy and marine risks. Its three divisions provide specialty insurance products in the energy upstream, energy liability and marine sectors.

*Berkley Oil & Gas* provides property casualty products and risk services to the United States energy sector. Its customer base includes risks of any size that work in the oil patch, including operators, drillers, geophysical contractors, well-servicing contractors, and manufacturers/distributors of oil field products, as well as those in the renewable energy sector.

*Berkley One* is expected to launch its products in the latter half of 2017 and will offer specialty personal insurance to sophisticated individuals and families, supported by world class risk and claim management.

*Berkley Professional Liability* specializes in professional liability insurance for publicly-traded and private entities based on a worldwide basis. Its liability coverages include directors and officers, fiduciary, employment practices, and sponsored insurance agents. Berkley Transactional, a division of Berkley Professional Liability, underwrites a full suite of transactional insurance products, including representations and warranties insurance, tax opinion insurance and contingency liability insurance.

*Berkley Program Specialists* is a program management company offering both admitted and non-admitted insurance support on a nationwide basis for commercial casualty and inland marine program administrators with specialized insurance expertise. Its book is built around blocks of homogeneous business, or programs, allowing for efficient processes, effective oversight of existing programs and sound implementation of new programs.

*Berkley Public Entity* specializes in providing excess coverage and services to individual governmental and scholastic entities and intergovernmental risk sharing groups. Products include general liability, automobile liability, law enforcement liability, public officials and educator's legal liability, employment practices liability, incidental medical, property and crime.

*Berkley Regional Specialty* provides excess and surplus lines coverage on a national basis to small to medium-sized insureds with low to moderate insurance risk. Its product lines include general liability, liquor liability and some property and inland marine coverage. It serves a limited distribution channel consisting of select W. R. Berkley Corporation member company agents.

*Berkley Risk Administrators* provides at-risk and alternative risk insurance program management services for a broad range of groups and individuals including public entity pools, professional associations, captives and self-insured clients. As a third party administrator, it manages workers' compensation, liability and property claims nationwide.

*Berkley Select* specializes in underwriting professional liability insurance with a particular emphasis on large law firms, accounting firms and medical institution facilities. Its products are distributed nationwide through a limited number of brokers.

*Berkley Southeast* offers a wide array of commercial lines products in six southeastern states: Alabama, Georgia, Mississippi, North Carolina, South Carolina and Tennessee.

*Berkley Specialty Underwriting Managers* has two underwriting divisions. Its entertainment and sports division underwrites property casualty insurance products, both on an admitted and non-admitted basis, for the entertainment industry and sports-related organizations. The environmental division underwrites specialty insurance products for environmental customers such as contractors, consultants and owners of sites and facilities.

*Berkley Surety* provides a broad array of surety products for contract and commercial surety risks in the U.S. and Canada, including specialty niches such as environmental and secured credit for small contractors, through an independent agency and broker platform across a network of 16 field offices.

*Berkley Technology Underwriters* provides a broad range of first and third-party insurance programs for technology exposures and technology industries on both a local and global basis.

*Carolina Casualty Insurance* provides commercial insurance products and services to the transportation industry with an emphasis on intermediate and long-haul trucking and various classes of business and public automobile coverage. It underwrites on an admitted basis in all 50 states and the District of Columbia.

*Clermont Specialty Managers* provides package insurance programs for high-end cooperative, condominium, and quality rental apartment buildings and upscale restaurants in the New York, New Jersey, Chicago and Washington, D.C. metropolitan markets, as well as other select markets.

*Continental Western Group* is a midwest regional property and casualty insurance operation based in Des Moines, Iowa, providing underwriting and risk management services to a broad array of regional businesses in thirteen midwest states. In addition to its generalist portfolio, Continental Western offers specialty underwriting solutions for diversified agriculture, construction, light manufacturing, transportation, volunteer fire departments, rural utilities and public entities.

*Gemini Transportation* is a national provider of excess liability insurance for various domestic surface transportation businesses. It underwrites liability insurance policies for the railroad industry as well as excess liability policies for the trucking, busing and other industries that use rubber-wheeled vehicles for over-the-road use.

*Intrepid Direct* offers business coverages to franchise restaurants on a direct basis.

*Key Risk* is a premier provider of workers' compensation insurance and third party administrative services. It focuses on middle market and national accounts in several niches that appreciate expertise and exceptional service. The unit operates three business units; one focused on middle market accounts located primarily in the mid-Atlantic and southeastern United States, one focused on national temporary staffing and United States Longshoreman & Harbor Act (USL&H) specialty programs and one focused on self-insured customers. Its products are distributed by a select group of independent retail agents and wholesale brokers located through the United States.

*Lloyd's Syndicate 2791 Participation* represents the Company's minority participation in a Lloyd's syndicate that writes a broad range of mainly short-tail classes of business.

*Midwest Employers Casualty* provides excess workers' compensation insurance products to individual employers, groups and workers' compensation insurance companies across the United States. Its workers' compensation excess of loss products include self-insured excess of loss coverages, large deductible policies and reinsurance. Through its relationship with Berkley Net Underwriters, Midwest Employers Casualty also offers multi-state coverage for group self-insureds. It has developed sophisticated, proprietary analytical tools and risk management services that help its insureds lower their total cost of risk.

*Monitor Liability Managers* provides executive and professional liability insurance to small to middle-market risks on a nationwide basis. Its primary professional liability products are management liability, employment practices and fiduciary coverages for private companies and nonprofit organizations, and errors and omissions policies for accounting and law firms.

*Nautilus Insurance Group* insures excess and surplus lines risks for small to medium-sized commercial risks with low to moderate susceptibility to loss. It writes commercial excess and surplus lines business nationwide and admitted lines commercial business in a limited number of states. A substantial portion of Nautilus' business is written through its close, long-standing network of general agents, who are chosen on a highly selective basis.

*Preferred Employers Insurance* focuses exclusively on workers' compensation products and services for businesses in California. It serves over 12,000 customers covering a broad spectrum of industries throughout the state.

*Riverport Insurance Services* provides property casualty insurance coverages to human services organizations, including nonprofit and for-profit organizations, public schools and sports and recreational organizations. Riverport also insures special events. Its product offerings include traditional primary coverages and risk purchasing groups, as well as alternative market solutions for clients who wish to retain a larger share of their own risk.

*Union Standard* offers preferred commercial property and casualty insurance products and services to a wide range of small to medium size commercial entities through independent agents in Arizona, Arkansas, New Mexico, Oklahoma and Texas. Union Standard's strategy is built around relationships and service.

*Vela Insurance Services* specializes in commercial casualty insurance on an excess and surplus lines basis. Its primary focus is on general liability insurance for construction, manufacturing and general casualty clients as well as products liability and miscellaneous professional liability coverages distributed through wholesale insurance brokers.

*Verus Underwriting Managers* offers general liability, professional liability and property coverages for small to mid-sized commercial risks in the excess and surplus lines insurance market through a select group of appointed wholesale brokers and agents.

*W. R. Berkley Europe* is comprised of specialist operating units offering a focused range of insurance products to markets in Continental Europe and Nordic countries.

*W. R. Berkley Insurance Asia* underwrites specialty commercial insurance coverages to clients in North Asia and Southeast Asia through offices in Hong Kong and Singapore.

*W. R. Berkley Insurance Australia* underwrites general insurance business in Australia, including professional indemnity insurance for companies of all sizes.

*W / R / B Underwriting* provides a broad range of leading insurance products to the European marketplace, with a concentration in specialist classes of business including property, professional indemnity, crisis management, aviation, personal accident and asset protection.

The following table sets forth the percentage of gross premiums written by each Insurance operating unit:

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Acadia Insurance	6.7%	6.7%	7.1%	6.9%	7.1%
Admiral Insurance	5.5	4.9	5.3	4.9	5.1
American Mining Insurance Group	0.7	0.8	0.7	0.7	0.7
Berkley Accident and Health	4.4	3.7	2.9	2.5	3.0
Berkley Agribusiness Risk Specialists	1.1	0.9	0.9	0.9	0.9
Berkley Alliance Managers	1.5	0.7	0.1	—	—
Berkley Aviation	1.0	1.2	0.8	0.8	1.2
Berkley Canada	0.8	0.6	0.5	0.7	0.7
Berkley Custom Insurance	2.7	2.8	2.4	2.3	0.6
Berkley Cyber Risk Solutions	—	—	—	—	—
Berkley FinSecure	0.9	1.0	0.7	0.7	0.7
Berkley Fire & Marine	0.4	0.3	0.2	—	—
Berkley Global Product Recall Management	0.2	—	—	—	—
Berkley Healthcare Professional	0.2	—	—	—	—
Berkley Latinoamérica	4.1	4.7	4.6	5.1	5.4
Berkley Life Sciences	0.8	0.8	0.9	0.9	0.7
Berkley Medical Excess	0.8	0.9	0.8	0.7	0.7
Berkley Mid-Atlantic Group	1.2	1.8	2.4	3.6	4.0
Berkley Net Underwriters	7.9	4.0	3.7	3.4	2.9
Berkley North Pacific	1.5	1.7	1.6	1.5	1.5
Berkley Offshore Underwriting Managers	1.1	1.4	1.7	1.9	1.8
Berkley Oil & Gas	2.7	3.2	3.5	3.2	2.7
Berkley One	—	—	—	—	—
Berkley Professional Liability	1.5	1.7	1.8	1.1	1.0
Berkley Program Specialists	1.2	1.2	1.2	1.2	1.5
Berkley Public Entity	0.5	0.4	0.4	0.3	0.2
Berkley Regional Specialty	0.3	0.3	0.3	0.3	0.3
Berkley Risk Administrators	0.2	3.9	3.9	4.1	4.0
Berkley Select	1.6	1.6	1.8	2.3	2.4
Berkley Southeast	2.0	2.3	2.5	—	—
Berkley Specialty Underwriting Managers	6.1	5.7	5.3	5.5	6.5
Berkley Surety	1.2	1.2	1.1	1.1	1.1
Berkley Technology Underwriters	0.6	0.5	0.4	0.3	0.1
Carolina Casualty Insurance	0.6	1.2	1.8	2.0	1.9
Clermont Specialty Managers	1.3	1.3	1.3	1.3	1.3

Continental Western Group	4.0	4.0	3.8	4.0	4.4
Gemini Transportation	1.8	1.1	0.9	0.8	0.9
Intrepid Direct	—	—	—	—	—
Key Risk	2.6	2.8	2.9	2.8	2.7
Lloyd's Syndicate 2791 Participation	0.5	0.5	0.6	1.0	1.5
Midwest Employers Casualty	2.4	2.4	2.5	2.4	2.8
Monitor Liability Managers	2.3	2.4	2.2	2.6	2.6
Nautilus Insurance Group	4.9	4.7	4.6	4.8	5.2
Preferred Employers Insurance	2.6	2.4	2.1	1.8	1.6
Riverport Insurances Services	0.7	0.6	0.6	0.6	1.2
Union Standard	2.6	2.6	2.6	4.3	4.4
Vela Insurance Services	3.9	3.3	3.2	2.9	1.8
Verus Underwriting Managers	0.9	0.8	0.8	0.8	0.6
W. R. Berkley Europe	1.7	1.9	2.4	2.5	2.4
W. R. Berkley Insurance Asia	—	—	—	—	—
W. R. Berkley Insurance Australia	1.0	0.8	1.3	1.3	0.8
W/R/B Underwriting	3.9	5.4	6.1	6.0	6.2
Other	0.9	0.9	0.8	1.2	0.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%

The following table sets forth percentages of gross premiums written, by line, by our Insurance operations:

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Other liability	31.3%	31.8%	31.9%	32.4%	30.7%
Workers' compensation	25.1	27.9	27.2	27.0	26.8
Short-tail lines (1)	23.9	21.2	21.8	22.0	23.5
Professional liability	10.0	9.4	8.7	7.9	7.8
Commercial auto	9.7	9.7	10.4	10.7	11.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%

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

#### Reinsurance

We provide other insurance companies and self-insureds with assistance in managing their net risk through reinsurance on either a portfolio basis, through treaty reinsurance, or on an individual basis, through facultative reinsurance.

Operating units comprising the Reinsurance segment are as follows:

*Berkley Re America* provides treaty and facultative reinsurance solutions on a variety of product lines through reinsurance brokers to companies whose primary operations are within the United States and Canada.

*Berkley Re Asia Pacific* provides property and casualty reinsurance to the Asia Pacific marketplace. With offices in Brisbane, Sydney, Hong Kong and Singapore, each branch focuses on excess of loss reinsurance, targeting both property and casualty treaty and facultative contracts, through multiple distribution channels.

*Berkley Re Direct* is a direct casualty facultative reinsurance underwriter serving clients through a nationwide network of regional offices. Its facultative reinsurance products include automatic, semi-automatic and individual risk assumed reinsurance. Berkley Re Direct also provides its customers value-added services across its lines, including underwriting, claims and actuarial consultation.

*Berkley Re UK* writes international property casualty treaty accounts. Its territorial scope includes reinsured clients domiciled in the United Kingdom, Europe, Africa, the Middle East and the Caribbean.

The following table sets forth the percentages of gross premiums written by each Reinsurance operating unit:

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Berkley Re America	67.6%	64.2%	60.4%	52.2%	54.3%
Berkley Re UK	11.4	10.8	11.2	9.1	6.9
Berkley Re Asia Pacific	10.6	16.4	21.2	24.9	22.1
Berkley Re Direct	9.7	8.6	7.2	6.5	6.2
Other	0.7	—	—	7.3	10.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%

The following table sets forth the percentages of gross premiums written by our Reinsurance operations:

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Casualty	59.7%	66.7%	66.9%	65.6%	66.9%
Property	40.3	33.3	33.1	34.4	33.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%

#### Results by Segment

Summary financial information about our segments is presented on a GAAP basis in the following table:

(In thousands)	Year Ended December 31,				
	2016	2015	2014	2013	2012
<u>Insurance</u>					
Revenue	\$ 6,205,921	\$ 5,938,444	\$ 5,665,200	\$ 5,064,403	\$ 4,622,579
Income before income taxes	822,617	776,593	826,088	705,662	630,139
<u>Reinsurance</u>					
Revenue	719,412	683,335	758,931	810,060	731,585
Income before income taxes	74,799	94,852	115,677	110,425	103,690
<u>Other(1)</u>					
Revenue	728,851	584,678	704,797	534,071	469,390
Income (loss) before income taxes	(978)	(139,415)	10,431	(117,199)	(31,901)
<u>Total</u>					
Revenue	\$ 7,654,184	\$ 7,206,457	\$ 7,128,928	\$ 6,408,534	\$ 5,823,554
Income before income taxes	\$ 896,438	\$ 732,030	\$ 952,196	\$ 698,888	\$ 701,928

(1) Represents corporate revenues, corporate expenses, net investment gains and losses, and revenues and expenses from non-insurance businesses that are consolidated for financial reporting purposes.

The table below represents summary underwriting ratios on a GAAP basis for our segments. Loss ratio is losses and loss expenses incurred expressed as a percentage of net premiums earned. Expense ratio is underwriting expenses expressed as a percentage of net premiums earned. Underwriting expenses do not include expenses related to insurance services or unallocated corporate expenses. Combined ratio is the sum of the loss ratio and the expense ratio. The combined ratio represents a measure of underwriting profitability, excluding investment income. A number in excess of 100 indicates an underwriting loss; a number below 100 indicates an underwriting profit:

	Year Ended December 31,				
	2016	2015	2014	2013	2012
<b>Insurance</b>					
Loss ratio	61.0%	60.8%	60.6%	61.0%	62.9%
Expense ratio	32.6	32.6	32.9	33.7	33.7
Combined ratio	93.6%	93.4%	93.5%	94.7%	96.6%
<b>Reinsurance</b>					
Loss ratio	61.8%	58.4%	62.0%	62.2%	64.3%
Expense ratio	38.8	38.2	34.0	34.8	36.3
Combined ratio	100.6%	96.6%	96.0%	97.0%	100.6%
<b>Total</b>					
Loss ratio	61.1%	60.5%	60.8%	61.2%	63.1%
Expense ratio	33.2	33.2	33.0	33.9	34.1
Combined ratio	94.3%	93.7%	93.8%	95.1%	97.2%

#### Investments

Investment results, before income taxes, were as follows:

(In thousands)	Year Ended December 31,				
	2016	2015	2014	2013	2012
Average investments, at cost(1)	\$ 16,730,964	\$ 15,970,931	\$ 15,560,335	\$ 14,848,386	\$ 14,545,371
Net investment income(1)	\$ 564,163	\$ 512,645	\$ 600,885	\$ 544,291	\$ 586,763
Percent earned on average investments(1)	3.4%	3.2%	3.9%	3.7%	4.0%
Net investment gains (2)	\$ 267,005	\$ 92,324	\$ 254,852	\$ 121,544	\$ 10,465
Change in unrealized investment gains (losses) (3)	\$ 371,716	\$ (192,186)	\$ 72,889	\$ (399,122)	\$ 135,282

(1) Includes investments, cash and cash equivalents, trading accounts receivable from brokers and clearing organizations, trading account securities sold but not yet purchased and unsettled purchases.

(2) Represents realized gains on investments not classified as trading account securities.

(3) Represents the change in unrealized investment gains (losses) for available for sale securities.

For comparison, the following are the coupon returns for the Barclays U.S. Aggregate Bond Index and the dividend returns for the S&P 500<sup>®</sup> Index:

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Barclays U.S. Aggregate Bond Index	3.0%	3.0%	3.2%	3.1%	3.5%
S&P 500 <sup>®</sup> Index	2.4	2.1	2.1	2.4	2.5

The percentages of the fixed maturity portfolio categorized by contractual maturity, based on fair value, on the dates indicated, are set forth below. Actual maturities may differ from contractual maturities because certain issuers may have the right to call or prepay certain obligations.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
1 year or less	7.9%	5.8%	7.0%	8.0%	5.8%
Over 1 year through 5 years	39.6	33.6	32.4	30.5	30.7
Over 5 years through 10 years	24.6	30.5	29.8	27.5	23.4
Over 10 years	18.8	20.3	20.4	22.3	25.5
Mortgage-backed securities	9.1	9.8	10.4	11.7	14.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%

At December 31, 2016, the fixed maturity portfolio had an effective duration of 3.1 years including cash and cash equivalents.

#### Loss and Loss Expense Reserves

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 others, 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 necessarily 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.

The risk and complexity of estimating loss reserves are greater when economic conditions are uncertain. It is especially difficult to estimate the impact of inflation on loss reserves given the current economic environment and related government actions. Whereas a slowing economy would generally lead to lower inflation or even deflation, increased government spending would generally lead to higher inflation. A change in our assumptions regarding inflation would result in reserve increases or decreases that would be reflected in our earnings in periods in which such 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 the reserves are well tested over time, some of the major assumptions about anticipated loss emergence patterns are subject to unanticipated fluctuation. 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. Although the loss reserves included in

the Company's financial statements represent management's best estimates, setting reserves is inherently uncertain and the Company cannot provide assurance that its current reserves will prove adequate in light of subsequent events.

The Company discounts its liabilities for certain workers' compensation reserves. The amount of workers' compensation reserves that were discounted was \$1,907 million and \$2,308 million at December 31, 2016 and 2015, respectively. The aggregate net discount for those reserves, after reflecting the effects of ceded reinsurance, was \$640 million and \$699 million at December 31, 2016 and 2015, respectively. At December 31, 2016, discount rates by year ranged from 2.0% to 6.5%, with a weighted average discount rate of 3.9%.

Substantially all of discounted workers' compensation reserves (97% of total discounted reserves at December 31, 2016) are excess workers' compensation reserves. In order to properly match loss expenses with income earned on investment securities supporting the liabilities, reserves for excess workers' compensation business are discounted using risk-free discount rates determined by reference to the U.S. Treasury yield curve. These rates are determined annually based on the weighted average rate for the period. Once established, no adjustments are made to the discount rate for that period, and any increases or decreases in loss reserves in subsequent years are discounted at the same rate, without regard to when any such adjustments are recognized. The expected loss and loss expense payout patterns subject to discounting are derived from the Company's loss payout experience.

The Company also discounts reserves for certain other long-duration workers' compensation reserves (representing approximately 3% of total discounted reserves at December 31, 2016), 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.

To date, known environmental and asbestos claims have not had a material impact on the Company's operations, because its subsidiaries generally did not insure large industrial companies that are subject to significant environmental or asbestos exposures prior to 1986 when an absolute exclusion was incorporated into standard policy language.

The Company's net reserves for losses and loss expenses relating to asbestos and environmental claims on policies written before adoption of the absolute exclusion was \$31 million at December 31, 2016 and \$33 million at December 31, 2015. The estimation of these liabilities is subject to significantly greater than normal variation and uncertainty because it is difficult to make an actuarial estimate of these liabilities due to the absence of a generally accepted actuarial methodology for these exposures and the potential effect of significant unresolved legal matters, including coverage issues, as well as the cost of litigating the legal issues. Additionally, the determination of ultimate damages and the final allocation of such damages to financially responsible parties are highly uncertain.

The table below provides a reconciliation of the beginning of year and end of year property casualty reserves for the indicated years:

(In thousands)	2016	2015	2014
Net reserves at beginning of year	\$ 9,244,872	\$ 8,970,641	\$ 8,683,797
Net provision for losses and loss expenses:			
Claims occurring during the current year (1)	3,826,620	3,653,561	3,495,825
Decrease in estimates for claims occurring in prior years (2)	(29,904)	(46,713)	(75,764)
Loss reserve discount amortization (3)	49,084	49,422	70,506
Total	3,845,800	3,656,270	3,490,567
Net payments for claims:			
Current year	1,052,452	914,637	898,944
Prior years	2,401,722	2,342,378	2,216,283
Total	3,454,174	3,257,015	3,115,227
Foreign currency translation	(46,233)	(125,024)	(88,496)
Net reserves at end of year	9,590,265	9,244,872	8,970,641
Ceded reserves at end of year	1,606,930	1,424,278	1,399,060
Gross reserves at end of year	\$ 11,197,195	\$ 10,669,150	\$ 10,369,701
Net change in premiums and losses occurring in prior years:			
Decrease in estimates for claims occurring in prior years (2)	\$ 29,904	\$ 46,713	\$ 75,764
Retrospective premium adjustments for claims occurring in prior years (4)	29,000	16,730	9,088
Net favorable premium and reserve development on prior years	\$ 58,904	\$ 63,443	\$ 84,852

- (1) Claims occurring during the current year are net of discounts of \$18,929,000, \$20,357,000 and \$21,306,000 in 2016, 2015 and 2014, respectively.
- (2) The decrease in estimates for claims occurring in prior years is net of discounts. On an undiscounted basis, the estimates for claims occurring in prior years decreased by \$59,175,000 in 2016, \$64,971,000 in 2015 and \$116,866,000 in 2014.
- (3) In 2014, the Company entered into a commutation agreement that resulted in a reduction in prior year workers' compensation reserves of \$30 million on an undiscounted basis and \$12 million on a discounted basis.
- (4) For certain retrospectively rated insurance policies and reinsurance agreements, changes in loss and loss expenses for prior years are offset by additional or return premiums.

Also, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and note 14, Reserves for Losses and Loss Expenses included in our audited consolidated financial statements for further information regarding the decrease in estimates for claims occurring in prior years.

A reconciliation between the reserves as of December 31, 2016 as reported in the accompanying consolidated GAAP financial statements and those reported on the basis of statutory accounting principles ("SAP") in the Company's U.S. regulatory filings is as follows:

(In thousands)	
Net reserves reported in U.S. regulatory filings on a SAP basis	\$ 9,235,211
Reserves for non-U.S. companies	570,556
Loss reserve discounting(1)	(215,502)
Ceded reserves	1,606,930
Gross reserves reported in the consolidated GAAP financial statements	\$ 11,197,195

- (1) For statutory purposes, the Company discounts its workers' compensation reinsurance reserves at 2.2% as permitted by the Department of Insurance of the State of Delaware. In its GAAP financial statements, the Company discounts excess workers' compensation reserves at the risk-free rate and assumed workers' compensation reserves at the statutory rate.

## Reinsurance

We follow a common industry practice of reinsuring a portion of our exposures and paying to reinsurers a portion of the premiums received on the policies that we write. Reinsurance is purchased principally to reduce net liability on individual risks and to protect against catastrophic losses. Although reinsurance does not legally discharge an insurer from its primary liability for the full amount of the policies, it does make the assuming reinsurer contractually liable to the insurer to the extent of the reinsurance coverage. We monitor the financial condition of our reinsurers and attempt to place our coverages only with substantial, financially sound carriers. As a result, generally the reinsurers who reinsure our casualty insurance must have an A.M. Best rating of “A (Excellent)” or better with at least \$1 billion in policyholder surplus and the reinsurers who cover our property insurance must have an A.M. Best rating of “A- (Excellent)” or better with at least \$1 billion in policyholder surplus.

## Regulation

### ***U.S. Regulation***

Our U.S. insurance subsidiaries are subject to varying degrees of regulation and supervision in the jurisdictions in which they do business.

*Overview.* Our domestic insurance subsidiaries are subject to statutes which delegate regulatory, supervisory and administrative powers to state insurance commissioners. This regulation relates to such matters as the standards of solvency which must be met and maintained; the licensing of insurers and their agents; the nature of and limitations on investments; deposits of securities for the benefit of policyholders; approval of certain policy forms and premium rates; periodic examination of the affairs of insurance companies; annual and other reports required to be filed on the financial condition of insurers or for other purposes; establishment and maintenance of reserves for unearned premiums, loss expenses and losses; and requirements regarding numerous other matters. Our property casualty subsidiaries, other than excess and surplus and reinsurance subsidiaries, must generally file all rates with the insurance department of each state in which they operate. Our excess and surplus and reinsurance subsidiaries generally operate free of rate and form regulation.

*Holding Company Statutes.* In addition to regulatory supervision of our insurance subsidiaries, we are subject to state statutes governing insurance holding company systems. Under the terms of applicable state statutes, any person or entity desiring to purchase more than a specified percentage (commonly 10%) of our outstanding voting securities would be required to obtain prior regulatory approval of the purchase. Typically, such statutes require that we periodically file information with the appropriate state insurance commissioner, including information concerning our capital structure, ownership, financial condition and general business operations.

In addition, we must annually submit to our lead state regulator an “enterprise risk management report” which identifies the activities and circumstances of any affiliated company that might have a material adverse effect on the financial condition of our group or our U.S. licensed insurers.

Several states have also adopted changes to the holding company act that authorize U.S. insurance regulators to lead or participate in the group-wide supervision of certain international insurance groups. International standard setters, such as the International Association of Insurance Supervisors, are developing capital standards for international groups, and U.S. insurance regulators are currently working on U.S. group capital standards for insurance groups. The U.S. group capital calculation is expected to incorporate existing risk-based capital standards. It is unclear how the development of group capital measures will interact with existing capital requirements for insurance companies in the United States and with international capital standards. It is possible that we may be required to hold additional capital as a result of these developments.

Most states have adopted the National Association of Insurance Commissioners’s (“NAIC”) Risk Management and Own Risk Solvency Assessment Model Act (the “ORSA Model Act”), which requires an insurance holding company system’s chief risk officer to submit annually to its lead state insurance regulator an Own Risk and Solvency Assessment Summary Report (“ORSA”). The ORSA is a confidential internal assessment of the material and relevant risks associated with an insurer’s current business plan and the sufficiency of capital resources to support those risks. Under ORSA, we are required to:

- regularly, no less than annually, conduct an ORSA to assess the adequacy of our risk management framework, and current and estimated projected future solvency position;
- internally document the process and results of the assessment; and
- provide a confidential high-level ORSA Summary Report annually to the Commissioner of Insurance of the State of Delaware (our lead state commissioner).

The NAIC is working on an Insurance Data Security Model Law, which would require insurers, insurance producers and other entities required to be licensed under state insurance laws to develop and maintain a written information security program, conduct risk assessments, and oversee the data security practices of third-party vendors. In addition, the New York Department of Financial Services has adopted a cybersecurity regulation that would impose significant new regulatory burdens on companies they supervise, including entities doing business in New York and operating or required to operate under a license, registration, certificate, accreditation or similar authorization. The regulation, which will become effective on March 1, 2017, would require any such company to maintain a cybersecurity program meeting certain core functions, adopt a cybersecurity policy and oversee the cybersecurity practices of third-party service providers, among other requirements.

We cannot predict the impact, if any, that these holding company statutes and compliance with the ORSA Model Act or any proposed or future cybersecurity regulations will have on our business, financial condition or results of operations.

*Risk Based Capital Requirements.* The NAIC utilizes a Risk Based Capital (“RBC”) formula that is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. The RBC formula develops a risk adjusted target level of adjusted statutory capital by applying certain factors to various asset, premium and reserve items. The NAIC RBC Model Law provides for four incremental levels of regulatory attention for insurers whose surplus is below the calculated RBC target. These levels of attention range in severity from requiring the insurer to submit a plan for corrective action to actually placing the insurer under regulatory control. The RBC of each of our domestic insurance subsidiaries was above any RBC action level as of December 31, 2016.

*Insurance Regulatory Information System.* The NAIC also has developed a set of 13 financial ratios referred to as the Insurance Regulatory Information System (“IRIS”). On the basis of statutory financial statements filed with state insurance regulators, the NAIC annually calculates these IRIS ratios to assist state insurance regulators in monitoring the financial condition of insurance companies. The NAIC has established an acceptable range for each of the IRIS financial ratios.

*Guaranty Funds.* Our U.S. insurance subsidiaries are also subject to assessment by state guaranty funds when an insurer in a particular jurisdiction has been judicially declared insolvent and the insolvent company's available funds are insufficient to pay policyholders and claimants the amounts to which they are entitled. The protection afforded under a state's guaranty fund to policyholders of the insolvent insurer varies from state to state. Generally, all licensed property casualty insurers are considered to be members of the fund, and assessments are based upon their pro rata share of direct written premiums in that state. The NAIC Model Post-Assessment Guaranty Fund Act, which many states have adopted, limits assessments to an insurer to 2% of its subject premium and permits recoupment of assessments through rate setting. Likewise, several states (or underwriting organizations of which our insurance subsidiaries are required to be members) have limited assessment authority with regard to deficits in certain lines of business.

Additionally, state insurance laws and regulations require us to participate in mandatory property-liability “shared market,” “pooling” or similar arrangements that provide certain types of insurance coverage to individuals or others who otherwise are unable to purchase coverage voluntarily provided by private insurers. Shared market mechanisms include assigned risk plans and fair access to insurance requirement or “FAIR” plans. In addition, some states require insurers to participate in reinsurance pools for claims that exceed specified amounts. Our participation in these mandatory shared market or pooling mechanisms generally is related to the amount of our direct writings for the type of coverage written by the specific arrangement in the applicable state.

*Dividends.* We receive funds from our insurance company subsidiaries in the form of dividends and management fees for certain management services. Annual dividends in excess of maximum amounts prescribed by state statutes may not be paid without the approval of the insurance commissioner of the state in which an insurance subsidiary is domiciled. See “Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources.”

*Trade Practices.* State insurance laws and regulations include numerous provisions governing trade practices and the marketplace activities of insurers, including provisions governing marketing and sales practices, policyholder services, claims management and complaint handling. State regulatory authorities generally enforce these provisions through periodic market conduct examinations.

*Investment Regulation.* Investments by our domestic insurance companies must comply with applicable laws and regulations which prescribe the kind, quality and concentration of investments. In general, these laws and regulations permit investments in federal, state and municipal obligations, corporate bonds, preferred and common equity securities, mortgage loans, real estate and certain other investments, subject to specified limits and certain other qualifications. Investments that do not comply with these limits and qualifications are deducted in our insurance subsidiaries' calculation of their statutory capital and surplus.

*Terrorism Risk Insurance.* The Terrorism Risk Insurance Act of 2002 established a Federal program that provides for a system of shared public and private compensation for insured losses resulting from acts of terrorism. Pursuant to the Terrorism Risk Insurance Program Reauthorization Act of 2015 (“TRIPRA”), the program has been extended for a six year period ending on December 31, 2020. TRIPRA provides a federal backstop to all U.S. based property and casualty insurers for insurance related losses resulting from any act

of terrorism on U.S. soil or against certain U.S. air carriers, vessels or foreign missions. TRIPRA is applicable to almost all commercial lines of property and casualty insurance but excludes commercial auto, burglary and theft, surety, professional liability and farm owners' multi-peril insurance. Insurers with direct commercial property and casualty insurance exposure in the United States are required to participate in the program and make available coverage for certified acts of terrorism. TRIPRA's definition of certified acts includes domestic terrorism. Federal participation will be triggered under TRIPRA when the Secretary of Treasury certifies an act of terrorism. Under the program, the federal government will currently pay 84% of an insurer's covered losses in excess of the insurer's applicable deductible. This amount will decrease to 80% on a pro-rata basis over five years, beginning in 2017. The insurer's deductible is based on 20% of earned premium for the prior year for covered lines of commercial property and casualty insurance. Based on our 2016 earned premiums, our aggregate deductible under TRIPRA during 2017 will be approximately \$915 million. The federal program will not pay losses for certified acts unless such losses exceed \$140 million industry-wide for calendar year 2017. This threshold will increase to \$200 million on a pro-rata basis over five years beginning in 2016. TRIPRA limits the federal government's share of losses at \$100 billion for a program year. In addition, an insurer that has satisfied its deductible is not liable for the payment of losses in excess of the \$100 billion cap.

*Excess and Surplus Lines.* The regulation of our U.S. subsidiaries' excess and surplus lines insurance business differs significantly from the regulation of our admitted business. Our surplus lines subsidiaries are subject to the surplus lines regulation and reporting requirements of the jurisdictions in which they are eligible to write surplus lines insurance. Although the surplus lines business is generally less regulated than admitted business, principally with respect to rates and policy forms, strict regulations apply to surplus lines placements in the laws of every state and the regulation of surplus lines insurance may undergo changes in the future. Federal or state measures may be introduced to increase the oversight of surplus lines insurance in the future.

*Federal Regulation.* Although the federal government and its regulatory agencies generally do not directly regulate the business of insurance, federal initiatives could have an impact on our business in a variety of ways. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") effected sweeping changes to financial services regulation in the United States. The Dodd-Frank Act created two new federal government bodies, the Federal Insurance Office (the "FIO") and the Financial Stability Oversight Council (the "FSOC"), which may impact the regulation of insurance. Although the FIO has preemption authority over state insurance laws that conflict with certain international agreements, it does not have general supervisory or regulatory authority over the business of insurance. The FIO has authority to represent the United States in international insurance matters and is authorized to monitor the U.S. insurance industry and identify potential regulatory gaps that could contribute to systemic risk.

The FIO has a particular role in connection with international insurance matters. The FIO represents the U.S. at the International Association of Insurance Supervisors ("IAIS"); in 2016, the FIO participated in IAIS's Financial Stability Committee and joined IAIS's Executive Committee. The Dodd-Frank Act authorizes the Secretary of the Treasury and U.S. Trade Representative to enter into international agreements of mutual recognition regarding the prudential regulation of insurance or reinsurance (a "Covered Agreement"). On January 13, 2017, the U.S. Department of Treasury and the U.S. Trade Representative notified the U.S. Congress, as required under the Dodd-Frank Act, that they had successfully negotiated a Covered Agreement with the European Union ("EU"). The Covered Agreement addresses three areas of insurance regulation: reinsurance, group supervision, and the exchange of information between insurance supervisors. The Covered Agreement, if it comes into force, would eliminate reinsurance collateral requirements in the U.S. for a reinsurer domiciled in the EU (and likewise in the EU for a reinsurer domiciled in the U.S.) if such reinsurer meets certain specified minimum criteria. The Covered Agreement would also prevent U.S. states and EU countries from maintaining or adopting any new requirements with substantially the same impact on a reinsurer as the collateral requirements eliminated under the Covered Agreement. "Local presence" requirements for reinsurers from the U.S. or EU operating in the other party's territory would also be eliminated. With respect to group supervision, a U.S. or EU insurance or reinsurance group would be subject to worldwide group supervision (including governance, solvency and capital, and reporting) in the jurisdiction where the ultimate/worldwide parent has its head office or is domiciled. However, if the insurance group also operates in the territory of the other party to the Covered Agreement, then a regulator in a jurisdiction in the other party could exercise authority over an insurance or reinsurance group, but only at the level of the parent holding company located in its jurisdiction and not on a worldwide level, subject to certain exceptions. With respect to the exchange of information between insurance supervisors, the Covered Agreement includes a provision that encourages insurance supervisory authorities in the U.S. and the EU to cooperate in exchanging supervisory information.

Under the Dodd-Frank Act, ninety days following the date it is submitted to the U.S. Congress, the Covered Agreement may enter into force. On the EU side, the European Council and the European Parliament must each adopt decisions approving the Covered Agreement before it can come into force. The Covered Agreement sets out, on a provision-by-provision basis, time frames for implementation. However, there is no guarantee that the Covered Agreement will come into force or that cedants will be willing to accept reduced collateral requirements.

The FIO is required to report to Congress annually on the insurance industry and any preemption actions regarding any Covered Agreement.

On December 12, 2013, the FIO delivered a report to Congress on how to modernize and improve the system of insurance regulation in the U.S. The report recommended that, in the short term, the U.S. system of insurance regulation can be modernized through state-based improvements combined with certain federal actions. The report identified areas for direct federal involvement in international standard setting, the FIO participation in supervisory colleges which monitor the regulation of large national and internationally active insurance groups and federal pursuit of international covered agreements to afford nationally uniform treatment of reinsurance collateral requirements. The report also made several recommendations for state reform of insurance regulation including changes to the state regulation of insurance company solvency, group supervision and corporate governance. The FIO report stated that the system of U.S. insurance regulation can be modernized and improved in the short-term, while warning that if the states do not act in the near term to effectively regulate matters on a consistent and cooperative basis, in the FIO's view there will be a greater role for federal regulation of insurance.

The FIO also can recommend to the FSOC that it designate an insurer as an entity posing risks to the United States' financial stability in the event of the insurer's material financial distress or failure, i.e., a "systemically important financial institution." An insurer so designated by FSOC will be subject to Federal Reserve supervision and heightened prudential standards. As of December 31, 2016, two insurance groups are subject to this supervision and heightened standards. Based upon our current business model and balance sheet, we do not believe that we will be designated by the FSOC as such an institution. Although the potential impacts of the Dodd-Frank Act on the U. S. insurance industry are not clear, our business could be affected by changes to the U.S. system of insurance regulation or our designation or the designation of insurers or reinsurers with which we do business as systemically important non-bank financial companies.

### ***International Regulation***

Our insurance subsidiaries based in the United Kingdom are regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). The PRA's primary objectives with regard to insurers are to promote the safety and soundness of insurers and to contribute to the securing of an appropriate degree of protection for current and future policyholders, while the FCA has three operational objectives: (i) to secure an appropriate degree of protection for consumers, (ii) to protect and enhance the integrity of the United Kingdom financial system, and (iii) to promote effective competition in the interests of consumers in the financial services markets. The PRA and FCA employ a variety of regulatory tools to achieve their objectives, including periodic auditing and reporting requirements, risk assessment reviews, minimum solvency margins and individual capital assessment requirements, dividend restrictions, in certain cases, approval requirements governing the appointment of key officers, approval requirements governing controlling ownership interests and various other requirements. Our Lloyd's managing agency is also regulated by the PRA, FCA and Lloyd's, and the Lloyd's syndicate business is subject to Lloyd's supervision. Through Lloyd's, we are licensed to write business in various countries throughout the world by virtue of Lloyd's international licenses. In each such country, we are subject to the laws and insurance regulation of that country. Additionally, PRA and FCA regulations also impact us as "controller" (a PRA/FCA defined term) of our U.K.-regulated subsidiaries, whereby we are required to notify the PRA/FCA about significant events relating to the U.K.-regulated subsidiaries' controllers (i.e. persons or entities which have certain levels of direct or indirect voting power or economic interests in the regulated entities) as well as changes of control, and to submit an annual report regarding their controllers. As well, the PRA/FCA's Senior Insurance Managers Regime provides a regulatory framework for standards of fitness and propriety, conduct and accountability to be applied to individuals in positions of responsibility at insurers. In addition, certain employees are individually registered at Lloyd's.

In the European Union, a new insurance regulatory regime governing, among other things, capital adequacy and risk management called "Solvency II" became effective on January 1, 2016. Lloyd's applies a capital adequacy test to all Lloyd's syndicates, including our syndicate, that is based on Solvency II principles. Solvency II provides for the supervision of group solvency. Under Solvency II, it is possible that the U.S. parent of a European Union subsidiary could be subject to certain Solvency II requirements if the U.S. company is not already subject to regulations deemed "equivalent" to Solvency II. Currently, the U.S. system of insurance regulation relating to group supervision is not deemed "equivalent" to Solvency II by European Union authorities. However, we have received a waiver from the PRA, subject to conditions, with respect to the PRA's supervision of our group, which waives the requirement on us to maintain a group solvency capital requirement as calculated under Solvency II rules. The Covered Agreement also prohibits any EU supervisor from exercising group-wide supervision at any level above the highest company organized in the country of that supervisor.

Our international underwriting subsidiaries are also subject to varying degrees of regulation in certain countries in Mexico, Scandinavia, Continental Europe, South America, Australia, Southeast Asia and Canada. Generally, our subsidiaries must satisfy local regulatory requirements. While each country imposes licensing, solvency, auditing and financial reporting requirements, the type and

extent of the requirements differ substantially. Key areas where country regulations may differ include: (i) the type of financial reports to be filed; (ii) a requirement to use local intermediaries; (iii) the amount of reinsurance permissible; (iv) the scope of any regulation of policy forms and rates; and (v) the type and frequency of regulatory examinations.

### **Competition**

The property casualty insurance and reinsurance businesses are highly competitive, with many insurance companies of various sizes, as well as other entities offering risk alternatives such as self-insured retentions or captive programs, transacting business in the United States and internationally. We compete directly with a large number of these companies. Competition in our industry is largely measured by the ability to provide insurance and services at a price and on terms that are reasonable and acceptable to the customer. Our strategy in this highly fragmented industry is to seek specialized areas or geographic regions where our insurance subsidiaries can gain a competitive advantage by responding quickly to changing market conditions. Our subsidiaries establish their own pricing practices based upon a Company-wide philosophy to price products with the intent of making an underwriting profit. Although insurance prices have generally increased for most lines of business since 2011, the rate of increase has declined in more recent years. That decline accelerated in 2016. Loss costs have also increased over that period of time. With the low level of interest rates available, current price levels for certain lines of business remain below the prices required for the Company to achieve its long-term return objectives.

Competition for the Insurance business within the United States comes from other specialty insurers, regional carriers, large national multi-line companies and reinsurers. Our specialty operating units compete with excess and surplus insurers as well as standard carriers. Other regional units compete with mutual and other regional stock companies as well as national carriers. Additionally, direct writers of property casualty insurance compete with our regional units by writing insurance through their salaried employees, generally at a lower acquisition cost than through independent agents such as those used by the Company. Our Insurance operations compete internationally with native insurance operations both large and small, which in some cases are related to government entities, as well as with branches or local subsidiaries of multinational companies.

Competition for the Reinsurance business, which is especially strong, comes from domestic and foreign reinsurers, which produce their business either on a direct basis or through the broker market. These competitors include Swiss Re, Munich Re, Berkshire Hathaway, Transatlantic Reinsurance, Partner Re and others.

In recent years, various institutional investors have increasingly sought to participate in the property and casualty insurance and reinsurance industries. Well-capitalized new entrants to the property and casualty insurance and reinsurance industries, or existing competitors that receive substantial infusions of capital, provide increasing competition, which may adversely impact our business and profitability. Further, an expanded supply of reinsurance capital may lower costs for insurers that rely on reinsurance and, as a consequence, those insurers may be able to price their products more competitively.

Additionally, competition from insurers and reinsurers based in tax-advantaged jurisdictions continues to increase, including from domestic-based subsidiaries of foreign-based entities in the excess and surplus lines businesses.

### **Employees**

As of January 31, 2017, we employed 7,683 individuals. Of this number, our subsidiaries employed 7,536 persons and the remaining persons were employed at the parent company.

### **Other Information about the Company's Business**

We maintain an interest in the acquisition and startup of complementary businesses and continue to evaluate possible acquisitions and new ventures on an ongoing basis. In addition, our insurance subsidiaries develop new coverages or lines of business to meet the needs of insureds.

Seasonal weather variations and other events affect the severity and frequency of losses sustained by the insurance and reinsurance subsidiaries. Although the effect on our business of catastrophes such as tornadoes, hurricanes, hailstorms, earthquakes and terrorist acts may be mitigated by reinsurance, they nevertheless can have a significant impact on the results of any one or more reporting periods.

We have no customer that accounts for 10 percent or more of our consolidated revenues.

Compliance by W. R. Berkley and its subsidiaries with federal, state and local provisions that have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to protection of the environment, has not had a material effect upon our capital expenditures, earnings or competitive position.

The Company's internet address is [www.wrberkley.com](http://www.wrberkley.com). The information on our website is not incorporated by reference in this annual report on Form 10-K. The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act and other reports

filed by us or with respect to our securities by others are accessible free of charge through this website as soon as reasonably practicable after they have been electronically filed with or furnished to the SEC.

#### ITEM 1A. RISK FACTORS

Our businesses face significant risks. If any of the events or circumstances described as risks below occur, our businesses, results of operations and/or financial condition could be materially and adversely affected. In addition to those described below, our businesses may also be adversely affected by risks and uncertainties not currently known to us or that we currently consider immaterial.

##### **Risks Relating to Our Industry**

***Our results may fluctuate as a result of many factors, including cyclical changes in the insurance and reinsurance industry.***

The results of companies in the property casualty insurance industry historically have been subject to significant fluctuations and uncertainties in demand and pricing, causing cyclical changes in the insurance and reinsurance industry. The demand for insurance is influenced primarily by general economic conditions, while the supply of insurance is often directly related to available capacity or the perceived profitability of the business. In recent years, we have faced increased competition in our business, as a result of new entrants and existing insurers seeking to gain market share, resulting in decreased premium rates and less favorable contract terms and conditions for certain lines of business. The adequacy of premium rates is affected mainly by the severity and frequency of claims, which are influenced by many factors, including natural disasters, regulatory measures and court decisions that define and expand the extent of coverage and the effects of economic inflation on the amount of compensation due for injuries or losses. In addition, investment rates of return have impacted rate adequacy, with interest rates remaining at historic lows. These factors can have a significant impact on ultimate profitability because a property casualty insurance policy is priced before its costs are known as premiums usually are determined long before claims are reported. These factors could produce results that would have a negative impact on our results of operations and financial condition.

***We face significant competitive pressures in our businesses, which have reduced premium rates in certain areas and could harm our ability to maintain or increase our profitability and premium volume.***

We compete with a large number of other companies in our selected lines of business. We compete, and will continue to compete, with major U.S. and non-U.S. insurers and reinsurers, other regional companies, as well as mutual companies, specialty insurance companies, underwriting agencies and diversified financial services companies. Competitiveness in our businesses is based on many factors, including premium charges, ratings assigned by independent rating agencies, commissions paid to producers, the perceived financial strength of the company, other terms and conditions offered, services provided (including ease of doing business over the internet), speed of claims payment and reputation and experience in the lines to be written. In recent years, the insurance industry has undergone increasing consolidation, which may further increase competition.

Some of our competitors, particularly in the Reinsurance business, have greater financial and/or marketing resources than we do. These competitors within the reinsurance segment include Swiss Re, Munich Re, Berkshire Hathaway, Transatlantic Reinsurance, and Partner Re. We expect that perceived financial strength, in particular, will become more important as customers seek high quality reinsurers. Certain of our competitors operate from Bermuda or other tax advantaged or less regulated jurisdictions that may provide them with additional competitive and pricing advantages.

Over the past several years, we have faced increased competition in our business, as increased supply has led to reduced prices and, at times, less favorable terms and conditions. Our specialty operating units have also encountered competition from admitted companies seeking to increase market share. Although insurance prices have generally increased for most lines of business since 2011, the rate of increase has declined in more recent years. That decline accelerated in 2016. Loss costs have also increased over that period of time. With the low level of interest rates available, current price levels for certain lines of business remain below the prices required for us to achieve our long-term return objectives. We expect to continue to face strong competition in these and our other lines of business and as a result pressure on pricing and policy terms and conditions.

In recent years, various institutional investors have increasingly sought to participate in the property and casualty insurance and reinsurance industries. Well-capitalized new entrants to the property and casualty insurance and reinsurance industries, or existing competitors that receive substantial infusions of capital, provide increasing competition, which may adversely impact our business and profitability. Further, an expanded supply of reinsurance capital may lower costs for insurers that rely on reinsurance and, as a consequence, those insurers may be able to price their products more competitively.

This intense competition could cause the supply and/or demand for insurance or reinsurance to change, which affect our ability to price our products at attractive rates and retain existing business or write new products at adequate rates or on terms and conditions acceptable to us. If we are unable to retain existing business or write new business at adequate rates or on terms and conditions acceptable to us, our results of operations could be materially and adversely affected.

***Our actual claims losses may exceed our reserves for claims, which may require us to establish additional reserves.***

Our gross reserves for losses and loss expenses were approximately \$11.2 billion as of December 31, 2016. Our loss reserves reflect our best estimates of the cost of settling claims and related expenses with respect to insured events that have occurred.

Reserves do not represent an exact calculation of liability. Rather, reserves represent an estimate of what management expects the ultimate settlement and claims administration will cost for claims that have occurred, whether known or unknown. The major assumptions about anticipated loss emergence patterns are subject to unanticipated fluctuation. These estimates, which generally involve actuarial projections, are based on management's assessment of facts and circumstances then known, as well as estimates of future trends in claims severity and frequency, inflation, judicial theories of liability, reinsurance coverage, legislative changes and other factors, including the actions of third parties, which are beyond our control.

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 and settlement is reached. In periods with increased economic volatility, it becomes more difficult to accurately predict claim costs. It is especially difficult to estimate the impact of inflation on loss reserves given the current economic environment and related government actions. Both inflation overall and medical cost inflation, which has historically been greater than inflation overall, can have an adverse impact.

Reserve estimates are continually refined in an ongoing process as experience develops and further claims are reported and settled. Adjustments to reserves are reflected in the results of the periods in which such estimates are changed. Because setting reserves is inherently uncertain, we cannot assure that our current reserves will prove adequate in light of subsequent events. Should we need to increase our reserves, our pre-tax income for the reporting period would decrease by a corresponding amount.

We discount our reserves for excess and assumed workers' compensation business because of the long period of time over which losses are paid. Discounting is intended to appropriately match losses and loss expenses to income earned on investment securities supporting liabilities. The expected loss and loss expense payout pattern subject to discounting is derived from our loss payout experience. Changes in the loss and loss expense payout pattern are recorded in the period they are determined. If the actual loss payout pattern is shorter than anticipated, the discount will be reduced and pre-tax income will decrease by a corresponding amount.

***The effects of emerging claim and coverage issues on our business are uncertain.***

As industry practices and economic, legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claim and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. Examples of emerging claims and coverage issues include, but are not limited to:

- judicial expansion of policy coverage and the impact of new theories of liability;
- plaintiffs targeting property and casualty insurers, including us, in purported class action litigation relating to claims-handling and other practices;
- medical developments that link health issues to particular causes, resulting in liability claims;
- claims relating to unanticipated consequences of current or new technologies, including cyber security related risks; and
- claims relating to potentially changing climate conditions.

In some instances, these emerging issues may not become apparent for some time after we have issued the affected insurance policies. As a result, the full extent of liability under our insurance policies may not be known until many years after the policies are issued.

In addition, the potential passage of new legislation designed to expand the right to sue, to remove limitations on recovery, to extend the statutes of limitations or otherwise to repeal or weaken tort reforms could have an adverse impact on our business.

The effects of these and other unforeseen emerging claim and coverage issues are difficult to predict and could harm our business and materially and adversely affect our results of operations.

***As a property casualty insurer, we face losses from natural and man-made catastrophes.***

Property casualty insurers are subject to claims arising out of catastrophes that may have a significant effect on their results of operations, liquidity and financial condition. Catastrophe losses have had a significant impact on our results. For example, catastrophe losses net of reinsurance recoveries were \$105 million in 2016, \$58 million in 2015, \$87 million in 2014, \$65 million in 2013 and \$80 million in 2012. Similarly, man-made catastrophes can also have a material impact on our financial results.

Catastrophes can be caused by various events, including hurricanes, windstorms, earthquakes, tsunamis, hailstorms, explosions, severe winter weather and fires, as well as terrorist and other man-made activities, including drilling, mining and other industrial

accidents or terrorist activities. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Some catastrophes are restricted to small geographic areas; however, hurricanes, earthquakes, tsunamis and other disasters may produce significant damage in large, heavily populated areas. Catastrophes can cause losses in a variety of our property and casualty lines, and most of our past catastrophe-related claims have resulted from severe storms. Seasonal weather variations or the impact of climate change may affect the severity and frequency of our losses. Insurance companies are not permitted to reserve for a catastrophe until it has occurred. It is therefore possible that a catastrophic event or multiple catastrophic events could produce significant losses and have a material adverse effect on our results of operations and financial condition.

***Changing climate conditions may adversely affect our financial condition or profitability.***

There is an emerging scientific view that the earth is getting warmer. Climate change, to the extent it produces rising temperatures and changes in weather patterns, may affect the frequency and severity of storms and other weather events as well as the affordability, availability and underwriting results of various types of commercial insurance, and, if frequency and severity patterns increase, could negatively affect our financial results.

***Conditions in the financial markets and the global economy have had and may continue to have a negative impact on our results of operations and financial condition.***

The significant volatility and uncertainty experienced in financial markets around the world during the past several years and the effect of the economic downturn have continued. Although the U.S. and various foreign governments have taken various actions to try to stabilize the financial markets, the ultimate effectiveness of such actions remains unclear. Therefore, volatility and uncertainty in the financial markets and the resulting negative economic impact may continue for some time. For example, financial markets have been affected by concerns over U.S. fiscal policy as well as the related concern regarding the need to reduce the federal deficit. These issues, together with the slowing of the global economy generally, could send the U.S. into a new recession, further exacerbate concerns over sovereign debt of other countries and disrupt economic activity in the U.S. and elsewhere. Similarly, concerns about the solvency of certain European Union member states, and of financial institutions that have significant direct or indirect exposure to debt issued by them, has created market volatility that continues to affect the performance of various asset classes, and likely will continue until there is an ultimate resolution of these sovereign debt related concerns.

While we monitor conditions in the financial markets, we cannot predict future conditions or their impact on our results of operations and financial condition. Depending on conditions in the financial markets, we could incur additional realized and unrealized losses in our investment portfolio in future periods, and financial market volatility and uncertainty and an economic downturn could have a significant negative impact on third parties that we do business with, including insureds and reinsurers.

***We, as a primary insurer, may have significant exposure for terrorist acts.***

To the extent an act of terrorism, whether a domestic or foreign act, is certified by the Secretary of Treasury, we may be covered under the Terrorism Risk Insurance Program Reauthorization Act of 2015 (“TRIPRA”), for up to 84% of our losses for certain property/casualty lines of insurance. However, any such coverage would be subject to a mandatory deductible based on 20% of earned premium for the prior year for the covered lines of commercial property and casualty insurance. Based on our 2016 earned premiums, our aggregate deductible under TRIPRA during 2017 is approximately \$915 million. TRIPRA is currently in effect through December 31, 2020. In addition, the coverage provided under TRIPRA does not apply to reinsurance that we write.

***We are subject to extensive governmental regulation, which increases our costs and could restrict the conduct of our business.***

We are subject to extensive governmental regulation and supervision in both the United States and foreign jurisdictions. Most insurance regulations are designed to protect the interests of policyholders rather than stockholders and other investors. This system of regulation, generally administered in the United States by a department of insurance in each state in which we do business, relates to, among other things:

- standards of solvency, including risk-based capital measurements;
- restrictions on the nature, quality and concentration of investments;
- requirements pertaining to certain methods of accounting;
- evaluating enterprise risk to an insurer;
- rate and form regulation pertaining to certain of our insurance businesses;
- potential assessments for the provision of funds necessary for the settlement of covered claims under certain policies provided by impaired, insolvent or failed insurance companies; and

- involvement in the payment or adjudication of catastrophe or other claims beyond the terms of the policies.

State insurance departments conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to the financial condition of insurance companies, holding company issues and other matters. Our Insurance business internationally is also generally subject to a similar regulatory scheme in each of the jurisdictions where we conduct operations outside the United States.

Federal financial services modernization legislation and legislative and regulatory initiatives taken or which may be taken in response to the current conditions in the financial markets and the recent economic downturn may lead to additional federal regulation of the insurance industry in the coming years.

The Dodd-Frank Act effected sweeping changes to financial services regulation in the United States. The Dodd-Frank Act established the Financial Stability Oversight Council ("FSOC"), which is authorized to recommend that certain systemically significant non-bank financial companies, including insurance companies, be regulated by the Board of Governors of the Federal Reserve. The Dodd-Frank Act also established a Federal Insurance Office ("FIO") which is authorized to study, monitor and report to Congress on the U.S. insurance industry and the significance of global reinsurance to the U.S. insurance market. The FIO also can recommend to the FSOC that it designate an insurer as an entity posing risks to the United States financial stability in the event of the insurer's material financial distress or failure. The potential impact of the Dodd-Frank Act on the U.S. insurance business is not clear. Our business could be affected by changes, whether as a result of the Dodd-Frank Act or otherwise, to the U.S. system of insurance regulation or our designation or the designation of insurers or reinsurers with which we do business as systemically significant non-bank financial companies.

Three non-bank financial companies, including two insurance groups, are subject to Federal Reserve supervision and heightened prudential standards, as systematically significant financial institutions.

The new U.S. administration and the majority party have expressed the desire to dismantle or roll back the Dodd-Frank Act, which may present risks to our business. For example, in 2016, the U.S. House of Representatives passed the Financial CHOICE Act of 2016, which proposed to roll back provisions of the Dodd-Frank Act affecting insurance. While the Financial CHOICE Act was not passed by the Senate, it is likely that the Act or another Dodd-Frank "roll back" bill affecting the insurance business will be introduced. We are not able to predict whether any such proposal to roll back the Dodd-Frank Act would have a material effect on our business operations and cannot identify the risks, if any, that may be posed to our businesses as a result of changes to, or legislative replacements for, the Dodd-Frank Act.

Although state regulation is the primary form of regulation of insurance and reinsurance in the United States, in addition to the changes brought about by the Dodd-Frank Act, Congress has considered various proposals relating to the creation of an optional federal charter, repeal of the insurance company antitrust exemption from the McCarran-Ferguson Act, and tax law changes. We may be subject to potentially increased federal oversight as a financial institution. In addition, the results of the recent U.S. presidential and congressional elections may increase the chance of other federal legislative and regulatory changes that could affect us in ways we cannot predict.

With respect to international measures, Solvency II, the EU directive concerning the capital adequacy, risk management and regulatory reporting for insurers and reinsurers may affect our insurance businesses. Implementation of Solvency II in EU member states occurred on January 1, 2016, and may require us to utilize a significant amount of resources to ensure compliance. In addition, despite the waiver of the Solvency II group capital requirements we received, Solvency II may have the effect of increasing the capital requirements of our EU domiciled insurers. Additionally, our capital requirements and compliance requirements may be adversely affected if the EU commission finds that the insurance regulatory regimes of the jurisdictions outside the EU in which we have insurance or reinsurance companies domiciled are not "equivalent" to the requirements of Solvency II.

We may be unable to maintain all required licenses and approvals and our business may not fully comply with the wide variety of applicable laws and regulations or the relevant authority's interpretation of the laws and regulations. Also, some regulatory authorities have relatively broad discretion to grant, renew or revoke licenses and approvals. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or monetarily penalize us. Also, changes in the level of regulation of the insurance industry, whether federal, state or foreign, or changes in laws or regulations themselves or interpretations by regulatory authorities, may further restrict the conduct of our business.

## **Risks Relating to Our Business**

### ***Our international operations expose us to investment, political and economic risks, including foreign currency and credit risk.***

Our expanding international operations in the United Kingdom, Continental Europe, South America, Canada, Mexico, Scandinavia, the Asia-Pacific region, Africa and Australia expose us to increased investment, political and economic risks, including foreign currency and credit risk. Changes in the value of the U.S. dollar relative to other currencies could have an adverse effect on our results of operations and financial condition.

Our investments in non-U.S.-denominated assets are subject to fluctuations in non-U.S. securities and currency markets, and those markets can be volatile. Non-U.S. currency fluctuations also affect the value of any dividends paid by our non-U.S. subsidiaries to their parent companies in the U.S.

### ***The vote by the United Kingdom to leave the European Union ("EU") could adversely affect our business.***

The 2016 U.K. referendum on its membership in the EU resulted in a majority of U.K. voters voting in favor of the U.K. exiting the EU ("Brexit"). As a result of this vote, negotiations are commencing to determine the terms of the U.K.'s withdrawal from the EU and its future relationship with the EU. As a result, we face risks associated with the potential uncertainty and consequences related to the vote and Brexit, including with respect to volatility in financial markets, exchange rates and interest rates. These uncertainties could increase the volatility of, or reduce, our investment results in particular periods or over time. Brexit could adversely affect European or worldwide political, regulatory, economic or market conditions and could contribute to instability in political institutions and regulatory agencies. Brexit could also lead to legal uncertainty and differing laws and regulations between the U.K. and the EU. Any of these potential effects, and others we cannot anticipate, could adversely affect our results of operations or financial condition.

### ***We may be unable to attract and retain key personnel and qualified employees.***

We depend on our ability to attract and retain key personnel, including our Executive Chairman, our President and CEO, senior executive officers, presidents of our operating units, experienced underwriters and other skilled employees who are knowledgeable about our business. If the quality of our underwriting team and other personnel decreases, we may be unable to maintain our current competitive position in the specialized markets in which we operate, and be unable to expand our operations into new markets.

### ***We cannot guarantee that our reinsurers will pay in a timely fashion, if at all, and, as a result, we could experience losses.***

We purchase reinsurance by transferring part of the risk that we have assumed, known as ceding, to a reinsurance company in exchange for part of the premium we receive in connection with the risk. Although reinsurance makes the reinsurer contractually liable to us to the extent the risk is transferred or ceded to the reinsurer, it does not relieve us, the reinsured, of our liability to our policyholders. Our reinsurers may not pay the reinsurance recoverables that they owe to us or they may not pay such recoverables on a timely basis. Accordingly, we bear credit risk with respect to our reinsurers, and if our reinsurers fail to pay us, our financial results would be adversely affected. Underwriting results and investment returns of some of our reinsurers may affect their future ability to pay claims. As of December 31, 2016, the amount due from our reinsurers was approximately \$1,744 million, including amounts due from state funds and industry pools where it was intended that we would bear no risk. Certain of these amounts due from reinsurers are secured by letters of credit or by funds held in trust on our behalf.

### ***We are subject to credit risk relating to our policyholders, independent agents and brokers.***

In addition to exposure to credit risk related to our reinsurance recoverables and investment portfolio, we are exposed to credit risk in several other areas of our business, including credit risk relating to policyholders, independent agents and brokers. For example our policyholders, independent agents or brokers may not pay a part of or the full amount of premiums owed to us or our brokers or other third party claim administrators may not deliver amounts owed on claims under our insurance and reinsurance contracts for which we have provided funds.

As credit risk is generally a function of the economy, we face a greater credit risk in an economic downturn. While we attempt to manage credit risks through underwriting guidelines, collateral requirements and other oversight mechanisms, our efforts may not be successful. For example, to reduce such credit risk, we require certain third parties to post collateral for some or all of their obligations to us. In cases where we receive pledged securities and the applicable counterparty is unable to honor its obligations, we may be exposed to credit risk on the securities pledged and/or the risk that our access to that collateral may be stayed as a result of bankruptcy. In cases where we receive letters of credit from banks as collateral and one of our counterparties is unable to honor its obligations, we are exposed to the credit risk of the banks that issued the letters of credit.

***We are rated by A.M. Best, Standard & Poor's, and Moody's, and a decline in these ratings could affect our standing in the insurance industry and cause our sales and earnings to decrease.***

Ratings have become an increasingly important factor in establishing the competitive position of insurance companies. Certain of our insurance company subsidiaries are rated by A.M. Best, Standard & Poor's and Moody's. Our ratings are subject to periodic review, and we cannot assure you that we will be able to retain our current or any future ratings.

If our ratings are reduced from their current levels by A.M. Best, Standard & Poor's or Moody's, our competitive position in the insurance industry could suffer and it would be more difficult for us to market our products. A ratings downgrade could also adversely limit our access to capital markets, which may increase the cost of debt. A significant downgrade could result in a substantial loss of business as policyholders move to other companies with higher claims-paying and financial strength ratings.

***If market conditions cause reinsurance to be more costly or unavailable, we may be required to bear increased risks or reduce the level of our underwriting commitments.***

As part of our overall risk and capacity management strategy, we purchase reinsurance for certain amounts of risk underwritten by our insurance company subsidiaries, especially catastrophe risks and those risks with relatively high policy limits. We also purchase reinsurance on risks underwritten by others which we reinsure. Market conditions beyond our control determine the availability and cost of the reinsurance protection we seek to purchase, which may affect the level of our business and profitability. Our reinsurance contracts are generally subject to annual renewal, and we may be unable to maintain our current reinsurance contracts or to obtain other reinsurance contracts in adequate amounts and at favorable rates. In addition, we may be unable to obtain reinsurance on terms acceptable to us relating to certain lines of business that we intend to begin writing. If we are unable to renew our expiring contracts or to obtain new reinsurance contracts, either our net exposures would increase or, if we are unwilling to bear an increase in net exposures, we would have to reduce the level of our underwriting commitments, especially catastrophe exposed risks.

***Depending on conditions in the financial markets and the general economy, we may be unable to raise debt or equity capital if needed.***

If conditions in the financial markets and the general economy are unfavorable, which may result from disruptions, uncertainty or volatility in the capital and credit markets, we may be unable to access debt or equity capital on acceptable terms if needed, which could have a negative impact on our ability to invest in our insurance company subsidiaries and/or to take advantage of opportunities to expand our business, such as possible acquisitions and the creation of new ventures, and inhibit our ability to refinance our existing indebtedness if we desire to do so, on terms acceptable to us.

***We may not find suitable acquisition candidates or new insurance ventures and even if we do, we may not successfully integrate any such acquired companies or successfully invest in such ventures.***

As part of our present strategy, we continue to evaluate possible acquisition transactions and the start-up of complementary businesses on an ongoing basis, and at any given time we may be engaged in discussions with respect to possible acquisitions and new ventures. We cannot assure you that we will be able to identify suitable acquisition targets or insurance ventures, that such transactions will be financed and completed on acceptable terms or that our future acquisitions or start-up ventures will be successful. The process of integrating any companies we do acquire or investing in new ventures may have a material adverse effect on our results of operations and financial condition.

***If we experience difficulties with our information technology, telecommunications or other computer systems, our ability to conduct our business could be negatively or severely impacted.***

Our business is highly dependent upon our employees' ability to perform necessary business functions in an efficient and uninterrupted fashion. A shut-down of, or inability to access, one or more of our facilities, a power outage or a failure of one or more of our information technology, telecommunications or other computer systems could significantly impair our employees' ability to perform such functions on a timely basis. In the event of a disaster such as a natural catastrophe, terrorist attack or industrial accident, or the infection of our systems by a malicious computer virus, our systems could be inaccessible for an extended period of time. In addition, because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials or failures of controls if demand for our service exceeds capacity or a third-party system fails or experiences an interruption. If our business continuity plans or system security does not sufficiently address such a business interruption, system failure or service denial, our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or perform other necessary business functions could be significantly impaired and our business could be harmed.

***Failure to maintain the security of our networks and confidential data may expose us to liability.***

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Computer viruses, hackers, employee misconduct and other external hazards could expose our data systems to security breaches. In addition, we routinely transmit and receive personal, confidential and proprietary information by email and other electronic means. Our outsourcing of certain technology and business process functions to third parties may expose us to enhanced risk related to data security. While we attempt to develop secure data transmission capabilities with these third-party vendors and others with whom we do business, we may be unable to put in place such secure capabilities with all of such vendors and third parties and, in addition, these third parties may not have appropriate controls in place to protect the confidentiality of the sensitive information being transferred. Our failure to protect sensitive personal and our proprietary information, whether owing to breaches of our own systems or those of our vendors, could result in significant monetary and reputational damages. These increased risks, and expanding regulatory requirements regarding data security, could expose us to data loss, monetary and reputational damages and significant increases in compliance costs. As a result, our ability to conduct our business could be materially and adversely affected.

***We could be adversely affected if our controls to ensure compliance with guidelines, policies and legal and regulatory standards are not effective.***

Our business is highly dependent on our ability to engage on a daily basis in a large number of insurance underwriting, claim processing and investment activities, many of which are highly complex. These activities often are subject to internal guidelines and policies, as well as legal and regulatory standards, including those related to privacy, anti-corruption, anti-bribery and global finance and insurance matters. Our continued expansion into new international markets has brought about additional requirements. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system's objectives will be met. If our controls are not effective, it could lead to financial loss, unanticipated risk exposure (including underwriting, credit and investment risk) or damage to our reputation.

**Risks Relating to Our Investments**

***A significant amount of our assets is invested in fixed maturity securities and is subject to market fluctuations.***

Our investment portfolio consists substantially of fixed maturity securities. As of December 31, 2016, our investment in fixed maturity securities was approximately \$13.2 billion, or 75.6% of our total investment portfolio, including cash and cash equivalents. As of that date, our portfolio of fixed maturity securities consisted of the following types of securities: U.S. Government securities (3.9%); state and municipal securities (34.8%); corporate securities (30.8%); asset-backed securities (14.5%); mortgage-backed securities (9.1%) and foreign government (6.9%).

The fair value of these assets and the investment income from these assets fluctuate depending on general economic and market conditions. The fair value of fixed maturity securities generally decreases as interest rates rise. If significant inflation or an increase in interest rates were to occur, the fair value of our fixed maturity securities would be negatively impacted. Conversely, if interest rates decline, investment income earned from future investments in fixed maturity securities will be lower. Some fixed maturity securities, such as mortgage-backed and other asset-backed securities, also carry prepayment risk as a result of interest rate fluctuations. Additionally, given the historically low interest rate environment, we may not be able to successfully reinvest the proceeds from maturing securities at yields commensurate with our target performance goals.

The value of investments in fixed maturity securities is subject to impairment as a result of deterioration in the credit worthiness of the issuer, default by the issuer (including states and municipalities) in the performance of its obligations in respect of the securities and/or increases in market interest rates. To a large degree, the credit risk we face is a function of the economy; accordingly, we face a greater risk in an economic downturn or recession. During periods of market disruption, it may be difficult to value certain of our securities, particularly if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the current financial environment. In such cases, more securities may require additional subjectivity and management judgment.

Although the historical rates of default on state and municipal securities have been relatively low, our state and municipal fixed maturity securities could be subject to a higher risk of default or impairment due to declining municipal tax bases and revenue. The economic downturn has resulted in many states and municipalities operating under deficits or projected deficits, the severity and duration of which could have an adverse impact on both the valuation of our state and municipal fixed maturity securities and the issuer's ability to perform its obligations thereunder. Additionally, our investments are subject to losses as a result of a general decrease in commercial and economic activity for an industry sector in which we invest, as well as risks inherent in particular securities.

Although we attempt to manage these risks through the use of investment guidelines and other oversight mechanisms and by diversifying our portfolio and emphasizing preservation of principal, our efforts may not be successful. Impairments, defaults and/or rate increases could reduce our net investment income and net realized investment gains or result in investment losses. Investment returns are currently, and will likely continue to remain, under pressure due to the significant volatility experienced in the financial markets, economic uncertainty, more generally, and the shape of the yield curve. As a result, our exposure to the risks described above could materially and adversely affect our results of operations.

***We have invested a portion of our assets in equity securities, merger arbitrage securities, investment funds, private equity, loans and real estate related assets, which are subject to significant volatility and may decline in value.***

We invest a portion of our investment portfolio in equity securities, merger arbitrage securities, investment funds, private equity, loans and real estate related assets. At December 31, 2016, our investment in these assets was approximately \$3.5 billion, or 19.8%, of our investment portfolio, including cash and cash equivalents.

Merger and arbitrage trading securities were \$300 million, or 1.7% of our investment portfolio, including cash and cash equivalents at December 31, 2016. Merger arbitrage involves investing in the securities of publicly held companies that are the targets in announced tender offers and mergers. Merger arbitrage differs from other types of investments 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. Our merger arbitrage positions are exposed to the risk associated with the completion of announced deals, which are subject to regulatory as well as political and other risks.

Real estate related investments, including directly owned, investment funds and loans receivable, were \$1.9 billion, or 11.1% of our investment portfolio, including cash and cash equivalents, at December 31, 2016. We also invest in aviation and rail equipment funds, hedged equity and energy and other investment funds. The values of these investments are subject to fluctuations based on changes in the economy and interest rates in general and the related asset valuations in particular. In addition, our investments in real estate related assets and other alternative investments are less liquid than our other investments.

These investments are subject to significant volatility as a result of the conditions in the financial and commodity markets and the global economy.

### **Risks Relating to Purchasing Our Securities**

***We are an insurance holding company and, therefore, may not be able to receive dividends in needed amounts.***

As an insurance holding company, our principal assets are the shares of capital stock of our insurance company subsidiaries. We have to rely on dividends from our insurance company subsidiaries to meet our obligations for paying principal and interest on outstanding debt obligations, paying dividends to stockholders and repurchasing our shares and paying corporate expenses. The payment of dividends by our insurance company subsidiaries is subject to regulatory restrictions and will depend on the surplus and future earnings of these subsidiaries. During 2017, the maximum amount of dividends that can be paid without regulatory approval is approximately \$580 million. As a result, in the future we may not be able to receive dividends from these subsidiaries at times and in amounts necessary to meet our obligations, pay dividends or repurchase shares.

***Laws and regulations of the jurisdictions in which we conduct business could delay, deter or prevent an attempt to acquire control of us that stockholders might consider to be desirable, and may restrict a stockholder's ability to purchase our common stock.***

Generally, United States insurance holding company laws require that, before a person can acquire control of an insurance company, prior written approval must be obtained from the insurance regulatory authorities in the state in which that insurance company is domiciled. Pursuant to applicable laws and regulations, "control" over an insurer is generally presumed to exist if any person, directly or indirectly, owns, controls, holds the power to vote, or holds proxies representing 10% or more of the voting securities of that insurer. Indirect ownership includes ownership of the shares of our common stock. Thus, the insurance regulatory authorities of the states in which our insurance subsidiaries are domiciled are likely to apply these restrictions on acquisition of control to any proposed acquisition of our common stock. Some states require a person seeking to acquire control of an insurer licensed but not domiciled in that state to make a filing prior to completing an acquisition if the acquirer and its affiliates, on the one hand, and the target insurer and its affiliates, on the other hand, have specified market shares in the same lines of insurance in that state. Additionally, many foreign jurisdictions where we conduct business impose similar restrictions and requirements.

While these provisions may not require acquisition approval, they can lead to the imposition of conditions on an acquisition that could delay or prevent its consummation. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change in control of us through transactions, and in particular unsolicited transactions, that some or all of our stockholders might consider to be desirable.

***Certain provisions in our organizational documents may have the effect of hindering, delaying or preventing third party takeovers and thus may prevent our stockholders from receiving premium prices for their shares in an unsolicited takeover or make it more difficult for third parties to replace our current management.***

Provisions of our Restated Certificate of Incorporation and By-Laws, as well as state insurance statutes, may hinder, delay or prevent unsolicited acquisitions or changes of our control. These provisions may also have the effect of making it more difficult for third parties to cause the replacement of our current management without the concurrence of our board of directors.

These provisions include:

- our classified board of directors and the ability of our board to increase its size and to appoint directors to fill newly created directorships;
- the requirement that 80% of our stockholders must approve mergers and other transactions between us and the holder of 5% or more of our shares, unless the transaction was approved by our board of directors prior to such holder's acquisition of 5% of our shares; and
- the need for advance notice in order to raise business or make nominations at stockholders' meetings.

These provisions may discourage potential acquisition proposals and may delay, deter or prevent a change in control of us through transactions, and in particular unsolicited transactions, that some or all of our stockholders might consider to be desirable.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved written comments that were received from the SEC staff 180 days or more before the end of our fiscal year relating to our periodic or current reports under the Securities Exchange Act of 1934.

#### ITEM 2. PROPERTIES

W. R. Berkley and its subsidiaries own or lease office buildings or office space suitable to conduct their operations. At December 31, 2016, the Company had aggregate office space of 3,840,380 square feet, of which 1,096,329 were owned and 2,744,051 were leased.

Rental expense for the Company's operations was approximately \$47,453,000 \$46,271,000 and \$45,189,000 for 2016, 2015 and 2014, respectively. Future minimum lease payments, without provision for sublease income, are \$45,305,000 in 2017, \$40,634,000 in 2018 and \$199,459,000 thereafter.

#### ITEM 3. LEGAL PROCEEDINGS

The Company's subsidiaries are subject to disputes, including litigation and arbitration, arising in the ordinary course of their insurance and reinsurance businesses. The Company's estimates of the costs of settling such matters are reflected in its aggregate reserves for losses and loss expenses, and the Company does not believe that the ultimate outcome of such matters will have a material adverse effect on its financial condition or results of operations.

#### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The common stock of the Company is traded on the New York Stock Exchange under the symbol "WRB".

	Price Range		Dividends Declared Per Share
	High	Low	
<b>2016:</b>			
Fourth Quarter	\$ 66.91	\$ 55.55	\$ 0.63 (1)
Third Quarter	60.08	56.12	0.63 (2)
Second Quarter	59.93	54.56	0.13
First Quarter	56.53	47.57	0.12
<b>2015:</b>			
Fourth Quarter	\$ 57.27	\$ 52.36	\$ 0.12
Third Quarter	58.46	51.91	0.12
Second Quarter	53.40	48.72	0.12
First Quarter	51.78	47.45	0.11

(1) Includes a special dividend of \$0.50 per share paid in November 2016.

(2) Includes a special dividend of \$0.50 per share paid in October 2016.

The closing price of the common stock on February 22, 2017 as reported on the New York Stock Exchange was \$71.15 per share. The approximate number of record holders of the common stock on February 22, 2017 was 355.

Set forth below is a summary of the shares repurchased by the Company during the fourth quarter of 2016 and the remaining number of shares authorized for purchase by the Company during such period.

	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
October 2016	204,326	57.30	204,326	7,221,312
November 2016	370,226	56.22	370,226	6,851,086
December 2016	—	—	—	6,851,086

For equity compensation plan information, see Item 12 of this annual report on Form 10-K.

**ITEM 6. SELECTED FINANCIAL DATA**

(In thousands, except per share data)	Year Ended December 31,				
	2016	2015	2014	2013	2012
Net premiums written	\$ 6,423,913	\$ 6,189,515	\$ 5,996,947	\$ 5,500,173	\$ 4,898,539
Net premiums earned	6,293,348	6,040,609	5,744,418	5,226,537	4,673,516
Net investment income	564,163	512,645	600,885	544,291	586,763
Insurance service fees	138,944	139,440	117,443	107,513	103,133
Net investment gains	267,005	92,324	254,852	121,544	210,465
Revenues from non-insurance businesses	390,348	421,102	410,022	407,623	247,113
Total revenues	7,654,184	7,206,457	7,128,928	6,408,534	5,823,554
Interest expense	140,896	130,946	128,174	123,177	126,302
Income before income taxes	896,438	732,030	952,196	698,888	701,928
Income tax expense	(292,953)	(227,923)	(302,593)	(193,587)	(191,285)
Noncontrolling interests	(1,569)	(413)	(719)	(5,376)	(51)
Net income to common stockholders	601,916	503,694	648,884	499,925	510,592
Data per common share:					
Net income per basic share	4.91	4.06	5.07	3.69	3.72
Net income per diluted share	4.68	3.87	4.86	3.55	3.56
Common stockholders' equity	41.65	37.31	36.21	32.79	31.66
Cash dividends declared	1.51	0.47	1.43	0.39	1.35
Weighted average shares outstanding:					
Basic	122,651	124,040	127,874	135,305	137,097
Diluted	128,553	130,189	133,652	140,743	143,315
Investments	\$ 16,649,792	\$ 15,351,467	\$ 15,591,824	\$ 14,548,630	\$ 14,467,440
Total assets	23,364,844	21,730,967	21,716,691	20,155,896	20,155,896
Reserves for losses and loss expenses	11,197,195	10,669,150	10,369,701	10,080,941	9,751,086
Senior notes and other debt	1,760,595	1,844,621	2,115,527	1,692,442	1,871,535
Subordinated debentures	727,630	340,320	340,060	339,800	243,206
Common stockholders' equity	5,047,208	4,600,246	4,589,945	4,336,035	4,306,217

## ITEM 7. 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 business segments of the property and casualty business: Insurance and Reinsurance. Our decentralized structure provides us with the flexibility to respond quickly and efficiently to local or specific market conditions and to pursue specialty business niches. It also allows us to be closer to our customers in order to better understand their individual needs and risk characteristics. While providing our business units with certain operating autonomy, our structure allows us to capitalize on the benefits of economies of scale through centralized capital, investment, reinsurance and enterprise risk management, and actuarial, financial and corporate legal staff support. Our 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 new operating units that are focused on important parts of the economy in the U.S., including healthcare, cyber security, energy and agriculture, and on growing international markets, including Scandinavia, Australia, the Asia-Pacific region, South America and Mexico.

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

Although insurance prices have generally increased for most lines of business since 2011, the rate of increase has declined in more recent years. That decline accelerated in 2016. Loss costs have also increased over that period of time. With the low level of interest rates available, current price levels for certain lines of business remain below the prices required for the Company to achieve its long-term return objectives. Part of the Company's strategy is to selectively reduce its business in areas where it believes returns are not adequate. Price changes are reflected in the Company's results over time as premiums are earned.

The Company's profitability is also affected by its investment income and investment gains. The Company's invested assets are invested principally in fixed maturity securities. The return on fixed maturity securities is affected primarily by general interest rates, as well as the credit quality and duration of the securities. Returns available on fixed maturity investments are at historically low levels. The Company's investment income has been negatively impacted by the low fixed maturity investment returns, and will be further impacted if investment returns remain at this level.

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

## Critical Accounting Estimates

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

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

In general, when a claim is reported, claims personnel establish a "case reserve" for the estimated amount of the ultimate payment based upon known information about the claim at that time. The estimate represents an informed judgment based on general reserving practices and reflects the experience and knowledge of the claims personnel regarding the nature and value of the specific type of claim. Reserves are also established on an aggregate basis to provide for losses incurred but not reported ("IBNR") to the insurer, potential inadequacy of case reserves and the estimated expenses of settling claims, including legal and other fees and general expenses of administrating the claims adjustment process. Reserves are established based upon the then current legal interpretation of coverage provided.

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

Reserves do not represent a certain 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, 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 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. Management believes the estimates and assumptions it makes in the reserving process provide the best estimate of the ultimate cost of settling claims and related expenses with respect to insured events which have occurred; however, different assumptions and variables could lead to significantly different reserve estimates.

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

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

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

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

Our net reserves for losses and loss expenses of approximately \$9.6 billion as of December 31, 2016 relate to multiple accident years. Therefore, the impact of changes in frequency or severity for more than one accident year could be higher or lower than the amounts reflected above. The impact of such changes would likely be manifested gradually over the course of many years, as the magnitude of the changes became evident.

Approximately \$1.4 billion, or 14%, of the Company's net loss reserves as of December 31, 2016 relate to the Reinsurance segment. There is a higher degree of uncertainty and greater variability regarding estimates of assumed loss reserves because those estimates are based, in part, upon information received from ceding companies. If information received from ceding companies is not timely or correct, the Company's estimate of ultimate losses may not be accurate. Furthermore, due to delayed reporting of claim information by ceding companies, the claim settlement tail for assumed reinsurance is extended. Management considers the impact of delayed reporting in its selection of assumed loss development factors.

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

Following is a summary of the Company's reserves for losses and loss expenses by business segment as of December 31, 2016 and 2015:

(In thousands)	2016	2015
Insurance	\$ 8,215,798	\$ 7,876,193
Reinsurance	1,374,467	1,368,679
Net reserves for losses and loss expenses	9,590,265	9,244,872
Ceded reserves for losses and loss expenses	1,606,930	1,424,278
Gross reserves for losses and loss expenses	\$ 11,197,195	\$ 10,669,150

Following is a summary of the Company's net reserves for losses and loss expenses by major line of business as of December 31, 2016 and 2015:

(In thousands)	Reported Case Reserves	Incurred But Not Reported	Total
<b>December 31, 2016</b>			
Other liability	\$ 1,186,425	\$ 2,136,189	\$ 3,322,614
Workers' compensation (1)	1,596,079	1,326,469	2,922,548
Professional liability	255,971	492,985	748,956
Commercial automobile	344,143	252,978	597,121
Short-tail lines (2)	330,887	293,672	624,559
Total primary	3,713,505	4,502,293	8,215,798
Reinsurance (1)	653,615	720,852	1,374,467
Total	\$ 4,367,120	\$ 5,223,145	\$ 9,590,265
<b>December 31, 2015</b>			
Other liability	\$ 1,079,641	\$ 1,947,637	\$ 3,027,278
Workers' compensation (1)	1,655,726	1,263,508	2,919,234
Professional liability	256,783	478,796	735,579
Commercial automobile	352,208	242,071	594,279
Short-tail lines (2)	317,375	282,448	599,823
Total primary	3,661,733	4,214,460	7,876,193
Reinsurance (1)	631,666	737,013	1,368,679
Total	\$ 4,293,399	\$ 4,951,473	\$ 9,244,872

(1) Reserves for excess and assumed workers' compensation business are net of an aggregate net discount of \$640 million and \$699 million as of December 31, 2016 and 2015, respectively.

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

The Company evaluates reserves for losses and loss 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 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 each of the last three years ended December 31, are as follows:

<b>(In thousands)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Decrease in prior year loss reserves	\$ 29,904	\$ 46,713	\$ 75,764
Increase in prior year earned premiums	29,000	16,730	9,088
Net favorable prior year development	<u>\$ 58,904</u>	<u>\$ 63,443</u>	<u>\$ 84,852</u>

**Favorable prior year development (net of additional and return premiums) was \$59 million in 2016.**

Insurance - Reserves for the Insurance segment developed favorably by \$53 million in 2016. The favorable development was primarily related to workers' compensation business, and was partially offset by unfavorable development for medical professional liability business.

For workers' compensation, the favorable development was related to both primary and excess business and to many accident years, including those prior to 2007. During 2016, reported workers' compensation losses continued to be below our expectations at most of our operating units. Loss frequency and severity trends continued to be better than the assumptions underlying our previous reserve estimates. Loss severity trends also benefited from our continued investment in medical case management services and from our preferred provider networks. The long term trend of declining workers' compensation frequency can be attributed to improved workplace safety.

For medical professional liability business, unfavorable development was primarily related to a class of business that has been discontinued. The adverse development for that business stemmed mainly from accident years 2010 through 2015.

Reinsurance - Reserves for the Reinsurance segment developed favorably by \$6 million in 2016. The favorable development was primarily related to direct facultative reinsurance business and to accident years 2008 through 2014.

**Favorable prior year development (net of additional and return premiums) was \$63 million in 2015.**

Insurance - Reserves for the Insurance segment developed favorably by \$52 million in 2015. The favorable development was primarily related to workers' compensation, other liability business and commercial property, and was partially offset by unfavorable development for commercial automobile liability business and professional indemnity business.

For workers' compensation, the favorable development was related to both primary and excess business and to many accident years, including those prior to 2006. In 2015, reported workers' compensation losses were below our expectations for many of our operating units. In addition, overall loss frequency and severity trends emerged better than the assumptions underlying our previous reserve estimates. The long term trend of declining workers' compensation claim frequency continued in 2015. The improvement is attributable to better workplace safety and to benign medical severity trends as we continue to invest in medical case management services and higher usage of preferred provider networks.

For other liability business, favorable development was concentrated in accident years 2007 through 2013. The favorable development was primarily related to our excess and surplus lines casualty business that has benefited from a persistent improvement in claim frequency trends over the past several years.

For commercial property business, favorable development was attributable to accident years 2012 through 2014 and was driven by favorable frequency and severity trends on property business written in Lloyd's.

For commercial automobile business, adverse development was primarily related to large losses for long-haul trucking business and to accident years 2011 through 2014. The higher loss cost trends for the commercial automobile industry are attributable, in part, to the increase in miles driven as the economy improved and fuel prices declined over the past several years.

For professional indemnity business in the U.K., adverse development was primarily for accident years 2006 through 2013.

**Reinsurance** - Reserves for the Reinsurance segment developed favorably by \$11 million in 2015. The favorable development was primarily related to direct facultative reinsurance business and to accident years 2005 through 2013. Loss reserves developed favorably for umbrella business and for other liability coverage for contractors.

**Favorable prior year development (net of additional and return premiums) was \$85 million in 2014.**

**Insurance** - For the Insurance segment, favorable development in 2014 of \$69 million was driven principally by other liability business for accident years 2006 through 2010, primarily related to our excess and surplus lines casualty business. Reported losses during these years continued to be below our initial expectations at the time the business was written, largely as a result of persistent improvement in claim frequency trends (i.e., number of reported claims per unit of exposure). As these accident years have matured, the weighting of actuarial methods has shifted from methods based on initial expected losses to methods based on actual reported losses. We believe the favorable claim frequency trends we have seen during this time period are due to changes in the mix of business written and to the general slowdown in the economy. Commercial automobile reported unfavorable development primarily as a result of large losses for long-haul trucking business in 2012 and 2013. The favorable development was also offset by adverse reserve development driven primarily by unexpected large losses from accident years 2009-2012 in the professional indemnity line of business in the United Kingdom.

**Reinsurance** - For the Reinsurance segment, favorable reserve development in 2014 of \$16 million was driven primarily by assumed professional liability excess of loss and umbrella treaty business, as well as direct facultative business. This was partially offset by adverse development on brokerage facultative business caused by completed operations losses associated with construction projects in accident years prior to 2009.

**Reserve Discount.** The Company discounts its liabilities for certain workers' compensation reserves. The amount of workers' compensation reserves that were discounted was \$1,907 million and \$2,308 million at December 31, 2016 and 2015, respectively. The aggregate net discount for those reserves, after reflecting the effects of ceded reinsurance, was \$640 million and \$699 million at December 31, 2016 and 2015, respectively. At December 31, 2016, discount rates by year ranged from 2.0% to 6.5%, with a weighted average discount rate of 3.9%.

Substantially all of discounted workers' compensation reserves (97% of total discounted reserves at December 31, 2016) are excess workers' compensation reserves. In order to properly match loss expenses with income earned on investment securities supporting the liabilities, reserves for excess workers' compensation business are discounted using risk-free discount rates determined by reference to the U.S. Treasury yield curve. These rates are determined annually based on the weighted average rate for the period. Once established, no adjustments are made to the discount rate for that period, and any increases or decreases in loss reserves in subsequent years are discounted at the same rate, without regard to when any such adjustments are recognized. The expected loss and loss expense payout patterns subject to discounting are derived from the Company's loss payout experience.

The Company also discounts reserves for certain other long-duration workers' compensation reserves (representing approximately 3% of total discounted reserves at December 31, 2016), 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 \$68 million and \$62 million at December 31, 2016 and 2015, respectively. The assumed premium estimates are based upon terms set forth in reinsurance agreements, information received from ceding companies during the underwriting and negotiation of agreements, reports received from ceding companies and discussions and correspondence with reinsurance intermediaries. The Company also considers its own view of market conditions, economic trends and experience with similar lines of business. These premium estimates represent management's best estimate of the ultimate amount of premiums to be received under its assumed reinsurance agreements.

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

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

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

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

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

The following table provides a summary of fixed maturity securities in an unrealized loss position as of December 31, 2016:

(\$ in thousands)	Number of Securities	Aggregate Fair Value	Unrealized Loss
Unrealized loss less than 20% of amortized cost	739	\$ 5,123,665	\$ 90,505
Unrealized loss of 20% or greater of amortized cost:			
Less than twelve months	2	5,324	3,776
Twelve months and longer	3	774	302
Total	744	\$ 5,129,763	\$ 94,583

A summary of the Company's non-investment grade fixed maturity securities that were in an unrealized loss position at December 31, 2016 is presented in the table below.

(\$ in thousands)	Number of Securities	Aggregate Fair Value	Unrealized Loss
State and municipal	1	\$ 5,136	\$ 3,725
Corporate	10	78,462	1,370
Mortgage-backed securities	11	22,987	1,106
Asset-backed securities	4	1,256	362
Foreign government	15	112,985	341
Total	41	\$ 220,826	\$ 6,904

The Company has evaluated its fixed maturity securities in an unrealized loss position and believes the unrealized loss is due primarily to temporary market and sector-related factors rather than to issuer-specific factors. None of these securities are delinquent or in default under financial covenants. Based on its assessment of these issuers, the Company expects them to continue to meet their contractual payment obligations as they become due and does not consider any of these securities to be OTTI. For the year ended December 31, 2016, there were no OTTI for fixed maturity securities recognized in earnings. OTTI for fixed maturity securities for the year ended December 31, 2015 were \$9.0 million.

**Preferred Stocks** – At December 31, 2016, there was one preferred stock in an unrealized loss position, with an aggregate fair value of \$22.0 million and a gross unrealized loss of \$3.6 million. The preferred stock is rated investment grade. Management believes the unrealized loss is due primarily to market and sector related factors and does not consider it to be OTTI. For the year ended December 31, 2016, there were no OTTI for preferred stocks. OTTI for preferred stocks for the year ended December 31, 2015 were \$13.4 million.

**Common Stocks** – At December 31, 2016, there were two common stocks in an unrealized loss position with an aggregate fair value of \$9.1 million and a gross unrealized loss of \$1.1 million. Based on management's view of these securities, the Company does not consider the common stocks to be OTTI. For the year ended December 31, 2016, OTTI for common stocks were \$18.1 million. OTTI for common stocks for the year ended December 31, 2015 were \$10.9 million.

**Loans Receivable** – The Company monitors the performance of its loans receivable, including current market conditions for each loan and the ability to collect principal and interest. For loans where the Company determines it is probable that the contractual terms will not be met, an analysis is performed and a valuation reserve is established, if necessary, with a charge to earnings. Loans receivable are reported net of a valuation reserve of \$3 million and \$2 million at December 31, 2016 and 2015, respectively.

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

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

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

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

The following is a summary of pricing sources for the Company's fixed maturity securities available for sale as of December 31, 2016:

(In thousands)	Carrying Value	Percent of Total
Pricing source:		
Independent pricing services	\$ 12,944,960	98.1%
Syndicate manager	48,443	0.4
Directly by the Company based on:		
Observable data	108,556	1.5
Cash flow model	183	—
Total	<u>\$ 13,102,142</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 December 31, 2016, 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 Years Ended December 31, 2016 and 2015

### 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 net premiums earned), expense ratios (underwriting expenses expressed as a percentage of net premiums earned) and GAAP combined ratios (sum of loss ratio and expense ratio) for each of our business segments for the years ended December 31, 2016 and 2015. 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)	2016	2015
<b>Insurance</b>		
Gross premiums written	\$ 6,835,062	\$ 6,607,492
Net premiums written	5,775,913	5,591,397
Net premiums earned	5,652,903	5,431,500
Loss ratio	61.0%	60.8%
Expense ratio	32.6	32.6
GAAP combined ratio	93.6	93.4
<b>Reinsurance</b>		
Gross premiums written	\$ 708,639	\$ 642,501
Net premiums written	648,000	598,118
Net premiums earned	640,445	609,109
Loss ratio	61.8%	58.4%
Expense ratio	38.8	38.2
GAAP combined ratio	100.6	96.6
<b>Consolidated</b>		
Gross premiums written	\$ 7,543,701	\$ 7,249,993
Net premiums written	6,423,913	6,189,515
Net premiums earned	6,293,348	6,040,609
Loss ratio	61.1%	60.5%
Expense ratio	33.2	33.2
GAAP combined ratio	94.3	93.7

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 years ended December 31, 2016 and 2015.

(In thousands, except per share data)	2016	2015
Net income to common stockholders	\$ 601,916	\$ 503,694
Weighted average diluted shares	128,553	130,189
Net income per diluted share	\$ 4.68	\$ 3.87

The Company reported net income of \$602 million in 2016 compared to \$504 million in 2015. The 20% increase in net income was primarily due to increases in after-tax net investment gains of \$114 million, after-tax net investment income of \$34 million and after-tax foreign currency gains of \$8 million, partially offset by a decrease in after-tax underwriting income of \$13 million, an increase in after-tax interest expense of \$7 million, a decrease in after-tax income from non-insurance businesses of \$6 million, a decrease in after-tax service fee income of \$8 million and an increase in after-tax other expenses of \$24 million. The number of weighted average diluted shares decreased as a result of the Company's repurchases of its common stock in 2016 and 2015.

Premiums. Gross premiums written were \$7,544 million in 2016, an increase of 4% from \$7,250 million in 2015. The growth was due to a combination of increased exposures and higher rates. Approximately 77% of policies expiring in 2016 were renewed, the same renewal retention rate as for policies expiring in 2015.

Average renewal premium rates (adjusted for change in exposures) increased 3.4% in 2014, 1.2% in 2015 and 0.3% in 2016. However, overall loss costs are also increasing, and current market price levels for certain lines of business remain below the prices required for the Company to achieve its long-term return objectives.

A summary of gross premiums written in 2016 compared with 2015 by line of business within each business segment follows:

- Insurance gross premiums increased 3% to \$6,835 million in 2016 from \$6,607 million in 2015. Gross premiums increased \$194 million (10%) for other liability, \$61 million (10%) for professional liability and \$32 million (2%) for workers' compensation, partially offset by decreases of \$30 million (4%) for commercial auto and \$29 million (2%) for short-tail lines.
- Reinsurance gross premiums increased 10% to \$709 million in 2016 from \$643 million in 2015. Gross premiums written decreased \$6 million (1%) for casualty lines and increased \$72 million (34%) for property lines.

Net premiums written were \$6,424 million in 2016, an increase of 4% from \$6,190 million in 2015. Ceded reinsurance premiums as a percentage of gross written premiums were 15% in both 2016 and 2015.

Premiums earned increased 4% to \$6,293 million in 2016 from \$6,041 million in 2015. 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 2016 are related to business written during both 2016 and 2015. Audit premiums were \$156 million in 2016 compared with \$153 million in 2015.

Net Investment Income. Following is a summary of net investment income for the years ended December 31, 2016 and 2015:

(In thousands)	Amount		Average Annualized Yield	
	2016	2015	2016	2015
Fixed maturity securities, including cash and cash equivalents and loans receivable	\$ 444,247	\$ 428,325	3.2%	3.2%
Investment funds	99,301	62,228	8.1	5.2
Arbitrage trading account	18,693	16,891	4.8	3.3
Real estate	7,054	11,294	0.7	1.4
Equity securities available for sale	4,028	4,624	2.1	2.7
Gross investment income	573,323	523,362	3.4	3.3
Investment expenses	(9,160)	(10,717)	—	—
Total	\$ 564,163	\$ 512,645	3.4%	3.2%

Net investment income increased 10% to \$564 million in 2016 from \$513 million in 2015 primarily due to an increase in income from investment funds of \$37 million and fixed maturity securities of \$16 million. Investment funds are reported on a one quarter lag. The average annualized yield for fixed maturity securities was 3.2% in both 2016 and 2015; accordingly the increase in fixed maturity securities income was mainly a result of a larger investment base. The effective duration of the fixed maturity portfolio was 3.1 years at December 31, 2016, down from 3.3 years at December 31, 2015. Average invested assets, at cost (including cash and cash equivalents), were \$16.7 billion in 2016 and \$16.0 billion in 2015.

Insurance Service Fees. The Company earns fees from an insurance distribution business and as a servicing carrier of workers' compensation assigned risk plans for certain states. Service fees were \$139 million in 2016 and 2015.

Net Realized Gains on Investment Sales. The Company buys and sells securities on a regular basis in order to maximize its total return on investments. Decisions to sell securities are based on management's view of the underlying fundamentals of specific securities as well as management's expectations regarding interest rates, credit spreads, currency values and general economic conditions. Net realized gains on investment sales were \$285 million in 2016 compared with \$126 million in 2015. In 2016, realized gains were primarily related to the sale of Aero Precision Industries and the sale of some shares of a publicly traded common stock. In 2015, realized gains were primarily related to sale of some shares of a publicly traded common stock held by one of the Company's investment funds.

Other-Than-Temporary Impairments. The cost of securities is adjusted where appropriate to include a provision for a decline in value that is considered to be other-than-temporary. Other-than-temporary impairments of \$18 million in 2016 were primarily related to common stock. In 2015, other-than-temporary impairments of \$33 million were primarily related to equity securities.

Revenues from Non-Insurance Businesses. Revenues from non-insurance businesses were derived from a business engaged in the distribution of promotional merchandise and aviation-related businesses that provide services to aviation markets, including (i) the distribution, manufacturing, repair and overhaul of aircraft parts and components, (ii) the sale of new and used aircraft, and (iii) avionics, fuel, maintenance, storage and charter services. Revenues from non-insurance businesses decreased to \$390 million in 2016 from \$421 million in 2015, primarily due to the sale of Aero Precision Industries in August 2016.

**Losses and Loss Expenses.** Losses and loss expenses increased to \$3,846 million in 2016 from \$3,656 million in 2015. The consolidated loss ratio was 61.1% in 2016 and 60.5% in 2015. Catastrophe losses, net of reinsurance recoveries and reinstatement premiums, were \$105 million in 2016 compared with \$58 million in 2015, an increase of 0.7 loss ratio points. Favorable prior year reserve development (net of premium offsets) was \$59 million in 2016 compared with \$63 million in 2015, a difference of 0.2 loss ratio points (see "- Critical Accounting Estimates - Reserves for Losses and Loss Expenses"). The loss ratio excluding catastrophe losses and prior year reserve development decreased 0.3 points to 60.3% in 2016 from 60.6% in 2015.

A summary of loss ratios in 2016 compared with 2015 by business segment follows:

- **Insurance** - The loss ratio of 61.0% in 2016 was 0.2 points higher than the loss ratio of 60.8% in 2015. Catastrophe losses were \$89 million in 2016 compared with \$55 million in 2015, an increase of 0.6 loss ratio points. Favorable prior year reserve development was \$53 million in 2016 compared with \$52 million in 2015, reflecting no difference of loss ratio points. The loss ratio excluding catastrophe losses and prior year reserve development decreased 0.4 points to 60.4% in 2016 from 60.8% in 2015.
- **Reinsurance** - The loss ratio of 61.8% in 2016 was 3.4 points higher than the loss ratio of 58.4% in 2015. Catastrophe losses were \$16 million in 2016 compared with \$3 million in 2015, an increase of 2.0 loss ratio points. Favorable prior year reserve development was \$6 million in 2016 compared with \$11 million in 2015, a difference of 0.9 loss ratio points. The loss ratio excluding catastrophe losses and prior year reserve development increased 0.5 points to 60.2% in 2016 from 59.7% in 2015.

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

(In thousands)	2016	2015
Policy acquisition and operating insurance expenses	\$ 2,089,203	\$ 2,005,498
Service expenses	138,908	127,365
Net foreign currency (gains) losses	(11,904)	400
Other costs and expenses	179,412	156,487
<b>Total</b>	<b>\$ 2,395,619</b>	<b>\$ 2,289,750</b>

Policy acquisition and operating insurance expenses are comprised of commissions paid to agents and brokers, premium taxes and other assessments and internal underwriting costs. Policy acquisition and operating insurance expenses increased 4%, the same as the increase in net premiums earned of 4%. The expense ratio (policy acquisition and operating insurance expenses expressed as a percentage of premiums earned) was 33.2% in both 2016 and 2015.

Service expenses, which represent the costs associated with the fee-based businesses, increased 9% to \$139 million.

Net foreign currency (gains) losses result from transactions denominated in a currency other than an operating unit's functional currency. Net foreign currency gains were \$12 million in 2016 compared to losses of \$400 thousand in 2015.

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. Other costs and expenses increased to \$179 million in 2016 from \$156 million in 2015 due partially to the formation of additional operating units that had not yet commenced operations.

**Expenses from Non-Insurance Businesses.** Expenses from non-insurance businesses represent costs associated with a business engaged in the distribution of promotional merchandise and aviation-related businesses that include (i) cost of goods sold related to aircraft and products sold and services provided, and (ii) general and administrative expenses. Expenses from non-insurance businesses were \$375 million in 2016 compared to \$397 million in 2015, with the decrease primarily related to the sale of Aero Precision Industries in August 2016.

**Interest Expense.** Interest expense was \$141 million in 2016 compared with \$131 million in 2015. During 2016, the Company repaid \$87 million of debt on various issuances, mainly in connection with the sale of Aero Precision Industries. The Company repaid \$200 million of 5.6% senior notes at maturity on May 15, 2015. In February 2016, the Company issued \$110 million of 5.9% subordinated debentures maturing in 2056, and in May 2016, the Company issued \$290 million of 5.75% subordinated debentures maturing in 2056.

**Income Taxes.** The effective income tax rate was 33% in 2016 compared to 31% in 2015. The higher tax rate in 2016 was due, in part, to higher capital gains and state taxes. The effective income tax rate differs from the federal income tax rate of 35% primarily because of tax-exempt investment income.

## Results of Operations for the Years Ended December 31, 2015 and 2014

### 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 net premiums earned), expense ratios (underwriting expenses expressed as a percentage of net premiums earned) and GAAP combined ratios (sum of loss ratio and expense ratio) for each of our business segments for the years ended December 31, 2015 and 2014. 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)	2015	2014
<b>Insurance</b>		
Gross premiums written	\$ 6,607,492	\$ 6,367,950
Net premiums written	5,591,397	5,345,663
Net premiums earned	5,431,500	5,074,308
Loss ratio	60.8%	60.6%
Expense ratio	32.6	32.9
GAAP combined ratio	93.4	93.5
<b>Reinsurance</b>		
Gross premiums written	\$ 642,501	\$ 694,888
Net premiums written	598,118	651,284
Net premiums earned	609,109	670,110
Loss ratio	58.4%	62.0%
Expense ratio	38.2	34.0
GAAP combined ratio	96.6	96.0
<b>Consolidated</b>		
Gross premiums written	\$ 7,249,993	\$ 7,062,838
Net premiums written	6,189,515	5,996,947
Net premiums earned	6,040,609	5,744,418
Loss ratio	60.5%	60.8%
Expense ratio	33.2	33.0
GAAP combined ratio	93.7	93.8

**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 years ended December 31, 2015 and 2014.

(In thousands, except per share data)	2015	2014
Net income to common stockholders	\$ 503,694	\$ 648,884
Weighted average diluted shares	130,189	133,652
Net income per diluted share	\$ 3.87	\$ 4.86

The Company reported net income of \$504 million in 2015 compared to \$649 million in 2014. The 22% decrease in net income was primarily due to decreases in after-tax net investment gains of \$106 million and after-tax net investment income of \$60 million partially offset by an increase in after-tax net underwriting income of \$14 million. The number of weighted average diluted shares decreased as a result of the Company's repurchases of its common stock in 2015 and 2014.

**Premiums.** Gross premiums written were \$7,250 million in 2015, an increase of 3% from \$7,063 million in 2014. The growth was due to a combination of rate increases and increased exposures. Approximately 77% of policies expiring in 2015 were renewed, compared with a 79% renewal retention rate for policies expiring in 2014.

Average renewal premium rates (adjusted for change in exposures) increased 6.5% in 2013, 3.4% in 2014 and 1.2% in 2015. However, overall loss costs are also increasing, and current market price levels for certain lines of business remain below the prices required for the Company to achieve its long-term return objectives.

A summary of gross premiums written in 2015 compared with 2014 by line of business within each business segment follows:

- Insurance - gross premiums increased 4% to \$6,607 million in 2015 from \$6,368 million in 2014. Gross premiums increased \$142 million (9%) for workers' compensation, \$112 million (6%) for other liability, \$32 million (5%) for professional liability and \$5 million (1%) for commercial auto, partially offset by a decrease of \$52 million (3%) for short-tail lines.
- Reinsurance - gross premiums decreased 8% to \$643 million in 2015 from \$695 million in 2014. Gross premiums written decreased \$36 million (8%) for casualty lines and \$16 million (7%) for property lines.

Net premiums written were \$6,190 million in 2015, an increase of 3% from \$5,997 million in 2014. Ceded reinsurance premiums as a percentage of gross written premiums were 15% in 2015 and 2014.

Premiums earned increased 5% to \$6,041 million in 2015 from \$5,744 million in 2014. Insurance premiums (including the impact of rate changes) are generally earned evenly over the policy term, and rate increases were earned over the following quarters. Premiums earned in 2015 are related to business written during both 2015 and 2014. Audit premiums were \$153 million in 2015 compared with \$118 million in 2014.

Net Investment Income. Following is a summary of net investment income for the years ended December 31, 2015 and 2014:

(In thousands)	Amount		Average Annualized Yield	
	2015	2014	2015	2014
Fixed maturity securities, including cash and cash equivalents and loans receivable	\$ 428,325	\$ 439,489	3.2%	3.4%
Investment funds	62,228	131,649	5.2	12.7
Arbitrage trading account	16,891	22,438	3.3	3.9
Real estate	11,294	10,228	1.4	1.5
Equity securities available for sale	4,624	6,726	2.7	3.7
Gross investment income	523,362	610,530	3.3	3.9
Investment expenses	(10,717)	(9,645)		
Total	\$ 512,645	\$ 600,885	3.2%	3.9%

Net investment income decreased 15% to \$513 million in 2015 from \$601 million in 2014 primarily due to an decrease in income from energy investment funds. Investment funds are reported on a one quarter lag. The average annualized yield for fixed maturity securities declined to 3.2% from 3.4% due to lower long-term reinvestment yields available in the market. The effective duration of the fixed maturity portfolio was 3.3 years in December 31, 2015 compared with 3.2 years at December 31, 2014. Average invested assets, at cost (including cash and cash equivalents), were \$16.0 billion in 2015 and \$15.6 billion in 2014.

Insurance Service Fees. The Company earns fees from an insurance distribution business and as a servicing carrier of workers' compensation assigned risk plans for certain states. Service fees increased 19% to \$139 million in 2015 from \$117 million in 2014 primarily as a result of an increase in fees from assigned risk plans.

Net Realized Gains on Investment Sales. The Company buys and sells securities on a regular basis in order to maximize its total return on investments. Decisions to sell securities are based on management's view of the underlying fundamentals of specific securities as well as management's expectations regarding interest rates, credit spreads, currency values and general economic conditions. Net realized gains on investment sales were \$126 million in 2015 compared with \$255 million in 2014. In 2015, realized gains were related primarily to the sale of some shares of a publicly traded common stock held by one the Company's investment funds. In 2014, realized gains included an \$86 million gain from the sale of a commercial office building in London, England and a \$39 million gain resulting from the initial public offering of the above public company.

Other-Than-Temporary Impairments. The cost of securities is adjusted where appropriate to include a provision for a decline in value that is considered to be other-than-temporary. Other-than-temporary impairments of \$33 million in 2015 were primarily related to equity securities. There were no other-than-temporary impairments in 2014.

Revenues from Non-Insurance Businesses. Revenues from non-insurance businesses were derived from 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 increased to \$421 million in 2015 from \$410 million in 2014.

**Losses and Loss Expenses.** Losses and loss expenses increased to \$3,656 million in 2015 from \$3,491 million in 2014. The consolidated loss ratio was 60.5% in 2015 and 60.8% in 2014. Catastrophe losses, net of reinsurance recoveries and reinstatement premiums, were \$58 million in 2015 compared with \$87 million in 2014, a decrease of 0.4 loss ratio points. Favorable prior year reserve development (net of premium offsets) was \$63 million in 2015 compared with \$85 million in 2014, a difference of 0.3 loss ratio points (see "- Critical Accounting Estimates - Reserves for Losses and Loss Expenses"). The loss ratio excluding catastrophe losses and prior year reserve development decreased 0.2 points to 60.6% in 2015 from 60.8% in 2014.

A summary of loss ratios in 2015 compared with 2014 by business segment follows:

- **Insurance** - The loss ratio of 60.8% in 2015 was 0.2 points higher than the loss ratio of 60.6% in 2014. Catastrophe losses were \$55 million in 2015 compared with \$85 million in 2014, a decrease of 0.7 loss ratio points. Favorable prior year reserve development was \$52 million in 2015 compared with \$69 million in 2014, a difference of 0.4 loss ratio points. The loss ratio excluding catastrophe losses and prior year reserve development increased 0.5 points to 60.8% in 2015 from 60.3% in 2014.
- **Reinsurance** - The loss ratio of 58.4% in 2015 was 3.6 points lower than the loss ratio of 62.0% in 2014. Catastrophe losses were \$3 million in 2015 compared with \$2 million in 2014, an increase of 0.2 loss ratio points. Favorable prior year reserve development was \$11 million in 2015 compared with \$16 million in 2014, a difference of 0.6 loss ratio points. The loss ratio excluding catastrophe losses and prior year reserve development decreased 4.4 points to 59.7% in 2015 from 64.1% in 2014.
- **Operating Costs and Expenses.** Following is a summary of other operating costs and expenses:

(In thousands)	2015	2014
Policy acquisition and operating insurance expenses	\$ 2,005,498	\$ 1,896,530
Service expenses	127,365	102,726
Net foreign currency losses (gains)	400	(27)
Other costs and expenses	156,487	158,227
<b>Total</b>	<b>\$ 2,289,750</b>	<b>\$ 2,157,456</b>

Policy acquisition and operating insurance expenses are comprised of commissions paid to agents and brokers, premium taxes and other assessments and internal underwriting costs. Policy acquisition and operating insurance expenses increased 6%, compared with an increase in net premiums earned of 5%. The expense ratio (policy acquisition and operating insurance expenses expressed as a percentage of premiums earned) increased to 33.2% in 2015 from 33.0% in 2014.

Service expenses, which represent the costs associated with the fee-based businesses, increased 24% to \$127 million as a result of the acquisition of a specialty property and casualty insurance distribution company in 2014.

Net foreign currency losses (gains) result from transactions denominated in a currency other than an operating unit's functional currency.

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. Other costs and expenses decreased to \$156 million in 2015 from \$158 million in 2014.

**Expenses from Non-Insurance Businesses.** Expenses from non-insurance businesses represent costs associated with 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 \$397 million in 2015 compared to \$401 million in 2014.

**Interest Expense.** Interest expense was \$131 million in 2015 compared with \$128 million in 2014. In August 2014, the Company issued \$350 million of 4.75% senior notes due 2044. A portion of the proceeds was used to repay \$200 million of 5.60% senior notes at maturity on May 15, 2015.

**Income Taxes.** The effective income tax rate was 31% in 2015 compared to 32% in 2014. The lower tax rate in 2015 was due, in part, to the utilization of foreign tax credits. The effective income tax rate differs from the federal income tax rate of 35% primarily because of tax-exempt investment income.

## Investments

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

The Company also attempts to maintain an appropriate relationship between the effective duration of the investment portfolio and the approximate duration of its liabilities (i.e., policy claims and debt obligations). The effective duration of the investment portfolio was 3.1 years and 3.3 years at December 31, 2016 and 2015, respectively. The Company's investment portfolio and investment-related assets as of December 31, 2016 were as follows:

(\$ in thousands)	Carrying Value	Percent of Total
<b>Fixed maturity securities:</b>		
U.S. government and government agencies	\$ 513,802	2.9%
<b>State and municipal:</b>		
Special revenue	2,847,343	16.2
State general obligation	570,699	3.3
Corporate backed	410,653	2.4
Local general obligation	387,129	2.2
Pre-refunded (1)	376,261	2.2
Total state and municipal	<u>4,592,085</u>	<u>26.3</u>
<b>Mortgage-backed securities:</b>		
Agency	826,796	4.7
Residential-Prime	191,492	1.1
Commercial	152,863	0.9
Residential-Alt A	34,438	0.2
Total mortgage-backed securities	<u>1,205,589</u>	<u>6.9</u>
Asset-backed securities	1,907,860	10.9
<b>Corporate:</b>		
Industrial	2,379,400	13.6
Financial	1,397,274	8.0
Utilities	237,544	1.4
Other	54,309	0.3
Total corporate	<u>4,068,527</u>	<u>23.2</u>
Foreign government	902,805	5.2
Total fixed maturity securities	<u>13,190,668</u>	<u>75.6</u>
<b>Equity securities available for sale:</b>		
Common stocks	445,858	2.6
Preferred stocks	223,342	1.3
Total equity securities available for sale	<u>669,200</u>	<u>3.8</u>
Investment funds	1,198,146	6.9
Real estate	1,184,981	6.8
Cash and cash equivalents	795,285	4.6
Arbitrage trading account	299,999	1.7
Loans receivable	106,798	0.6
Total investments	<u>\$ 17,445,077</u>	<u>100.0%</u>

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

**Fixed Maturity Securities.** The Company's investment policy with respect to fixed maturity securities is generally to purchase instruments with the expectation of holding them to their maturity. However, management of the available for sale portfolio is considered necessary to maintain an approximate matching of assets and liabilities as well as to adjust the portfolio as a result of changes in financial market conditions and tax considerations.

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

At December 31, 2016, investments in foreign government fixed maturity securities were as follows:

(In thousands)	Carrying Value
Argentina	\$ 239,064
Australia	227,075
Canada	162,584
United Kingdom	105,906
Brazil	48,830
Germany	41,419
Supranational (1)	35,172
Norway	25,187
Uruguay	6,057
Singapore	6,003
Colombia	5,508
Total	<u>\$ 902,805</u>

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

**Equity Securities Available for Sale.** Equity securities available for sale primarily represent investments in mid-sized capitalization common stock and high-dividend yielding common and preferred stocks issued by large market capitalization companies. At December 31, 2016, common stocks included HealthEquity, Inc. shares, which had previously been reported in investment funds.

**Investment Funds.** At December 31, 2016, the carrying value of investment funds was \$1,198 million, including investments in real estate funds of \$642 million, energy funds of \$91 million, hedged equity funds of \$74 million and other funds of \$391 million. Investment funds are primarily reported on a one-quarter lag.

**Real Estate.** Real estate is directly owned property held for investment. At December 31, 2016, real estate properties in operation included a long-term ground lease in Washington D.C., a hotel in Memphis, Tennessee, an office complex in New York City and office buildings in West Palm Beach and Palm Beach, Florida. In addition, there are two properties under development: an office building in London and a mixed-use project in Washington D.C. The Company expects to fund further development costs for these projects with a combination of its own funds and external financing.

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

**Loans Receivable.** Loans receivable, which are carried at amortized cost, had an amortized cost of \$107 million and an aggregate fair value of \$108 million at December 31, 2016. The amortized cost of loans receivable is net of a valuation allowance of \$3 million as of December 31, 2016. Loans receivable include real estate loans of \$92 million that are secured by commercial real estate located primarily in North Carolina and New York. Real estate loans receivable generally earn interest at floating LIBOR-based interest rates and have maturities (inclusive of extension options) through August 2025. Loans receivable include commercial loans of \$14 million that are secured by business assets and have fixed interest rates and varying maturities not exceeding 10 years.

## Liquidity and Capital Resources

**Cash Flow.** Cash flow provided from operating activities decreased to \$848 million in 2016 from \$881 million in 2015. The decrease in cash flow was due primarily to higher taxes paid and losses paid. Paid losses as a percentage of earned premiums were 55% in 2016 and 54% in 2015.

As a holding company, the Company derives cash from its subsidiaries in the form of dividends, tax payments and management fees. Maximum amounts of dividends that our insurance companies can pay without regulatory approval are prescribed by statute. During 2017, the maximum amount of dividends which can be paid without regulatory approval is approximately \$580 million. The ability of the holding company to service its debt obligations is limited by the ability of its insurance subsidiaries to pay dividends. In the event dividends, tax payments and management fees available to the holding company were inadequate to service its debt obligations, the Company would need to raise capital, sell assets or restructure its debt obligations.

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 has targeted an effective duration for its investment portfolio that is within one year of the average duration of its liabilities so that portions of its investment portfolio mature throughout the claim cycle and are available for the payment of claims if necessary. In the event operating cash flow and proceeds from maturities and prepayments of fixed income securities are not sufficient to fund claim payments and other cash requirements, the remainder of the Company's cash and investments is available to pay claims and other obligations as they become due. The Company's investment portfolio is highly liquid, with approximately 80% invested in cash, cash equivalents and marketable fixed maturity securities as of December 31, 2016. If the sale of fixed maturity securities were to become necessary, a realized gain or loss equal to the difference between the cost and sales price of securities sold would be recognized.

**Debt.** At December 31, 2016, the Company had senior notes, subordinated debentures and other debt outstanding with a carrying value of \$2,488 million and a face amount of \$2,523 million. The maturities of the outstanding debt are \$4 million in 2017, \$443 million in 2019, \$300 million in 2020, \$427 million in 2022, \$250 million in 2037, \$350 million in 2044, \$350 million in 2053 and \$400 million in 2056.

In February 2016, the Company issued \$110 million aggregate principal amount of its 5.9% subordinated debentures due 2056, and in May 2016, the Company issued \$290 million aggregate principal amount of its 5.75% subordinated debentures due 2056. During 2016, the Company repaid \$87 million of debt on various issuances, mainly in connection with the sale of Aero Precision Industries. In May 2015, the Company repaid \$200 million of 5.60% senior notes at maturity and \$71 million of mortgage loans.

**Equity.** The Company repurchased 2,395,892, 4,502,025 and 5,816,468 shares of its common stock in 2016, 2015 and 2014, respectively. The aggregate cost of the repurchases was \$132 million in 2016, \$224 million in 2015 and \$239 million in 2014. At December 31, 2016, total common stockholders' equity was \$5.05 billion, common shares outstanding were 121,193,599 and stockholders' equity per outstanding share was \$41.65.

**Total Capital.** Total capitalization (equity, senior notes and other debt and subordinated debentures) was \$7.5 billion at December 31, 2016. The percentage of the Company's capital attributable to senior notes, subordinated debentures and other debt was 33% at December 31, 2016 and 32% at December 31, 2015.

## Federal and Foreign Income Taxes

The Company files a consolidated income tax return in the U.S. and foreign tax returns in each of the countries in which it has overseas operations. At December 31, 2016, the Company had a gross deferred tax asset (net of valuation allowance) of \$472 million (which primarily relates to loss and loss expense reserves and unearned premium reserves) and a gross deferred tax liability of \$606 million (which primarily relates to deferred policy acquisition costs and unrealized investment gains). The realization of the deferred tax asset is dependent upon the Company's ability to generate sufficient taxable income in future periods. Based on historical results and the prospects for future operations, management anticipates that it is more likely than not that future taxable income will be sufficient for the realization of this asset.

The Company has not provided U.S. deferred income taxes on the undistributed earnings of approximately \$55 million of its non-U.S. subsidiaries since these earnings are intended to be permanently reinvested in the non-U.S. subsidiaries. However, in the future, if such earnings were distributed to the Company, taxes of approximately \$6.1 million, assuming all tax credits are realized, would be payable on such undistributed earnings and would be reflected in the tax provision for the year in which these earnings are no longer intended to be permanently reinvested in the foreign subsidiary.

## Reinsurance

The Company follows customary industry practice of reinsuring a portion of its exposures in exchange for paying reinsurers a part of the premiums received on the policies it writes. Reinsurance is purchased by the Company principally to reduce its net liability on individual risks and to protect it against catastrophic losses. Although reinsurance does not legally discharge an insurer from its primary liability for the full amount of the policies, it does make the assuming reinsurer liable to the insurer to the extent of the reinsurance coverage. The Company monitors the financial condition of its reinsurers and attempts to place its coverages only with substantial and financially sound carriers. Reinsurance coverage and retentions vary depending on the line of business, location of the risk and nature of loss. The Company's reinsurance purchases include the following:

- Property reinsurance treaties - The Company purchases property reinsurance to reduce its exposure to large individual property losses and catastrophe events. Following is a summary of significant property reinsurance treaties in effect as of January 1, 2017: The Company's property per risk reinsurance generally covers losses between \$2.5 million and \$50 million. The Company's catastrophe excess of loss reinsurance program provides protection for net losses between \$30 million and \$355 million for the majority of business written by its U.S. Insurance segment operating units, excluding offshore energy. The Company has separate catastrophe excess of loss reinsurance for business written through its Lloyd's Syndicate that provides protection for losses between \$8.5 million and \$55 million for events in North America. For North American losses greater than \$55 million, the business written through the Company's Lloyd's Syndicate is protected within the U.S. program up to \$355 million. The Company's catastrophe reinsurance agreements are subject to certain limits, exclusions and reinstatement premiums.
- Casualty reinsurance treaties - The Company purchases casualty reinsurance to reduce its exposure to large individual casualty losses, workers' compensation catastrophe losses and casualty losses involving multiple claimants or insureds for the majority of business written by its U.S. companies. A significant casualty treaty in effect as of January 1, 2017 provides protection for losses between \$5 million and \$75 million from single events with claims involving two or more claimants or insureds. The treaty also covers casualty contingency losses in excess of \$5 million and up to \$75 million. For losses involving two or more claimants for primary workers' compensation business, coverage is generally in place for losses between \$5 million and \$200 million. For excess workers' compensation business, such coverage is generally in place for losses between \$25 million and \$265 million.
- Facultative reinsurance - The Company also purchases facultative reinsurance on certain individual policies or risks that are in excess of treaty reinsurance capacity.
- Other reinsurance - Depending on the operating unit, the Company purchases specific additional reinsurance to supplement the above programs.

The Company places most of its significant casualty treaties on a "risk attaching" basis. Under risk attaching treaties, all claims from policies incepting during the period of the reinsurance contract are covered even if they occur after the expiration date of the reinsurance contract. If the Company is unable to renew or replace its existing reinsurance coverage, protection for unexpired policies would remain in place until their expiration. In such case, the Company could revise its underwriting strategy for new business to reflect the absence of reinsurance protection. Property catastrophe and workers' compensation catastrophe reinsurance is generally placed on a "losses occurring basis," whereby only claims occurring during the period are covered. If the Company is unable to renew or replace this reinsurance coverage, unexpired policies would not be protected, though we frequently have the option to purchase run-off coverage in our treaties.

Following is a summary of earned premiums and loss and loss expenses ceded to reinsurers for each of the three years ended December 31, 2016:

(In thousands)	Year Ended December 31,		
	2016	2015	2014
Earned premiums	\$ 1,099,462	\$ 1,050,840	\$ 1,030,666
Losses and loss expenses	707,336	501,999	475,802

Ceded earned premiums increased 4.6% in 2016 to \$1,099 million, in-line with the increase in direct and assumed earned premiums of 4.2%. The ceded losses and loss expenses ratio increased 16 points to 64% in 2016 from 48% in 2015.

The following table presents the credit quality of amounts due from reinsurers as of December 31, 2016. Amounts due from reinsurers are net of reserves for uncollectible reinsurance of \$1 million in the aggregate.

(In thousands)

Reinsurer	Rating (1)	Amount
Amounts due in excess of \$20 million:		
Alleghany Group	A+	\$ 150,604
Munich Re	AA-	130,623
Swiss Re	AA-	120,906
Lloyd's of London	A+	118,607
Partner Re	A+	74,948
Axis Capital	A+	72,600
Everest Re	A+	53,482
Hannover Re Group	AA-	52,472
Berkshire Hathaway	AA+	49,340
Chubb Limited	AA	35,304
Korean Re	A	28,654
Validus	A	22,871
Arch Capital Group	A+	21,359
Other reinsurers:		
Rated A- or better		157,553
Secured (2)		69,882
All Others		18,725
Subtotal		1,177,930
Residual markets pools (3)		566,050
Total		\$ 1,743,980

(1) S&P rating, or if not rated by S&P, A.M. Best rating.

(2) Secured by letters of credit or other forms of collateral.

(3) Many states require licensed insurers that provide workers' compensation insurance to participate in programs that provide workers' compensation to employers that cannot procure coverage from an insurer on a voluntary basis. Insurers can fulfill this residual market obligation by participating in pools where results are shared by the participating companies. The Company acts as a servicing carrier for workers' compensation pools in certain states. As a servicing carrier, the Company writes residual market business directly and then cedes 100% of this business to the respective pool. As a servicing carrier, the Company receives fee income for its services. The Company does not retain underwriting risk, and credit risk is limited as ceded balances are jointly shared by all the pool members.

## Contractual Obligations

Following is a summary of the Company's contractual obligations as of December 31, 2016:

(In thousands)

Estimated Payments By Periods	2017	2018	2019	2020	2021	Thereafter
Gross reserves for losses	\$ 2,907,411	\$ 2,000,891	\$ 1,482,866	\$ 1,083,642	\$ 814,559	\$ 3,579,611
Operating lease obligations	45,305	40,634	35,805	33,575	29,374	100,704
Purchase obligations	88,941	39,877	37,769	37,783	35,786	899
Subordinated debentures	—	—	—	—	—	750,000
Debt maturities	3,615	—	442,590	300,000	—	1,026,503
Interest payments	144,965	144,892	135,005	109,313	97,946	2,027,294
Other long-term liabilities	4,557	4,198	3,828	3,524	3,165	27,149
Total	\$ 3,194,794	\$ 2,230,492	\$ 2,137,863	\$ 1,567,837	\$ 980,830	\$ 7,512,160

The estimated payments for reserves for losses and loss expenses in the above table represent the projected (undiscounted) payments for gross loss and loss expense reserves related to losses incurred as of December 31, 2016. The estimated payments in the above table do not consider payments for losses to be incurred in future periods. These amounts include reserves for reported losses and reserves for incurred but not reported losses. Estimated amounts recoverable from reinsurers are not reflected. The estimated payments by year are based on historical loss payment patterns. The actual payments may differ from the estimated amounts due to changes in ultimate loss reserves and in the timing of the settlement of those reserves. In addition, at December 31, 2016, the Company had commitments to invest up to \$373.2 million and \$495.7 million in certain investment funds and real estate construction projects, respectively. These amounts are not included in the above table.

The Company utilizes letters of credit to back certain reinsurance payments and obligations. Outstanding letters of credit were \$18 million as of December 31, 2016. The Company has made certain guarantees to state regulators that the statutory capital of certain subsidiaries will be maintained above certain minimum levels.

## Off-Balance Sheet Arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (1) made guarantees, (2) a retained or contingent interest in transferred assets, (3) an obligation under derivative instruments classified as equity or (4) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company, or that engages in leasing, hedging or research and development arrangements with the Company. The Company has no arrangements of these types that management believes may have a material current or future effect on our financial condition, liquidity or results of operations.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**Market Risk.** The fair value of the Company's investments is subject to risks of fluctuations in credit quality and interest rates. The Company uses various models and stress test scenarios to monitor and manage interest rate risk. The Company attempts to manage its interest rate risk by maintaining an appropriate relationship between the effective duration of the investment portfolio and the approximate duration of its liabilities (i.e., policy claims and debt obligations). The effective duration for the fixed maturity portfolio (including cash and cash equivalents) was 3.1 years and 3.3 years at December 31, 2016 and 2015, respectively.

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.

The following table outlines the groups of fixed maturity securities and their effective duration at December 31, 2016:

(\$ in thousands)	Effective Duration (Years)	Fair Value
Cash and cash equivalents	—	\$ 795,285
U. S. government and governmental agencies	3.0	513,802
State and municipal	4.3	4,604,538
Asset-backed securities	0.6	1,907,860
Corporate	3.5	4,068,527
Foreign government	2.4	902,805
Mortgage-backed securities	4.0	1,207,282
Loans receivable	3.7	108,299
<b>Total</b>	<b>3.1</b>	<b>\$ 14,108,398</b>

Duration is a common measure of the price sensitivity of fixed maturity securities to changes in interest rates. The Company determines the estimated change in fair value of the fixed maturity securities, assuming parallel shifts in the yield curve for treasury securities while keeping spreads between individual securities and treasury securities static. The estimated fair value at specified levels at December 31, 2016 would be as follows:

(In thousands)	Estimated Fair Value	Change in Fair Value
<b>Change in interest rates:</b>		
300 basis point rise	\$ 12,779,442	\$ (1,328,956)
200 basis point rise	13,215,239	(893,159)
100 basis point rise	13,657,217	(451,181)
Base scenario	14,108,398	—
100 basis point decline	14,563,631	455,233
200 basis point decline	14,988,978	880,580
300 basis point decline	15,400,344	1,291,946

Arbitrage investing differs from other types of investments in that its focus is 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 believes that this makes arbitrage investments less vulnerable to changes in general stock market conditions. Potential changes in market conditions are also mitigated by the implementation of hedging strategies, including short sales.

Additionally, the arbitrage positions are generally hedged against market declines by purchasing put options, selling call options or entering into swap contracts. The Company's merger arbitrage securities are primarily exposed to the risk of completion of announced deals, which are subject to regulatory as well as transactional and other risks.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

W. R. Berkley Corporation:

We have audited the accompanying consolidated balance sheets of W. R. Berkley Corporation and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of W. R. Berkley Corporation and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), W. R. Berkley Corporation's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/S/ KPMG LLP

New York, New York  
February 27, 2017

**W. R. BERKLEY CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

<b>(In thousands, except per share data)</b>	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>REVENUES:</b>			
Net premiums written	\$ 6,423,913	\$ 6,189,515	\$ 5,996,947
Change in net unearned premiums	(130,565)	(148,906)	(252,529)
Net premiums earned	6,293,348	6,040,609	5,744,418
Net investment income	564,163	512,645	600,885
Insurance service fees	138,944	139,440	117,443
Net investment gains:			
Net realized gains on investment sales	285,119	125,633	254,852
Other-than-temporary impairments	(18,114)	(33,309)	—
Net investment gains	267,005	92,324	254,852
Revenues from non-insurance businesses	390,348	421,102	410,022
Other income	376	337	1,308
Total revenues	7,654,184	7,206,457	7,128,928
<b>OPERATING COSTS AND EXPENSES:</b>			
Losses and loss expenses	3,845,800	3,656,270	3,490,567
Other operating costs and expenses	2,395,619	2,289,750	2,157,456
Expenses from non-insurance businesses	375,431	397,461	400,535
Interest expense	140,896	130,946	128,174
Total operating costs and expenses	6,757,746	6,474,427	6,176,732
Income before income taxes	896,438	732,030	952,196
Income tax expense	(292,953)	(227,923)	(302,593)
Net income before noncontrolling interests	603,485	504,107	649,603
Noncontrolling interests	(1,569)	(413)	(719)
Net income to common stockholders	\$ 601,916	\$ 503,694	\$ 648,884
<b>NET INCOME PER SHARE:</b>			
Basic	\$ 4.91	\$ 4.06	\$ 5.07
Diluted	\$ 4.68	\$ 3.87	\$ 4.86

See accompanying notes to consolidated financial statements.

**W. R. BERKLEY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<b>(In thousands)</b>	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net income before noncontrolling interests	\$ 603,485	\$ 504,107	\$ 649,603
Other comprehensive gain (loss):			
Change in unrealized translation adjustments	(124,193)	(124,744)	(62,125)
Change in unrealized investment gains (losses), net of taxes	246,518	(125,542)	49,666
Change in unrecognized pension obligation, net of taxes	—	—	6,651
Other comprehensive gain (loss)	122,325	(250,286)	(5,808)
Comprehensive income	725,810	253,821	643,795
Comprehensive loss (income) to the noncontrolling interest	1,510	(375)	(752)
Comprehensive income to common shareholders	\$ 727,320	\$ 253,446	\$ 643,043

See accompanying notes to consolidated financial statements.

**W. R. BERKLEY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)	December 31,	
	2016	2015
<b>Assets</b>		
Investments:		
Fixed maturity securities	\$ 13,190,668	\$ 12,444,394
Investment funds	1,198,146	1,170,040
Real estate	1,184,981	936,367
Arbitrage trading account	299,999	376,697
Loans receivable	106,798	273,103
Equity securities available for sale	669,200	150,866
Total investments	16,649,792	15,351,467
Cash and cash equivalents	795,285	763,631
Premiums and fees receivable	1,701,854	1,669,186
Due from reinsurers	1,743,980	1,532,829
Deferred policy acquisition costs	537,890	513,128
Prepaid reinsurance premiums	413,140	394,387
Trading account receivable from brokers and clearing organizations	484,593	383,115
Property, furniture and equipment	349,432	348,224
Goodwill	144,513	153,291
Accrued investment income	127,047	123,164
Current federal and foreign income taxes	14,768	55,763
Other assets	402,550	442,782
Total assets	\$ 23,364,844	\$ 21,730,967
<b>Liabilities and Equity</b>		
Liabilities:		
Reserves for losses and loss expenses	\$ 11,197,195	\$ 10,669,150
Unearned premiums	3,283,300	3,137,133
Due to reinsurers	213,128	224,752
Trading account securities sold but not yet purchased	51,179	37,035
Deferred federal and foreign income taxes	134,365	6,811
Other liabilities	916,318	837,937
Senior notes and other debt	1,760,595	1,844,621
Subordinated debentures	727,630	340,320
Total liabilities	18,283,710	17,097,759
Equity:		
Preferred stock, par value \$.10 per share:		
Authorized 5,000,000 shares; issued and outstanding — none	—	—
Common stock, par value \$.20 per share:		
Authorized 500,000,000 shares, issued and outstanding, net of treasury shares, 121,193,599 and 123,307,837 shares, respectively	47,024	47,024
Additional paid-in capital	1,037,446	1,005,455
Retained earnings	6,595,987	6,178,070
Accumulated other comprehensive income (loss)	55,568	(66,698)
Treasury stock, at cost, 113,924,319 and 111,810,081 shares, respectively	(2,688,817)	(2,563,605)
Total common stockholders' equity	5,047,208	4,600,246
Noncontrolling interests	33,926	32,962
Total equity	5,081,134	4,633,208
Total liabilities and equity	\$ 23,364,844	\$ 21,730,967

See accompanying notes to consolidated financial statements.

**W. R. BERKLEY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(In thousands)	Year Ended December 31,		
	2016	2015	2014
<b>COMMON STOCK:</b>			
Beginning and end of period	\$ 47,024	\$ 47,024	\$ 47,024
<b>ADDITIONAL PAID IN CAPITAL:</b>			
Beginning of period	\$ 1,005,455	\$ 991,512	\$ 967,440
Restricted stock units issued including tax benefit	(3,594)	(16,748)	(3,894)
Restricted stock units expensed	35,585	30,691	27,966
End of period	\$ 1,037,446	\$ 1,005,455	\$ 991,512
<b>RETAINED EARNINGS:</b>			
Beginning of period	\$ 6,178,070	\$ 5,732,410	\$ 5,265,015
Net income to common stockholders	601,916	503,694	648,884
Dividends	(183,999)	(58,034)	(181,489)
End of period	\$ 6,595,987	\$ 6,178,070	\$ 5,732,410
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):</b>			
Unrealized investment gains (losses):			
Beginning of period	\$ 180,695	\$ 306,199	\$ 256,566
Unrealized gains (losses) on securities not other-than-temporarily impaired	246,872	(125,391)	49,071
Unrealized gains (losses) on other-than-temporarily impaired securities	(413)	(113)	562
End of period	427,154	180,695	306,199
Currency translation adjustments:			
Beginning of period	(247,393)	(122,649)	(60,524)
Net change in period	(124,193)	(124,744)	(62,125)
End of period	(371,586)	(247,393)	(122,649)
Net pension asset:			
Beginning of period	—	—	(6,651)
Net change in period	—	—	6,651
End of period	—	—	—
Total accumulated other comprehensive income (loss)	\$ 55,568	\$ (66,698)	\$ 183,550
<b>TREASURY STOCK:</b>			
Beginning of period	\$ (2,563,605)	\$ (2,364,551)	\$ (2,132,835)
Stock exercised/vested	6,495	23,975	6,623
Stock issued	685	623	594
Stock repurchased	(132,392)	(223,652)	(238,933)
End of period	\$ (2,688,817)	\$ (2,563,605)	\$ (2,364,551)
<b>NONCONTROLLING INTERESTS:</b>			
Beginning of period	\$ 32,962	\$ 34,189	\$ 33,359
Contributions (distributions)	(546)	(1,602)	78
Net income	1,569	413	719
Other comprehensive income (loss), net of tax	(59)	(38)	33
End of period	\$ 33,926	\$ 32,962	\$ 34,189

See accompanying notes to consolidated financial statements.

**W. R. BERKLEY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<b>(In thousands)</b>	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>CASH FROM OPERATING ACTIVITIES:</b>			
Net income to common stockholders	\$ 601,916	\$ 503,694	\$ 648,884
Adjustments to reconcile net income to net cash from operating activities:			
Net investment gains	(267,005)	(92,324)	(254,852)
Depreciation and amortization	86,051	85,139	88,836
Noncontrolling interests	1,569	413	719
Investment funds	(99,301)	(62,228)	(131,649)
Stock incentive plans	37,174	32,123	28,068
Change in:			
Arbitrage trading account	(10,633)	(7,173)	(50,817)
Premiums and fees receivable	(60,403)	(60,942)	(104,174)
Reinsurance accounts	(235,455)	(31,930)	(33,445)
Deferred policy acquisition costs	(25,912)	(29,860)	(42,789)
Current income taxes	42,632	20,428	(40,935)
Deferred income taxes	9,012	47,260	30,812
Reserves for losses and loss expenses	572,196	397,685	376,617
Unearned premiums	149,683	142,699	277,826
Other	46,852	(63,680)	(58,254)
Net cash from operating activities	848,376	881,304	734,847
<b>CASH FLOWS USED IN INVESTING ACTIVITIES:</b>			
Proceeds from sale of fixed maturity securities	2,440,310	1,388,680	633,459
Proceeds from sale of equity securities	143,042	15,833	113,251
Distributions from investment funds	142,601	177,424	69,319
Proceeds from maturities and prepayments of fixed maturity securities	2,189,365	2,999,339	2,605,839
Purchase of fixed maturity securities	(5,541,202)	(4,455,223)	(4,292,165)
Purchase of equity securities	(202,736)	(29,526)	(31,207)
Real estate purchased	(299,123)	(222,659)	(213,159)
Proceeds from sale of real estate	—	—	343,723
Change in loans receivable	166,327	48,909	21,608
Net additions to property, furniture and equipment	(50,829)	(63,562)	(41,958)
Change in balances due from security brokers	20,992	(22,666)	32,617
Cash received in connection with business disposition	250,216	—	15,783
Payment for business purchased, net of cash acquired	(53,451)	(7,312)	(65,421)
Net cash used in investing activities	(794,488)	(170,763)	(808,311)
<b>CASH FLOWS USED IN FINANCING ACTIVITIES:</b>			
Net proceeds from issuance of debt	388,769	9,056	354,012
Repayment of senior notes and other debt	(75,487)	(281,086)	(3,700)
Cash dividends to common stockholders	(183,999)	(58,034)	(181,489)
Purchase of common treasury shares	(132,392)	(223,652)	(238,933)
Other, net	(3,823)	(1,602)	337
Net cash used in financing activities	(6,932)	(555,318)	(69,773)
Net impact on cash due to change in foreign exchange rates	(15,302)	(66,033)	(22,060)
Net increase (decrease) in cash and cash equivalents	31,654	89,190	(165,297)
Cash and cash equivalents at beginning of year	763,631	674,441	839,738
Cash and cash equivalents at end of year	\$ 795,285	\$ 763,631	\$ 674,441

See accompanying notes to consolidated financial statements.

**W. R. BERKLEY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the years ended December 31, 2016, 2015 and 2014**

**(1) Summary of Significant Accounting Policies**

*(A) Principles of consolidation and basis of presentation*

The 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"). All significant intercompany transactions and balances have been eliminated. Reclassifications have been made in the 2015 and 2014 financial statements to conform to the presentation of the 2016 financial statements. 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. The most significant items on our balance sheet that involve a greater degree of accounting estimates that are subject to change in the future are the valuation of investments, other-than-temporary impairments, loss and loss expense reserves and premium estimates. Actual results could differ from those estimates.

*(B) Revenue recognition*

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.

Audit premiums are recognized when they are reliably determinable. The change in accruals for earned but unbilled audit premiums increased net premiums written and premiums earned by \$8 million, \$3 million and \$9 million in 2016, 2015 and 2014, respectively.

Revenues from non-insurance businesses are derived from a business engaged in the distribution of promotional merchandise and aircraft services provided to the general, commercial and military aviation markets. These aircraft services include (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. Revenue is recognized upon the shipment of products and parts, the delivery of aircraft, the delivery of fuel, and upon completion of services.

Insurance service fee revenue represents servicing fees for program administration and claims management services provided by the Company, including workers' compensation assigned risk plans, as well as insurance brokerage and risk management services. Fees for program administration, claims management and risk management services are primarily recognized ratably over the related contract period for which the underlying services are rendered. Commissions for insurance brokerage are generally recognized when the underlying insurance policy is effective.

*(C) Cash and cash equivalents*

Cash equivalents consist of funds invested in money market accounts and investments with an effective maturity of three months or less when purchased.

*(D) Investments*

Fixed maturity securities classified as available for sale are carried at estimated fair value, with unrealized gains and losses, net of applicable income taxes, excluded from earnings and reported as a component of comprehensive income and a separate component of stockholders' equity. Fixed maturity securities that the Company has the positive intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost. Investment income from fixed maturity securities is recognized based on the constant effective yield method. Premiums and discounts on mortgage-backed securities are adjusted for the effects of actual and anticipated prepayments on a retrospective basis.

Equity securities classified as available for sale are carried at estimated fair value, with unrealized gains and losses, net of applicable income taxes, excluded from earnings and reported as a component of comprehensive income and a separate component of stockholders' equity.

Equity and fixed maturity securities that the Company purchased with the intent to sell in the near-term are classified as trading account securities and are reported at estimated fair value. Realized and unrealized gains and losses from trading activity are reported as net investment income and are recorded at the trade date. Short sales and short call options are presented as trading securities sold but not yet purchased. Unsettled trades and the net margin balances held by the clearing broker are presented as a trading account receivable from brokers and clearing organizations.

Investment funds are carried under the equity method of accounting. For certain investment funds, the Company's share of the earnings or losses is reported on a one-quarter lag in order to facilitate the timely completion of the Company's consolidated financial statements.

Loans receivable primarily represent commercial real estate mortgage loans and bank loans and are carried at amortized cost. The Company monitors the performance of its loans receivable and establishes an allowance for loan losses for loans where the Company determines it is probable that the contractual terms will not be met, with a corresponding charge to earnings. For loans that are evaluated individually and deemed to be impaired, the Company establishes a specific allowance based on a discounted cash flow analysis and comparable cost and sales methodologies, if appropriate. Individual loans that are not considered impaired and smaller-balance homogeneous loans are evaluated collectively and a general allowance is established if it is considered probable that a loss has been incurred.

The accrual of interest on loans receivable is discontinued if the loan is 90 days past due based on the contractual terms of the loan unless the loan is adequately secured and in process of collection. In general, loans are placed on non-accrual status or charged off at an earlier date if collection of principal or interest is considered doubtful. Interest on these loans is accounted for on a cash basis until qualifying for return to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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." Fair value of investments is determined based on a fair value hierarchy that prioritizes the use of observable inputs over the use of unobservable inputs and requires the use of observable inputs when available. (See Note 13 of the Notes to Consolidated Financial Statements.)

Realized gains or losses represent the difference between the cost of securities sold and the proceeds realized upon sale and are recorded at the trade date. The Company uses primarily the first-in, first-out method to determine the cost of securities sold.

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

For fixed maturity securities that the Company intends to sell or, more likely than not, would be required to sell, a decline in value below amortized cost is considered to be an other-than-temporary impairment ("OTTI"). The amount of OTTI is equal to the difference between amortized cost and fair value at the balance sheet date. For fixed maturity securities that the Company does not intend to sell or believes that it is more likely than not it would not be required to sell, a decline in value below amortized cost is considered to be an OTTI if the Company does not expect to recover the entire amortized cost basis of a security (i.e., the present value of cash flows expected to be collected is less than the amortized cost basis of the security). The portion of the decline in value considered to be a credit loss (i.e., the difference between the present value of cash flows expected to be collected and the amortized cost basis of the security) is recognized in earnings. The portion of the decline in value not considered to be a credit loss (i.e., the difference in the present value of cash flows expected to be collected and the fair value of the security) is recognized in other comprehensive income.

Impairment assessments for structured securities, including mortgage-backed securities and asset-backed securities, collateralized debt obligations and corporate debt, are generally evaluated based on the performance of the underlying collateral under various economic and default scenarios that may involve subjective judgments and estimates by management. Modeling these securities involves various factors, such as projected default rates, the nature and realizable value of the collateral, if any, the ability of

the issuer to make scheduled payments, historical performance and other relevant economic and performance factors. If an OTTI determination is made, a discounted cash flow analysis is used to ascertain the amount of the credit impairment.

Real estate held for investment purposes is initially recorded at the purchase price, which is generally fair value, and is subsequently reported at cost less accumulated depreciation. Real estate taxes, interest and other costs incurred during development and construction are capitalized. Buildings are depreciated on a straight-line basis over the estimated useful lives of the building. Minimum rental income is recognized on a straight-line basis over the lease term. Income and expenses from real estate are reported as net investment income. The carrying value of real estate is reviewed for impairment and an impairment loss is recognized if the estimated undiscounted cash flows from the use and disposition of the property are less than the carrying value of the property.

*(E) 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 weighted average number of common shares outstanding during the year. Diluted EPS is based upon the weighted average number of common and common equivalent shares outstanding during the year 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.

*(F) Deferred policy acquisition costs*

Acquisition costs associated with the successful acquisition of new and renewed insurance and reinsurance contracts are deferred and amortized ratably over the terms of the related contracts. Ceding commissions received on reinsurance contracts are netted against acquisition costs and are recognized ratably over the life of the contract. Deferred policy acquisition costs are presented net of unearned ceding commissions. Deferred policy acquisition costs are comprised primarily of commissions, as well as employment-related underwriting costs and premium taxes. Deferred policy acquisition costs are reviewed to determine if they are recoverable from future income and, if not, are charged to expense. The recoverability of deferred policy acquisition costs is evaluated separately by each of our operating companies for each of their major lines of business. Future investment income is taken into account in measuring the recoverability of deferred policy acquisition costs.

*(G) Reserves for losses and loss expenses*

Reserves for losses and loss expenses are an accumulation of amounts determined on the basis of (1) evaluation of claims for business written directly by the Company; (2) estimates received from other companies for reinsurance assumed by the Company; and (3) estimates for losses incurred but not reported (based on Company and industry experience). These estimates are periodically reviewed and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments are reflected in the statements of income in the period in which they are determined. The Company discounts its reserves for excess and assumed workers' compensation claims using a risk-free or statutory rate. (See Note 14 of Notes to Consolidated Financial Statements.)

*(H) Reinsurance ceded*

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 reserves for estimated uncollectible reinsurance.

*(I) Deposit accounting*

Contracts that do not meet the risk transfer requirements of GAAP are accounted for using the deposit accounting method. Under this method, an asset or liability is recognized at the inception of the contract based on consideration paid or received. The amount of the deposit asset or liability is adjusted at subsequent reporting dates using the interest method with a corresponding credit or charge to interest income or expense. Deposit liabilities for assumed reinsurance contracts were \$51 million and \$54 million at December 31, 2016 and 2015, respectively.

*(J) Federal and foreign income taxes*

The Company files a consolidated income tax return in the U.S. and foreign tax returns in countries where it has overseas operations. The Company's method of accounting for income taxes is the asset and liability method. Under this method, deferred tax assets and liabilities are measured using tax rates currently in effect or expected to apply in the years in which those temporary differences are expected to reverse. Interest and penalties, if any, are reported as income tax expense. The Company believes there are no tax positions that would require disclosure under GAAP. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or a portion of the deferred tax assets will not be realized.

*(K) Foreign currency*

Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's functional currency) are reported on the statements of income as other operating costs and expenses. Unrealized gains or losses resulting from translating the results of non-U.S. dollar denominated operations are reported in accumulated other comprehensive income. Revenues and expenses denominated in currencies other than U.S. dollars are translated at the weighted average exchange rate during the year. Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date.

*(L) Property, furniture and equipment*

Property, furniture and equipment are carried at cost less accumulated depreciation. Depreciation is calculated using the estimated useful lives of the respective assets. Depreciation expense was \$47 million, \$45 million and \$44 million for 2016, 2015 and 2014, respectively.

*(M) Comprehensive income*

Comprehensive income encompasses all changes in stockholders' equity (except those arising from transactions with stockholders) and includes net income, net unrealized holding gains or losses on available for sale securities, unrealized foreign currency translation adjustments and changes in unrecognized pension obligations.

*(N) Goodwill and other intangible assets*

Goodwill and other intangible assets are tested for impairment on an annual basis and at interim periods where circumstances require. The Company's impairment test as of December 31, 2016 indicated that there were no material impairment losses related to goodwill and other intangible assets. Intangible assets of \$82 million and \$94 million are included in other assets as of December 31, 2016 and 2015, respectively.

*(O) Stock options*

The costs resulting from all share-based payment transactions with employees are recognized in the consolidated financial statements using a fair-value-based measurement method. Compensation cost is recognized for financial reporting purposes over the period in which the employee is required to provide service in exchange for the award (generally the vesting period).

*(P) Statements of cash flows*

Interest payments were \$137 million, \$130 million and \$120 million in 2016, 2015 and 2014, respectively. Income taxes paid were \$232 million, \$165 million and \$314 million in 2016, 2015 and 2014, respectively. Other non-cash items include unrealized investment gains and losses and pension expense. (See Note 11 and Note 25 of Notes to Consolidated Financial Statements.)

*(Q) Recent accounting pronouncements*

*Recently adopted accounting pronouncements:*

In February 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2015-02, Consolidation. ASU 2015-02 makes targeted amendments to the current consolidation accounting guidance, in response to accounting complexity concerns. The guidance simplifies consolidation accounting by reducing the number of approaches to consolidation. The Company adopted this updated guidance on January 1, 2016. The adoption of this guidance did not have a material effect on the Company's financial condition or results of operations, but did result in additional disclosures.

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

All other accounting and reporting standards that became effective in 2016 were either not applicable to the Company or their adoption did not have a material impact on the Company.

*Accounting and reporting standards that are not yet effective:*

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

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

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

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

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

## (2) Acquisitions / Dispositions

In February 2016, the Company acquired an 85% ownership interest for \$42.3 million in a company engaged in the distribution of promotional merchandise. The fair value of the assets acquired and liabilities assumed have been estimated based on a third party valuation.

In July 2016, the Company acquired a specialty property and casualty insurance company for \$15.5 million.

The following table summarizes the estimated fair value of net assets acquired and liabilities assumed for the business combinations completed in 2016:

<b>(In thousands)</b>	<b>2016</b>	
Investments	\$	6,764
Cash and cash equivalents		4,202
Real estate, furniture and equipment		701
Goodwill		12,281
Premium and service fee receivable		4,399
Other assets (1)		37,981
Total assets acquired	\$	66,328
Other liabilities assumed		(5,395)
Non controlling interest		(3,280)
Net assets acquired	\$	57,653

(1) Other assets includes \$31.8 million of intangible assets.

In July 2016, the Company sold Aero Precision Industries, an aviation-related business, for \$253.1 million. The business had a net carrying value of \$118.2 million.

### (3) Consolidated Statement of Comprehensive Income (Loss)

The following tables present the components of the changes in accumulated other comprehensive income (loss) (AOCI) as of and for the years ended December 31, 2016 and 2015:

<b>(In thousands) December 31, 2016</b>	<b>Unrealized investment gains (losses)</b>	<b>Currency translation adjustments</b>	<b>Accumulated other comprehensive income (loss)</b>
<b>Changes in AOCI</b>			
Beginning of period	\$ 180,695	\$ (247,393)	\$ (66,698)
Other comprehensive income (loss) before reclassifications	286,734	(124,193)	162,541
Amounts reclassified from AOCI	<u>(40,216)</u>	<u>—</u>	<u>(40,216)</u>
Other comprehensive income (loss)	246,518	(124,193)	122,325
Unrealized investment gain related to non-controlling interest	<u>(59)</u>	<u>—</u>	<u>(59)</u>
Ending balance	<u>\$ 427,154</u>	<u>\$ (371,586)</u>	<u>\$ 55,568</u>
<b>Amounts reclassified from AOCI</b>			
Pre-tax	\$ (61,871) (1)	\$ —	\$ (61,871)
Tax effect	21,655 (2)	—	21,655
After-tax amounts reclassified	<u>\$ (40,216)</u>	<u>\$ —</u>	<u>\$ (40,216)</u>
<b>Other comprehensive income (loss)</b>			
Pre-tax	\$ 379,258	\$ (124,193)	\$ 255,065
Tax effect	<u>(132,740)</u>	<u>—</u>	<u>(132,740)</u>
Other comprehensive income (loss)	<u>\$ 246,518</u>	<u>\$ (124,193)</u>	<u>\$ 122,325</u>

<b>(In thousands) December 31, 2015</b>	<b>Unrealized investment gains (losses)</b>	<b>Currency translation adjustments</b>	<b>Accumulated other comprehensive income (loss)</b>
<b>Changes in AOCI</b>			
Beginning of period	\$ 306,199	\$ (122,649)	\$ 183,550
Other comprehensive income (loss) before reclassifications	(119,994)	(124,744)	(244,738)
Amounts reclassified from AOCI	<u>(5,548)</u>	<u>—</u>	<u>(5,548)</u>
Other comprehensive income (loss)	(125,542)	(124,744)	(250,286)
Unrealized investment loss related to non-controlling interest	<u>38</u>	<u>—</u>	<u>38</u>
Ending balance	<u>\$ 180,695</u>	<u>\$ (247,393)</u>	<u>\$ (66,698)</u>
<b>Amounts reclassified from AOCI</b>			
Pre-tax	\$ (8,535) (1)	\$ —	\$ (8,535)
Tax effect	2,987 (2)	—	2,987
After-tax amounts reclassified	<u>\$ (5,548)</u>	<u>\$ —</u>	<u>\$ (5,548)</u>
<b>Other comprehensive income (loss)</b>			
Pre-tax	\$ (192,186)	\$ (124,744)	\$ (316,930)
Tax effect	<u>66,644</u>	<u>—</u>	<u>66,644</u>
Other comprehensive income (loss)	<u>\$ (125,542)</u>	<u>\$ (124,744)</u>	<u>\$ (250,286)</u>

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

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

#### (4) Investments in Fixed Maturity Securities

At December 31, 2016 and 2015, investments in fixed maturity securities were as follows:

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

<b>(In thousands)</b>	<b>Amortized Cost</b>	<b>Gross Unrealized</b>		<b>Fair Value</b>	<b>Carrying Value</b>
		<b>Gains</b>	<b>Losses</b>		
<b>December 31, 2015</b>					
Held to maturity:					
State and municipal	\$ 77,129	\$ 16,246	\$ —	\$ 93,375	\$ 77,129
Residential mortgage-backed	19,138	2,207	—	21,345	19,138
Total held to maturity	96,267	18,453	—	114,720	96,267
Available for sale:					
U.S. government and government agency	645,092	27,660	(2,333)	670,419	670,419
State and municipal:					
Special revenue	2,510,816	102,909	(3,737)	2,609,988	2,609,988
State general obligation	583,456	28,068	(2,070)	609,454	609,454
Pre-refunded	439,772	32,056	(31)	471,797	471,797
Corporate backed	388,904	14,039	(402)	402,541	402,541
Local general obligation	342,158	24,270	(29)	366,399	366,399
Total state and municipal	4,265,106	201,342	(6,269)	4,460,179	4,460,179
Mortgage-backed securities:					
Residential (1)	1,126,382	18,935	(11,180)	1,134,137	1,134,137
Commercial	64,975	875	(128)	65,722	65,722
Total mortgage-backed securities	1,191,357	19,810	(11,308)	1,199,859	1,199,859
Asset-backed securities	1,706,694	12,892	(14,414)	1,705,172	1,705,172
Corporate:					
Industrial	1,976,393	75,168	(30,027)	2,021,534	2,021,534
Financial	1,153,096	31,744	(11,819)	1,173,021	1,173,021
Utilities	192,857	8,321	(2,527)	198,651	198,651
Other	81,607	245	(20)	81,832	81,832
Total corporate	3,403,953	115,478	(44,393)	3,475,038	3,475,038
Foreign	799,839	50,310	(12,689)	837,460	837,460
Total available for sale	12,012,041	427,492	(91,406)	12,348,127	12,348,127
Total investments in fixed maturity securities	\$ 12,108,308	\$ 445,945	\$ (91,406)	\$ 12,462,847	\$ 12,444,394

(1) Gross unrealized losses for mortgage-backed securities include \$818,691 and \$1,269,491, as of December 31, 2016 and 2015, respectively, related to the non-credit portion of OTTI recognized in other comprehensive income.

The amortized cost and fair value of fixed maturity securities at December 31, 2016, 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.

<b>(In thousands)</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 1,023,413	\$ 1,042,713
Due after one year through five years	5,100,876	5,223,935
Due after five years through ten years	3,157,579	3,249,731
Due after ten years	2,470,682	2,481,153
Mortgage-backed securities	1,205,785	1,207,282
Total	\$ 12,958,335	\$ 13,204,814

At December 31, 2016 and 2015, there were no investments, other than investments in United States government and government agency securities, which exceeded 10% of common stockholders' equity. At December 31, 2016, investments with a carrying value of \$1,261 million were on deposit in custodial or trust accounts, of which \$1,022 million was on deposit with state insurance departments, \$178 million was on deposit in support of the Company's underwriting activities at Lloyd's, \$43 million was on deposit as security for reinsurance clients and \$18 million was on deposit as security for letters of credit issued in support of the Company's reinsurance operations.

## (5) Investments in Equity Securities Available for Sale

At December 31, 2016 and 2015, investments in equity securities available for sale were as follows:

<u>(In thousands)</u>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Carrying Value</u>
<b>December 31, 2016</b>					
Common stocks	\$ 94,998	\$ 351,906	\$ (1,046)	\$ 445,858	\$ 445,858
Preferred stocks	125,589	101,392	(3,639)	223,342	223,342
Total	<u>\$ 220,587</u>	<u>\$ 453,298</u>	<u>\$ (4,685)</u>	<u>\$ 669,200</u>	<u>\$ 669,200</u>
<b>December 31, 2015</b>					
Common stocks	\$ 56,462	\$ —	\$ (19,189)	\$ 37,273	\$ 37,273
Preferred stocks	108,730	8,216	(3,353)	113,593	113,593
Total	<u>\$ 165,192</u>	<u>\$ 8,216</u>	<u>\$ (22,542)</u>	<u>\$ 150,866</u>	<u>\$ 150,866</u>

At December 31, 2016, common stocks included HealthEquity, Inc. shares, which had previously been reported in investment funds.

## (6) Arbitrage Trading Account

At December 31, 2016 and 2015, the fair value and carrying value of the arbitrage trading account were \$300 million and \$377 million, respectively. The primary focus of the trading account is merger arbitrage. Merger arbitrage is the business of investing in the securities of publicly held companies which are the targets in announced tender offers and mergers. Arbitrage investing differs from other types of investing in its focus on transactions and events believed likely to bring about a change in value over a relatively short time period (usually four months or less).

The Company uses put options, call options and swap contracts in order to mitigate the impact of potential changes in market conditions on the merger arbitrage trading account. These options and contracts are reported at fair value. As of December 31, 2016, the fair value of long option contracts outstanding was \$1 million (notional amount of \$27 million) and the fair value of short option contracts outstanding was \$2 million (notional amount of \$36 million). Other than with respect to the use of these trading account securities, the Company does not make use of derivatives.

## (7) Net Investment Income

Net investment income consists of the following:

<u>(In thousands)</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Investment income earned on:			
Fixed maturity securities, including cash and cash equivalents and loans receivable	\$ 444,247	\$ 428,325	\$ 439,489
Investment funds	99,301	62,228	131,649
Arbitrage trading account	18,693	16,891	22,438
Real estate	7,054	11,294	10,228
Equity securities available for sale	4,028	4,624	6,726
Gross investment income	<u>573,323</u>	<u>523,362</u>	<u>610,530</u>
Investment expense	(9,160)	(10,717)	(9,645)
Net investment income	<u>\$ 564,163</u>	<u>\$ 512,645</u>	<u>\$ 600,885</u>

## (8) Investment Funds

The Company evaluates whether it is an investor in a variable interest entity (VIE). Such entities do not have sufficient equity at risk to finance their activities without additional subordinated financial support, or the equity investors, as a group, do not have the characteristics of a controlling financial interest (primary beneficiary). The Company determines whether it is the primary beneficiary of an entity subject to consolidation based on a qualitative assessment of the VIE's capital structure, contractual terms, nature of the VIE's operations and purpose, and the Company's relative exposure to the related risks of the VIE on the date it becomes initially involved in the VIE and on an ongoing basis. The Company is not the primary beneficiary in any of its investment funds, and accordingly, carries its interests in investments funds under the equity method of accounting.

The Company's maximum exposure to loss with respect to these investments is limited to the carrying amount reported on the Company's consolidated balance sheet and its unfunded commitments of \$372.1 million as of December 31, 2016.

Investment funds consist of the following:

(In thousands)	Carrying Value as of December 31,		Income (Losses)		
	2016	2015	2016	2015	2014
Real estate	\$ 641,783	\$ 580,830	\$ 50,415	\$ 58,032	\$ 26,233
Energy	91,448	93,719	19,747	(37,373)	12,797
Hedged equity	73,913	70,580	3,334	(2,762)	10,760
Other funds	391,002	424,911	25,805	44,331	81,859
Total	\$ 1,198,146	\$ 1,170,040	\$ 99,301	\$ 62,228	\$ 131,649

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

Other funds include private equity investments carried on the equity method of accounting, which included the Company's publicly traded common stock investment in HealthEquity, Inc. (HQY) in 2015. The Company's ownership interest in HQY was approximately 21%, as of December 31, 2015, with a fair value of \$300.1 million and a carrying value of \$45.4 million. In October 2016, the Company sold approximately 2.2 million shares in HQY, reducing the Company's ownership to 16.5% and causing the Company to report its investment in HQY at fair value as an available for sale security rather than under investment funds.

## (9) Real Estate

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

(In thousands)	As of December 31,	
	2016	2015
Properties in operation	\$ 457,237	\$ 226,055
Properties under development	727,744	710,312
Total	\$ 1,184,981	\$ 936,367

In 2016, properties in operation included a long-term ground lease in Washington, D.C., a hotel in Memphis, Tennessee, an office complex in New York City and office buildings in West Palm Beach and Palm Beach, Florida. Properties in operation are net of accumulated depreciation and amortization of \$14,996,000 and \$9,073,000 as of December 31, 2016 and 2015, respectively. Related depreciation expense was \$14,802,000 and \$7,425,000 for the years ended December 31, 2016 and 2015, respectively. Future minimum rental income expected on operating leases relating to properties in operation is \$16,466,519 in 2017, \$27,165,624 in 2018, \$27,451,819 in 2019, \$26,281,505 in 2020, \$26,560,894 in 2021 and \$464,803,187 thereafter.

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



**(11) Realized and Unrealized Investment Gains (Losses)**

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

<b>(In thousands)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Realized investment gains (losses):			
Fixed maturity securities:			
Gains	\$ 72,215	\$ 23,755	\$ 39,113
Losses	(6,434)	(4,065)	(4,420)
Equity securities available for sale	14,201	9,639	38,296
Investment funds	58,861	93,529	96,204
Real estate	7,757	—	85,659
Other (1)	138,519	2,775	—
Net realized gains on investments sales	285,119	125,633	254,852
Other-than-temporary impairments (2)	(18,114)	(33,309)	—
Net investment gains	267,005	92,324	254,852
Income tax expense	(93,452)	(32,313)	(89,198)
After-tax realized investment gains	\$ 173,553	\$ 60,011	\$ 165,654
Change in unrealized gains (losses) of available for sales securities:			
Fixed maturity securities	\$ (107,094)	\$ (144,445)	\$ 155,765
Previously impaired fixed maturity securities	451	(174)	865
Equity securities available for sale	465,727	(27,809)	(69,016)
Investment funds	12,631	(19,758)	(14,725)
Total change in unrealized investment gains (losses)	371,715	(192,186)	72,889
Income tax benefit (expense)	(125,315)	66,644	(23,223)
Noncontrolling interests	59	38	(33)
After-tax change in unrealized investment gains (losses) of available for sale securities	\$ 246,459	\$ (125,504)	\$ 49,633

(1) Other includes a gain of \$134.9 million from the sale of Aero Precision Industries, and certain related aviation services business, for the year ended December 31, 2016.

(2) For the year ended December 31, 2016, OTTI related to equity securities were \$18.1 million. For the year ended December 31, 2015, OTTI related to equity securities were \$24.3 million and related to fixed maturity securities were \$9.0 million. There was no OTTI for the year ended December 31, 2014.

## (12) Securities in an Unrealized Loss Position

The following tables summarize all securities in an unrealized loss position at December 31, 2016 and 2015 by the length of time those securities have been continuously in an unrealized loss position.

(In thousands)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>December 31, 2016</b>						
U.S. government and government agency	\$ 112,709	\$ 1,252	\$ 35,450	\$ 1,341	\$ 148,159	\$ 2,593
State and municipal	1,562,614	35,553	133,034	4,885	1,695,648	40,438
Mortgage-backed securities	625,903	11,103	109,066	4,828	734,969	15,931
Asset-backed securities	1,010,836	5,340	201,693	6,601	1,212,529	11,941
Corporate	1,035,245	13,448	65,147	7,470	1,100,392	20,918
Foreign government	213,246	1,985	24,820	777	238,066	2,762
Fixed maturity securities	4,560,553	68,681	569,210	25,902	5,129,763	94,583
Common stocks	336	22	8,755	1,024	9,091	1,046
Preferred stocks	—	—	22,034	3,639	22,034	3,639
Equity securities available for sale	336	22	30,789	4,663	31,125	4,685
Total	\$ 4,560,889	\$ 68,703	\$ 599,999	\$ 30,565	\$ 5,160,888	\$ 99,268
<b>December 31, 2015</b>						
U.S. government and government agency	\$ 101,660	\$ 487	\$ 64,500	\$ 1,846	\$ 166,160	\$ 2,333
State and municipal	501,952	4,404	106,681	1,865	608,633	6,269
Mortgage-backed securities	381,986	3,639	184,807	7,669	566,793	11,308
Asset-backed securities	1,091,078	7,703	190,467	6,711	1,281,545	14,414
Corporate	1,232,940	35,406	76,797	8,987	1,309,737	44,393
Foreign government	169,190	8,822	19,528	3,867	188,718	12,689
Fixed maturity securities	3,478,806	60,461	642,780	30,945	4,121,586	91,406
Common stocks	18,641	18,005	7,829	1,184	26,470	19,189
Preferred stocks	—	—	22,320	3,353	22,320	3,353
Equity securities available for sale	18,641	18,005	30,149	4,537	48,790	22,542
Total	\$ 3,497,447	\$ 78,466	\$ 672,929	\$ 35,482	\$ 4,170,376	\$ 113,948

Fixed Maturity Securities — A summary of the Company's non-investment grade fixed maturity securities that were in an unrealized loss position at December 31, 2016 is presented in the table below:

(\$ in thousands)	Number of Securities	Aggregate Fair Value	Gross Unrealized Loss
State and municipal	1	\$ 5,136	\$ 3,725
Corporate	10	78,462	1,370
Mortgage-backed securities	11	22,987	1,106
Asset-backed securities	4	1,256	362
Foreign government	15	112,985	341
Total	41	\$ 220,826	\$ 6,904

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

For the year ended December 31, 2016, there were no OTTI recognized in earnings for fixed maturity securities. For the year ended December 31, 2015, OTTI for fixed maturity securities were \$9.0 million, all of which was considered due to credit factors.

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 on financial covenants. Based on its assessment of these issuers, the Company expects them to continue to meet their contractual payment obligations as they become due and does not consider any of these securities to be OTTI.

Preferred Stocks – At December 31, 2016, there was one preferred stock in an unrealized loss position, with an aggregate fair value of \$22.0 million and a gross unrealized loss of \$3.6 million. The preferred stock is rated investment grade. Management believes the unrealized loss is due primarily to market and sector related factors and does not consider it to be OTTI. For the year ended December 31, 2016, there were no OTTI for preferred stocks. OTTI for preferred stocks for the year ended December 31, 2015 were \$13.4 million.

Common Stocks – At December 31, 2016, there were two common stocks in an unrealized loss position, with an aggregate fair value of \$9.1 million and a gross unrealized loss of \$1.1 million. Based on management's view on these securities, the Company does not consider the common stocks to be OTTI. For the year ended December 31, 2016, OTTI for common stocks were \$18.1 million. OTTI for common stocks for the year ended December 31, 2015 were \$10.9 million.

### **(13) Fair Value Measurements**

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

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

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

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

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

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

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

The following tables present the assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015 by level:

<b>(In thousands)</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>December 31, 2016</b>				
Assets:				
Fixed maturity securities available for sale:				
U.S. government and government agency	\$ 513,802	\$ —	\$ 513,802	\$ —
State and municipal	4,519,503	—	4,519,503	—
Mortgage-backed securities	1,189,645	—	1,189,645	—
Asset-backed securities	1,907,860	—	1,907,677	183
Corporate	4,068,527	—	4,068,527	—
Foreign government	902,805	—	902,805	—
Total fixed maturity securities available for sale	<u>13,102,142</u>	<u>—</u>	<u>13,101,959</u>	<u>183</u>
Equity securities available for sale:				
Common stocks	445,858	429,647	7,457	8,754
Preferred stocks	223,342	—	219,680	3,662
Total equity securities available for sale	<u>669,200</u>	<u>429,647</u>	<u>227,137</u>	<u>12,416</u>
Arbitrage trading account	299,999	224,623	75,376	—
Total	<u>\$ 14,071,341</u>	<u>\$ 654,270</u>	<u>\$ 13,404,472</u>	<u>\$ 12,599</u>
Liabilities:				
Trading account securities sold but not yet purchased	\$ 51,179	\$ 51,089	\$ 90	\$ —
<b>December 31, 2015</b>				
Assets:				
Fixed maturity securities available for sale:				
U.S. government and government agency	\$ 670,419	\$ —	\$ 670,419	\$ —
State and municipal	4,460,179	—	4,460,179	—
Mortgage-backed securities	1,199,859	—	1,199,859	—
Asset-backed securities	1,705,172	—	1,704,973	199
Corporate	3,475,038	—	3,474,884	154
Foreign government	837,460	—	837,460	—
Total fixed maturity securities available for sale	<u>12,348,127</u>	<u>—</u>	<u>12,347,774</u>	<u>353</u>
Equity securities available for sale:				
Common stocks	37,273	29,444	—	7,829
Preferred stocks	113,593	—	109,969	3,624
Total equity securities available for sale	<u>150,866</u>	<u>29,444</u>	<u>109,969</u>	<u>11,453</u>
Arbitrage trading account	376,697	256,914	119,607	176
Total	<u>\$ 12,875,690</u>	<u>\$ 286,358</u>	<u>\$ 12,577,350</u>	<u>\$ 11,982</u>
Liabilities:				
Trading account securities sold but not yet purchased	\$ 37,035	\$ 35,559	\$ 1,476	\$ —

There were no significant transfers between Levels 1 and 2 for the years ended December 31, 2016 and 2015.

The following tables summarize changes in Level 3 assets and liabilities for the years ended December 31, 2016 and 2015:

**Gains (Losses) Included in:**

<b>(In thousands)</b>	<b>Beginning Balance</b>	<b>Earnings (Losses)</b>	<b>Other Comprehensive Income (Losses)</b>	<b>Impairments</b>	<b>Purchases</b>	<b>Sales</b>	<b>Paydowns/ Maturities</b>	<b>Transfers In / Out</b>	<b>Ending Balance</b>
<b>Year ended December 31, 2016</b>									
Assets:									
Fixed maturity securities available for sale:									
Asset-backed securities	\$ 199	\$ 3	\$ 16	\$ —	\$ —	\$ —	\$ (35)	\$ —	\$ 183
Corporate	154	177	—	—	—	(331)	—	—	—
Total	353	180	16	—	—	(331)	(35)	—	183
Equity securities available for sale:									
Common stocks	7,829	—	160	—	765	—	—	—	8,754
Preferred stocks	3,624	38	—	—	—	—	—	—	3,662
Total	11,453	38	160	—	765	—	—	—	12,416
Arbitrage trading account	176	(176)	—	—	—	—	—	—	—
Total	\$ 11,982	\$ 42	\$ 176	\$ —	\$ 765	\$ (331)	\$ (35)	\$ —	\$ 12,599
<b>Year ended December 31, 2015</b>									
Assets:									
Fixed maturity securities available for sale:									
Asset-backed securities	\$ 20,611	\$ 19	\$ 191	\$ —	\$ —	\$ —	\$ (1,820)	\$ (18,802)	\$ 199
Corporate	154	—	—	—	—	—	—	—	154
Total	20,765	19	191	—	—	—	(1,820)	(18,802)	353
Equity securities available for sale:									
Common stocks	10,741	—	(273)	(2,331)	—	(308)	—	—	7,829
Preferred stocks	3,713	(89)	—	—	—	—	—	—	3,624
Total	14,454	(89)	(273)	(2,331)	—	(308)	—	—	11,453
Arbitrage trading account	720	(799)	—	—	72,640	(71,921)	—	(464)	176
Total	\$ 35,939	\$ (869)	\$ (82)	\$ (2,331)	\$ 72,640	\$ (72,229)	\$ (1,820)	\$ (19,266)	\$ 11,982

During the year ended December 31, 2016, there were no securities transferred out of Level 3. During the year ended December 31, 2015, five securities were transferred out of Level 3 as an observable price was available.

#### **(14) Reserves for Losses and Loss Expenses**

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

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

The key assumptions used to arrive at the best estimate of loss reserves are the expected loss ratios, rate of loss cost inflation, and reported and paid loss emergence patterns. Expected loss ratios represent management's expectation of losses at the time the business is priced and written, before any actual claims experience has emerged. This expectation is a significant determinant of the estimate of loss reserves for recently written business where there is little paid or incurred loss data to consider. Expected loss ratios are generally derived from historical loss ratios adjusted for the impact of rate changes, loss cost trends and known changes in the type of risks

underwritten. Expected loss ratios are estimated for each key line of business within each operating unit. Expected loss cost inflation is particularly important for the long-tail lines, such as excess casualty, and claims with a high medical component, such as workers' compensation. Reported and paid loss emergence patterns are used to project current reported or paid loss amounts to their ultimate settlement value. Loss development factors are based on the historical emergence patterns of paid and incurred losses, and are derived from the Company's own experience and industry data. The paid loss emergence pattern is also significant to excess and assumed workers' compensation reserves because those reserves are discounted to their estimated present value based upon such estimated payout patterns.

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

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

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

A claim may be defined as an event, as a claimant (number of parties claiming damages from an event) or by exposure type (e.g., an event may give rise to two parties, each claiming loss for bodily injury and property damage).

The most commonly used claim count method is by event. Most of the Company's operating units use the number of events to define and quantify the number of claims. However, in certain lines of business, where it is common for multiple parties to claim damages arising from a single event, an operating unit may quantify claims on the basis of the number of separate parties involved in an event. This may be the case with businesses writing substantial automobile or transportation exposure.

Claim counts for assumed reinsurance will vary based on whether the business is written on a facultative or treaty basis. Further variability as respects treaty claim counts may be reflective of the nature of the treaty, line of business coverage, and type of participation such as quota share or excess of loss contracts. Accordingly, the claim counts have been excluded from the below Reinsurance segment tables due to this variability.

The claim count information set forth in the tables presented below may not provide an accurate reflection of ultimate loss payouts by product line.

The following tables present undiscounted incurred and paid claims development as of December 31, 2016, net of reinsurance, as well as cumulative claim frequency and the total of incurred but not reported liabilities (IBNR). The information about incurred and paid claims development for the years ended December 31, 2007 to 2015 is presented as supplementary information. To enhance the comparability of the loss development data, the Company has removed the impact of foreign exchange rate movements by using the December 31, 2016 exchange rate for all periods. In addition, the Company's UK and European insurance business has been included in the Insurance segment tables below (excluding primary and excess workers' compensation) for accident years 2012 through 2016, since underwriting year information was only available prior to 2012.

## Insurance

### Other Liability

(In thousands)

Loss and Loss Expenses Incurred, Net of Reinsurance											As of December 31, 2016	
For the Year Ended December 31,												
Unaudited												
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	IBNR	Cumulative Number of Reported Claims
2007	\$ 888,917	\$ 846,759	\$ 799,566	\$ 759,028	\$ 726,338	\$ 712,995	\$ 693,669	\$ 668,914	\$ 663,122	\$ 662,889	\$ 30,457	26
2008	—	843,528	812,048	755,595	717,985	698,709	689,571	662,644	653,088	654,908	40,213	26
2009	—	—	699,630	664,619	632,324	605,497	595,643	567,578	563,317	558,566	41,517	23
2010	—	—	—	620,030	623,798	598,926	597,272	583,916	580,882	579,538	51,702	23
2011	—	—	—	—	676,275	681,815	666,887	665,885	660,412	655,443	65,108	24
2012	—	—	—	—	—	704,519	712,889	711,727	716,617	723,961	93,444	25
2013	—	—	—	—	—	—	754,543	797,759	788,498	790,734	143,155	26
2014	—	—	—	—	—	—	—	850,243	850,666	851,724	282,056	26
2015	—	—	—	—	—	—	—	—	953,822	992,128	546,566	24
2016	—	—	—	—	—	—	—	—	—	1,020,972	770,954	18
<b>Total</b>										<b>\$ 7,490,863</b>		

Cumulative Paid Claims and Claim Adjustment Expenses, Net of Reinsurance										
For the Year Ended December 31,										
Unaudited										
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
2007	\$ 46,993	\$ 126,938	\$ 233,194	\$ 332,348	\$ 414,621	\$ 477,050	\$ 528,583	\$ 564,049	\$ 589,270	\$ 609,568
2008	—	48,699	139,809	252,214	356,362	445,060	505,829	539,166	569,020	588,965
2009	—	—	45,461	124,901	217,471	314,994	388,508	432,622	474,893	489,453
2010	—	—	—	46,868	132,654	252,518	340,262	421,217	466,048	494,381
2011	—	—	—	—	50,702	146,070	271,011	384,107	475,650	527,270
2012	—	—	—	—	—	59,669	162,543	304,171	422,269	517,386
2013	—	—	—	—	—	—	64,535	191,902	335,206	476,662
2014	—	—	—	—	—	—	—	79,801	192,893	342,933
2015	—	—	—	—	—	—	—	—	83,378	208,837
2016	—	—	—	—	—	—	—	—	—	65,599
<b>Total</b>										<b>\$ 4,321,054</b>
	Reserves for loss and loss adjustment expenses before 2007, net of reinsurance									120,276
	Reserves for loss and loss adjustment expenses, net of reinsurance									<b>\$ 3,290,085</b>

Primary Workers' Compensation  
(In thousands)

Loss and Loss Expenses Incurred, Net of Reinsurance											As of December 31, 2016	
For the Year Ended December 31,												
Unaudited												
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	IBNR	Cumulative Number of Reported Claims
2007	\$ 383,641	\$ 362,843	\$ 311,511	\$ 303,788	\$ 297,208	\$ 347,731	\$ 347,596	\$ 348,335	\$ 348,327	\$ 350,731	\$ 10,478	48
2008	—	377,794	347,423	345,605	345,413	388,558	388,472	389,343	391,788	393,932	11,623	46
2009	—	—	327,537	332,303	326,766	387,503	392,791	394,303	392,287	395,288	13,128	41
2010	—	—	—	358,734	361,808	411,527	420,604	426,622	429,952	429,762	23,233	42
2011	—	—	—	—	419,364	444,887	457,134	470,026	472,087	474,076	29,589	43
2012	—	—	—	—	—	501,681	501,810	503,956	503,863	509,167	44,568	44
2013	—	—	—	—	—	—	552,570	547,295	546,995	543,293	63,271	48
2014	—	—	—	—	—	—	—	639,436	637,307	627,862	110,364	51
2015	—	—	—	—	—	—	—	—	712,800	690,656	214,854	52
2016	—	—	—	—	—	—	—	—	—	702,761	339,257	49
<b>Total</b>										<u>\$ 5,117,528</u>		

Cumulative Paid Claims and Claim Adjustment Expenses, Net of Reinsurance												
For the Year Ended December 31,												
Unaudited												
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		
2007	\$ 85,962	\$ 176,184	\$ 223,380	\$ 251,437	\$ 265,770	\$ 292,764	\$ 303,058	\$ 309,988	\$ 315,309	\$ 319,350		
2008	—	94,385	203,079	261,867	296,667	320,169	335,030	344,892	352,539	360,799		
2009	—	—	93,647	197,736	257,972	297,619	318,349	333,793	344,771	352,516		
2010	—	—	—	107,742	214,034	281,280	320,154	344,631	362,078	374,013		
2011	—	—	—	—	106,157	236,207	309,509	355,909	385,759	408,304		
2012	—	—	—	—	—	115,536	255,063	339,560	387,368	419,588		
2013	—	—	—	—	—	—	117,900	277,538	363,028	414,216		
2014	—	—	—	—	—	—	—	148,405	319,743	412,716		
2015	—	—	—	—	—	—	—	—	139,320	323,879		
2016	—	—	—	—	—	—	—	—	—	143,066		
<b>Total</b>										<u>\$ 3,528,447</u>		
											Reserves for loss and loss adjustment expenses before 2007, net of reinsurance	138,281
											Reserves for loss and loss adjustment expenses, net of reinsurance	<u>\$ 1,727,362</u>

Excess Workers' Compensation  
(In thousands)

Loss and Loss Expenses Incurred, Net of Reinsurance												As of December 31, 2016	
For the Year Ended December 31,													
Unaudited													
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	IBNR	Cumulative Number of Reported Claims	
2007	\$ 241,493	\$ 242,094	\$ 246,499	\$ 262,171	\$ 259,181	\$ 254,748	\$ 254,806	\$ 250,170	\$ 251,356	\$ 243,758	\$ 40,607	2	
2008	—	243,067	240,528	211,624	202,419	197,321	195,385	193,395	194,302	183,802	52,994	1	
2009	—	—	228,830	214,506	220,124	210,273	202,239	190,439	193,697	189,646	54,310	1	
2010	—	—	—	182,028	178,317	171,925	163,365	147,043	153,430	149,806	47,030	1	
2011	—	—	—	—	128,301	146,493	150,551	139,251	138,775	137,265	45,151	1	
2012	—	—	—	—	—	98,799	101,663	112,477	117,066	115,583	34,805	1	
2013	—	—	—	—	—	—	75,214	54,171	50,448	46,028	28,016	1	
2014	—	—	—	—	—	—	—	68,521	66,854	59,903	37,366	1	
2015	—	—	—	—	—	—	—	—	74,777	61,574	45,861	—	
2016	—	—	—	—	—	—	—	—	—	76,184	62,033	—	
<b>Total</b>										<b>\$ 1,263,549</b>			

Cumulative Paid Claims and Claim Adjustment Expenses, Net of Reinsurance											
For the Year Ended December 31,											
Unaudited											
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
2007	\$ 2,420	\$ 10,422	\$ 18,713	\$ 27,445	\$ 39,212	\$ 49,129	\$ 61,962	\$ 72,674	\$ 80,770	\$ 87,356	
2008	—	2,464	2,942	6,302	9,907	14,489	25,063	34,418	39,257	48,042	
2009	—	—	5,298	8,893	12,444	18,338	25,925	32,419	39,200	45,963	
2010	—	—	—	3,227	4,700	4,916	7,938	11,745	15,871	20,799	
2011	—	—	—	—	3,015	5,051	9,991	18,995	27,399	32,008	
2012	—	—	—	—	—	715	7,421	19,184	24,120	28,055	
2013	—	—	—	—	—	—	279	679	2,159	3,013	
2014	—	—	—	—	—	—	—	377	2,277	4,266	
2015	—	—	—	—	—	—	—	—	2,069	2,484	
2016	—	—	—	—	—	—	—	—	—	2,501	
<b>Total</b>										<b>\$ 274,487</b>	
										Reserves for loss and loss adjustment expenses before 2007, net of reinsurance	734,713
										Reserves for loss and loss adjustment expenses, net of reinsurance	<b>\$ 1,723,774</b>

Professional Liability  
(In thousands)

Loss and Loss Expenses Incurred, Net of Reinsurance											As of December 31, 2016	
For the Year Ended December 31,												
Unaudited												
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	IBNR	Cumulative Number of Reported Claims
2007	\$ 98,534	\$ 98,272	\$ 105,191	\$ 104,445	\$ 102,807	\$ 103,607	\$ 99,723	\$ 99,193	\$ 97,571	\$ 98,461	\$ 595	2
2008	—	113,171	119,953	116,539	111,452	110,268	107,760	107,320	109,242	108,507	1,857	2
2009	—	—	134,978	139,340	145,638	148,992	148,108	150,545	150,875	153,574	2,523	3
2010	—	—	—	147,564	165,875	179,478	178,079	176,843	172,683	174,969	3,689	4
2011	—	—	—	—	180,080	165,439	187,213	190,411	177,401	173,777	8,319	5
2012	—	—	—	—	—	236,681	240,210	263,640	250,074	238,086	23,185	8
2013	—	—	—	—	—	—	266,538	245,925	242,639	247,687	36,873	8
2014	—	—	—	—	—	—	—	252,167	246,068	255,700	75,613	9
2015	—	—	—	—	—	—	—	—	259,368	256,432	121,119	9
2016	—	—	—	—	—	—	—	—	—	311,042	232,577	9
<b>Total</b>										<b>\$ 2,018,235</b>		

Cumulative Paid Claims and Claim Adjustment Expenses, Net of Reinsurance										
For the Year Ended December 31,										
Unaudited										
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
2007	\$ 5,162	\$ 43,314	\$ 68,764	\$ 88,053	\$ 95,829	\$ 99,370	\$ 98,384	\$ 98,539	\$ 96,916	\$ 97,846
2008	—	9,998	37,818	66,167	85,588	96,585	97,796	100,352	105,299	106,381
2009	—	—	12,608	52,597	85,929	117,738	127,798	138,947	144,024	144,792
2010	—	—	—	14,844	58,946	108,627	129,823	144,541	160,666	165,084
2011	—	—	—	—	18,804	62,513	103,200	134,785	151,026	159,193
2012	—	—	—	—	—	21,524	86,356	127,980	159,061	189,796
2013	—	—	—	—	—	—	23,550	63,927	119,553	176,103
2014	—	—	—	—	—	—	—	19,391	83,672	134,726
2015	—	—	—	—	—	—	—	—	20,496	85,348
2016	—	—	—	—	—	—	—	—	—	28,789
<b>Total</b>										<b>\$ 1,288,059</b>
	Reserves for loss and loss adjustment expenses before 2007, net of reinsurance									<b>7,173</b>
	Reserves for loss and loss adjustment expenses, net of reinsurance									<b>\$ 737,349</b>

Commercial Automobile  
(In thousands)

Loss and Loss Expenses Incurred, Net of Reinsurance											As of December 31, 2016	
For the Year Ended December 31,												
Unaudited												
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	IBNR	Cumulative Number of Reported Claims
2007	\$ 438,263	\$ 425,645	\$ 431,903	\$ 424,158	\$ 427,800	\$ 427,918	\$ 426,200	\$ 425,576	\$ 426,314	\$ 426,769	\$ 307	49
2008	—	432,629	444,941	430,453	427,088	425,600	422,999	422,309	423,258	421,829	361	50
2009	—	—	362,302	345,139	340,962	335,851	337,922	336,861	334,654	335,091	895	39
2010	—	—	—	310,591	320,302	330,432	329,109	333,028	331,865	330,586	1,193	38
2011	—	—	—	—	314,038	322,724	330,125	335,024	343,701	341,200	2,567	38
2012	—	—	—	—	—	314,309	326,831	342,588	355,609	355,461	5,014	34
2013	—	—	—	—	—	—	327,514	349,136	368,894	366,843	18,768	34
2014	—	—	—	—	—	—	—	363,968	385,345	394,998	28,672	36
2015	—	—	—	—	—	—	—	—	389,914	390,590	58,001	39
2016	—	—	—	—	—	—	—	—	—	387,499	124,075	35
<b>Total</b>										<u>\$ 3,750,866</u>		

Cumulative Paid Claims and Claim Adjustment Expenses, Net of Reinsurance												
For the Year Ended December 31,												
Unaudited												
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		
2007	\$ 167,894	\$ 259,300	\$ 328,600	\$ 375,101	\$ 405,204	\$ 415,228	\$ 421,192	\$ 423,046	\$ 424,954	\$ 425,081		
2008	—	175,402	270,421	334,078	377,643	402,882	413,411	417,598	420,553	420,596		
2009	—	—	136,433	209,553	257,326	291,925	312,903	328,845	331,484	333,144		
2010	—	—	—	136,029	208,790	263,639	295,355	313,262	324,997	326,804		
2011	—	—	—	—	135,350	211,756	262,685	296,370	321,814	333,987		
2012	—	—	—	—	—	136,844	215,214	273,446	312,342	335,806		
2013	—	—	—	—	—	—	142,929	218,596	267,253	312,952		
2014	—	—	—	—	—	—	—	155,615	237,766	306,594		
2015	—	—	—	—	—	—	—	—	160,239	242,031		
2016	—	—	—	—	—	—	—	—	—	156,545		
<b>Total</b>										<u>\$ 3,193,540</u>		
											Reserves for loss and loss adjustment expenses before 2007, net of reinsurance	2,157
											Reserves for loss and loss adjustment expenses, net of reinsurance	<u>\$ 559,482</u>

Short-tail lines  
(In thousands)

Loss and Loss Expenses Incurred, Net of Reinsurance											As of December 31, 2016	
For the Year Ended December 31,												
Unaudited												
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	IBNR	Cumulative Number of Reported Claims
2007	\$ 358,317	\$ 337,419	\$ 325,658	\$ 324,765	\$ 324,052	\$ 327,882	\$ 329,293	\$ 328,659	\$ 327,996	\$ 327,951	\$ 991	21
2008	—	428,243	415,554	402,911	396,055	393,943	393,913	393,137	392,457	392,782	1,202	23
2009	—	—	368,106	354,134	344,157	332,782	332,621	328,711	327,465	327,199	1,129	19
2010	—	—	—	404,551	387,712	374,214	370,705	360,614	360,616	360,786	1,555	19
2011	—	—	—	—	505,432	488,681	477,675	473,186	470,593	465,856	2,359	22
2012	—	—	—	—	—	555,079	560,110	556,418	550,656	546,259	8,173	41
2013	—	—	—	—	—	—	588,182	598,549	588,285	588,399	10,793	51
2014	—	—	—	—	—	—	—	710,961	718,422	705,706	22,492	60
2015	—	—	—	—	—	—	—	—	752,486	774,801	56,787	62
2016	—	—	—	—	—	—	—	—	—	817,059	179,583	48
<b>Total</b>										<b>\$ 5,306,798</b>		

Cumulative Paid Claims and Claim Adjustment Expenses, Net of Reinsurance											
For the Year Ended December 31,											
Unaudited											
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
2007	\$ 185,994	\$ 282,504	\$ 301,059	\$ 309,544	\$ 314,535	\$ 318,691	\$ 323,904	\$ 324,788	\$ 325,521	\$ 326,959	
2008	—	248,653	353,632	369,446	380,158	379,494	385,350	386,792	388,068	390,626	
2009	—	—	214,062	296,125	311,568	313,052	318,138	318,775	320,701	323,248	
2010	—	—	—	248,944	333,807	346,598	356,044	349,611	353,594	356,838	
2011	—	—	—	—	307,397	425,522	446,687	451,135	456,707	461,039	
2012	—	—	—	—	—	284,916	462,315	514,064	524,678	532,900	
2013	—	—	—	—	—	—	316,170	492,780	542,173	564,813	
2014	—	—	—	—	—	—	—	374,214	601,225	652,405	
2015	—	—	—	—	—	—	—	—	397,084	645,601	
2016	—	—	—	—	—	—	—	—	—	447,240	
<b>Total</b>										<b>\$ 4,701,669</b>	
	Reserves for loss and loss adjustment expenses before 2007, net of reinsurance									3,099	
	Reserves for loss and loss adjustment expenses, net of reinsurance									<b>\$ 608,228</b>	

Reinsurance

Casualty  
(In thousands)

Loss and Loss Expenses Incurred, Net of Reinsurance											As of December 31, 2016
For the Year Ended December 31,											
Unaudited											
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	IBNR
2007	\$ 370,597	\$ 350,646	\$ 343,561	\$ 333,549	\$ 313,240	\$ 326,388	\$ 318,062	\$ 330,451	\$ 330,322	\$ 329,635	\$ 9,329
2008	—	289,826	273,071	257,676	246,116	237,149	235,122	240,631	241,337	240,434	7,806
2009	—	—	266,204	260,300	254,200	240,722	241,181	236,095	226,141	227,923	11,383
2010	—	—	—	236,460	236,246	228,052	223,537	213,384	200,288	196,105	18,259
2011	—	—	—	—	239,562	247,663	243,468	241,309	247,739	244,833	27,815
2012	—	—	—	—	—	291,395	295,673	282,343	273,152	281,961	53,802
2013	—	—	—	—	—	—	300,906	259,110	264,625	275,901	72,629
2014	—	—	—	—	—	—	—	311,776	307,849	306,791	119,679
2015	—	—	—	—	—	—	—	—	250,976	224,777	115,419
2016	—	—	—	—	—	—	—	—	—	234,392	173,456
<b>Total</b>										<u>\$ 2,562,752</u>	

Cumulative Paid Claims and Claim Adjustment Expenses, Net of Reinsurance												
For the Year Ended December 31,												
Unaudited												
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		
2007	\$ 6,580	\$ 34,100	\$ 82,716	\$ 151,243	\$ 192,654	\$ 234,173	\$ 249,420	\$ 265,680	\$ 279,051	\$ 295,987		
2008	—	9,675	30,151	64,589	102,511	135,642	157,689	175,813	190,494	207,257		
2009	—	—	20,535	51,270	81,594	116,544	146,140	171,526	182,913	196,395		
2010	—	—	—	16,049	41,463	72,274	101,312	122,709	140,946	155,603		
2011	—	—	—	—	15,670	47,500	88,490	123,450	152,163	175,933		
2012	—	—	—	—	—	20,749	55,884	97,666	134,122	171,102		
2013	—	—	—	—	—	—	28,154	61,692	106,396	143,071		
2014	—	—	—	—	—	—	—	20,394	66,656	114,334		
2015	—	—	—	—	—	—	—	—	17,259	51,082		
2016	—	—	—	—	—	—	—	—	—	23,741		
<b>Total</b>										<u>\$ 1,534,505</u>		
											Reserves for loss and loss adjustment expenses before 2007, net of reinsurance	<u>257,239</u>
											Reserves for loss and loss adjustment expenses, net of reinsurance	<u>\$ 1,285,485</u>

Property  
(In thousands)

As of  
December  
31, 2016

Loss and Loss Expenses Incurred, Net of Reinsurance

For the Year Ended December 31,

Unaudited

Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	IBNR
2007	\$ 21,645	\$ 19,073	\$ 17,366	\$ 15,093	\$ 15,459	\$ 15,258	\$ 15,191	\$ 15,211	\$ 15,210	\$ 15,265	(28)
2008	—	23,896	21,055	19,597	19,449	18,879	19,498	18,952	18,968	19,061	66
2009	—	—	26,917	25,118	25,424	24,160	24,071	23,824	23,704	23,246	60
2010	—	—	—	39,792	37,397	36,802	36,489	36,915	36,860	36,956	33
2011	—	—	—	—	66,860	69,441	69,084	70,320	69,494	69,418	152
2012	—	—	—	—	—	73,551	69,515	64,989	65,526	64,170	545
2013	—	—	—	—	—	—	125,131	97,153	100,897	99,513	1,312
2014	—	—	—	—	—	—	—	102,644	86,848	88,592	1,552
2015	—	—	—	—	—	—	—	—	115,942	106,965	5,887
2016	—	—	—	—	—	—	—	—	—	158,664	43,516
<b>Total</b>										\$ 681,850	

Cumulative Paid Claims and Claim Adjustment Expenses, Net of Reinsurance

For the Year Ended December 31,

Unaudited

Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		
2007	\$ 2,387	\$ 9,609	\$ 12,014	\$ 13,755	\$ 13,924	\$ 14,383	\$ 14,948	\$ 14,970	\$ 15,054	\$ 15,125		
2008	—	7,275	13,993	16,620	17,670	18,111	18,591	18,816	18,839	18,940		
2009	—	—	8,256	17,216	21,384	22,510	23,159	23,026	23,053	23,009		
2010	—	—	—	19,859	29,231	33,656	34,632	35,442	35,764	36,285		
2011	—	—	—	—	27,164	51,216	63,560	66,012	67,301	67,940		
2012	—	—	—	—	—	11,908	42,504	52,640	58,760	60,917		
2013	—	—	—	—	—	—	34,625	69,056	85,182	91,192		
2014	—	—	—	—	—	—	—	36,723	61,966	74,695		
2015	—	—	—	—	—	—	—	—	51,982	81,565		
2016	—	—	—	—	—	—	—	—	—	72,976		
<b>Total</b>										\$ 542,644		
											Reserves for loss and loss adjustment expenses before 2007, net of reinsurance	557
											Reserves for loss and loss adjustment expenses, net of reinsurance	\$ 139,763

The reconciliation of the net incurred and paid claims development tables to the reserves for loss and loss adjustment expenses in the consolidated balance sheet is as follows:

<b>(In thousands)</b>	<b>December 31, 2016</b>
Undiscounted reserves for loss and loss expenses, net of reinsurance:	
Other liability	\$ 3,290,085
Primary workers' compensation	1,727,362
Excess workers' compensation	1,723,774
Professional liability	737,349
Commercial automobile	559,482
Short-tail lines	608,228
Other	158,269
Insurance	<u>8,804,549</u>
Casualty	1,285,485
Property	<u>139,763</u>
Reinsurance	1,425,248
Total undiscounted reserves for loss and loss expenses, net of reinsurance	<u>\$ 10,229,797</u>

<b>(In thousands)</b>	<b>December 31, 2016</b>
Due from reinsurers on unpaid claims:	
Other liability	\$ 362,047
Primary workers' compensation	585,861
Excess workers' compensation	55,154
Professional liability	278,460
Commercial automobile	7,286
Short-tail lines	210,859
Other	32,468
Insurance	<u>1,532,135</u>
Casualty	65,314
Property	<u>9,481</u>
Reinsurance	74,795
Total due from reinsurers on unpaid claims	<u>\$ 1,606,930</u>

(In thousands)	December 31, 2016
Loss reserve discount:	
Other liability	\$ —
Primary workers' compensation	(6,367)
Excess workers' compensation	(582,384)
Professional liability	—
Commercial automobile	—
Short-tail lines	—
Other	—
Insurance	(588,751)
Casualty	(50,781)
Property	—
Reinsurance	(50,781)
Total loss reserve discount	\$ (639,532)
Total gross reserves for loss and loss expenses	\$ 11,197,195

The following is supplementary information regarding average historical claims duration as of December 31, 2016:

#### Insurance

##### Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Other liability	7.9%	14.0%	18.1%	16.4%	13.4%	8.4%	6.3%	4.2%	3.4%	3.1%
Primary workers' compensation	22.8%	27.0%	15.2%	9.2%	5.6%	4.8%	2.7%	2.0%	1.8%	1.2%
Excess workers' compensation	1.8%	2.0%	3.4%	3.3%	3.9%	3.9%	4.3%	3.5%	4.1%	2.7%
Professional liability	8.5%	26.1%	23.2%	17.8%	9.2%	5.2%	1.8%	1.7%	1.0%	0.9%
Commercial automobile	40.1%	21.6%	15.5%	10.6%	6.5%	3.3%	0.9%	0.5%	0.2%	—%
Short-tail lines	58.5%	28.5%	6.0%	2.2%	0.6%	1.0%	0.9%	0.5%	0.4%	0.4%

#### Reinsurance

##### Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Casualty	7.2%	12.3%	15.2%	15.3%	12.5%	10.4%	6.2%	5.7%	5.5%	5.1%
Property	37.2%	35.5%	15.4%	6.2%	2.3%	1.3%	1.6%	—%	0.5%	0.5%

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

<b>(In thousands)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net reserves at beginning of year	\$ 9,244,872	\$ 8,970,641	\$ 8,683,797
Net provision for losses and loss expenses:			
Claims occurring during the current year (1)	3,826,620	3,653,561	3,495,825
Decrease in estimates for claims occurring in prior years (2)	(29,904)	(46,713)	(75,764)
Loss reserve discount accretion (3)	49,084	49,422	70,506
Total	3,845,800	3,656,270	3,490,567
Net payments for claims:			
Current year	1,052,452	914,637	898,944
Prior year	2,401,722	2,342,378	2,216,283
Total	3,454,174	3,257,015	3,115,227
Foreign currency translation	(46,233)	(125,024)	(88,496)
Net reserves at end of year	9,590,265	9,244,872	8,970,641
Ceded reserve at end of year	1,606,930	1,424,278	1,399,060
Gross reserves at end of year	\$ 11,197,195	\$ 10,669,150	\$ 10,369,701

(1) Claims occurring during the current year are net of loss reserve discounts of \$18,929,000, \$20,357,000 and \$21,306,000 in 2016, 2015, and 2014, respectively.

(2) The decrease in estimates for claims occurring in prior years is net of loss reserve discount. On an undiscounted basis, the estimates for claims occurring in prior years decreased by \$59,175,000, \$64,971,000 and \$116,866,000 in 2016, 2015 and 2014, respectively.

(3) In 2014, the Company entered into a commutation agreement that resulted in a reduction in prior year workers' compensation reserves of \$30 million on an undiscounted basis and \$12 million on a discounted basis.

**Favorable prior year development (net of additional and return premiums) was \$59 million in 2016.**

Insurance - Reserves for the Insurance segment developed favorably by \$53 million in 2016. The favorable development was primarily related to workers' compensation business, and was partially offset by unfavorable development for medical professional liability business.

For workers' compensation, the favorable development was related to both primary and excess business and to many accident years, including those prior to 2007. During 2016, reported workers' compensation losses continued to be below our expectations at most of our operating units. Loss frequency and severity trends continued to be better than the assumptions underlying our previous reserve estimates. Loss severity trends also benefited from our continued investment in medical case management services and from our preferred provider networks. The long term trend of declining workers' compensation frequency can be attributed to improved workplace safety.

For medical professional liability business, unfavorable development was primarily related to a class of business that has been discontinued. The adverse development for that business stemmed mainly from accident years 2010 through 2015.

Reinsurance - Reserves for the Reinsurance segment developed favorably by \$6 million in 2016. The favorable development was primarily related to direct facultative reinsurance business and to accident years 2008 through 2014.

**Favorable prior year development (net of additional and return premiums) was \$63 million in 2015.**

Insurance - Reserves for the Insurance segment developed favorably by \$52 million in 2015. The favorable development was primarily related to workers' compensation, other liability business and commercial property, and was partially offset by unfavorable development for commercial automobile liability business and professional indemnity business.

For workers' compensation, the favorable development was related to both primary and excess business and to many accident years, including those prior to 2006. In 2015, reported workers' compensation losses were below our expectations for many of our operating units. In addition, overall loss frequency and severity trends emerged better than the assumptions underlying our previous reserve estimates. The long term trend of declining workers' compensation claim frequency continued in 2015. The improvement is attributable to better workplace safety and to benign medical severity trends as we continue to invest in medical case management services and higher usage of preferred provider networks.

For other liability business, favorable development was concentrated in accident years 2007 through 2013. The favorable development was primarily related to our excess and surplus lines casualty business that has benefited from a persistent improvement in claim frequency trends over the past several years.

For commercial property business, favorable development was attributable to accident years 2012 through 2014 and was driven by favorable frequency and severity trends on property business written in Lloyd's.

For commercial automobile business, adverse development was primarily related to large losses for long-haul trucking business and to accident years 2011 through 2014. The higher loss cost trends for the commercial automobile industry are attributable, in part, to the increase in miles driven as the economy improved and fuel prices declined over the past several years.

For Professional indemnity business in the U.K., adverse development was primarily for accident years 2006 through 2013.

Reinsurance - Reserves for the Reinsurance segment developed favorably by \$11 million in 2015. The favorable development was primarily related to direct facultative reinsurance business and to accident years 2005 through 2013. Loss reserves developed favorably for umbrella business and for other liability coverage for contractors.

**Favorable prior year development (net of additional and return premiums) was \$85 million in 2014.**

Insurance - For the Insurance segment, favorable development in 2014 of \$69 million was driven principally by other liability business for accident years 2006 through 2010, primarily related to our excess and surplus lines casualty business. Reported losses during these years continued to be below our initial expectations at the time the business was written, largely as a result of persistent improvement in claim frequency trends (i.e., number of reported claims per unit of exposure). As these accident years have matured, the weighting of actuarial methods has shifted from methods based on initial expected losses to methods based on actual reported losses. We believe the favorable claim frequency trends we have seen during this time period are due to changes in the mix of business written and to the general slowdown in the economy. Commercial automobile reported unfavorable development primarily as a result of large losses for long-haul trucking business in 2012 and 2013. The favorable development was also offset by adverse reserve development driven primarily by unexpected large losses from accident years 2009-2012 in the professional indemnity line of business in the United Kingdom.

Reinsurance - For the Reinsurance segment, favorable reserve development in 2014 of \$16 million was driven primarily by assumed professional liability excess of loss and umbrella treaty business, as well as direct facultative business. This was partially offset by adverse development on brokerage facultative business caused by completed operations losses associated with construction projects in accident years prior to 2009.

Environmental and Asbestos — To date, known environmental and asbestos claims have not had a material impact on the Company's operations, because its subsidiaries generally did not insure large industrial companies that are subject to significant environmental or asbestos exposures prior to 1986 when an absolute exclusion was incorporated into standard policy language.

The Company's net reserves for losses and loss expenses relating to asbestos and environmental claims on policies written before adoption of the absolute exclusion was \$31 million at December 31, 2016 and \$33 million at December 31, 2015. The estimation of these liabilities is subject to significantly greater than normal variation and uncertainty because it is difficult to make an actuarial estimate of these liabilities due to the absence of a generally accepted actuarial methodology for these exposures and the potential effect of significant unresolved legal matters, including coverage issues, as well as the cost of litigating the legal issues. Additionally, the determination of ultimate damages and the final allocation of such damages to financially responsible parties are highly uncertain.

Discounting — The Company discounts its liabilities for certain workers' compensation reserves. The amount of workers' compensation reserves that were discounted was \$1.907 million million and \$2.308 million at December 31, 2016 and December 31, 2015, respectively. The aggregate net discount for those reserves, after reflecting the effects of ceded reinsurance, was \$640 million and \$699 million at December 31, 2016 and 2015, respectively. At December 31, 2016, discount rates by year ranged from 2.0% to 6.5%, with a weighted average discount rate of 3.9%.

Substantially all of discounted workers' compensation reserves (97% of total discounted reserves at December 31, 2016) are excess workers' compensation reserves. In order to properly match loss expenses with income earned on investment securities supporting the liabilities, reserves for excess workers' compensation business are discounted using risk-free discount rates determined by reference to the U.S. Treasury yield curve. These rates are determined annually based on the weighted average rate for the period. Once established, no adjustments are made to the discount rate for that period, and any increases or decreases in loss reserves in subsequent years are discounted at the same rate, without regard to when any such adjustments are recognized. The expected loss and loss expense payout patterns subject to discounting are derived from the Company's loss payout experience.

The Company also discounts reserves for certain other long-duration workers' compensation reserves (representing approximately 3% of total discounted reserves at December 31, 2016), 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.

## (15) Reinsurance

The Company reinsures a portion of its insurance exposures in order to reduce its net liability on individual risks and catastrophe losses. Reinsurance coverage and retentions vary depending on the line of business, location of the risk and nature of loss. The Company's reinsurance purchases include the following: property reinsurance treaties that reduce exposure to large individual property losses and catastrophe events; casualty reinsurance treaties that reduce its exposure to large individual casualty losses, workers' compensation catastrophe losses and casualty losses involving multiple claimants or insureds; and facultative reinsurance that reduces exposure on individual policies or risks for losses that exceed treaty reinsurance capacity. Depending on the operating unit, the Company purchases specific additional reinsurance to supplement the above programs.

The following is a summary of reinsurance financial information:

<b>(In thousands)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Written premiums:</b>			
Direct	\$ 6,647,600	\$ 6,412,533	\$ 6,185,242
Assumed	896,101	837,460	877,596
Ceded	(1,119,788)	(1,060,478)	(1,065,891)
Total net written premiums	<u>\$ 6,423,913</u>	<u>\$ 6,189,515</u>	<u>\$ 5,996,947</u>
<b>Earned premiums:</b>			
Direct	\$ 6,492,240	\$ 6,245,714	\$ 5,889,021
Assumed	900,570	845,735	886,063
Ceded	(1,099,462)	(1,050,840)	(1,030,666)
Total net earned premiums	<u>\$ 6,293,348</u>	<u>\$ 6,040,609</u>	<u>\$ 5,744,418</u>
Ceded losses and loss expenses incurred	<u>\$ 707,336</u>	<u>\$ 501,999</u>	<u>\$ 475,802</u>
Ceded commission earned	<u>\$ 201,957</u>	<u>\$ 173,288</u>	<u>\$ 160,215</u>

The Company reinsures a portion of its exposures principally to reduce its net liability on individual risks and to protect against catastrophic losses. Estimated amounts due from reinsurers are reported net of reserves for uncollectible reinsurance of \$1,049,000, \$1,020,000 and \$1,144,000 as of December 31, 2016, 2015 and 2014, respectively.

The following table presents the amounts due from reinsurers as of December 31, 2016:

<b>(In thousands)</b>	
Alleghany Group	\$ 150,604
Munich Re	130,623
Swiss Re	120,906
Lloyd's of London	118,607
Partner Re	74,948
Axis Capital	72,600
Everest Re	53,482
Hannover Re Group	52,472
Berkshire Hathaway	49,340
Chubb Limited	35,304
Korean Re	28,654
Validus	22,871
Arch Capital Group	21,359
Other reinsurers less than \$20,000	246,160
Subtotal	1,177,930
Residual market pools	566,050
Total	<u>\$ 1,743,980</u>

#### **(16) Indebtedness**

Indebtedness consisted of the following as of December 31, 2016 (the difference between the face value and the carrying value is unamortized discount and debt issuance costs):

<b>(In thousands)</b>	<b>Interest Rate</b>	<b>Face Value</b>	<b>2016 Carrying Value</b>	<b>2015 Carrying Value</b>
<b>Senior notes due on:</b>				
August 15, 2019	6.15%	\$ 140,651	\$ 140,301	\$ 149,484
September 15, 2019	7.375%	300,000	299,308	299,054
September 15, 2020	5.375%	300,000	298,747	298,411
January 1, 2022	8.7%	76,503	76,151	76,097
March 15, 2022	4.625%	350,000	347,834	347,417
February 15, 2037	6.25%	250,000	247,786	247,676
August 1, 2044	4.75%	350,000	344,914	344,730
Subsidiary debt (1)	Various	5,554	5,554	81,752
Total senior notes and other debt		<u>\$ 1,772,708</u>	<u>\$ 1,760,595</u>	<u>\$ 1,844,621</u>
<b>Subordinated debentures due on:</b>				
April 30, 2053	5.625%	\$ 350,000	\$ 340,579	\$ 340,320
March 1, 2056	5.9%	110,000	105,952	—
June 1, 2056	5.75%	290,000	281,099	—
Total subordinated debentures		<u>\$ 750,000</u>	<u>\$ 727,630</u>	<u>\$ 340,320</u>

(1) Subsidiary debt is due as follows: \$4 million in 2017 and \$2 million in 2019.

**(17) Income Taxes**

Income tax expense (benefits) consists of:

<b>(In thousands)</b>	<b>Current Expense</b>	<b>Deferred Expense</b>	<b>Total</b>
<b>December 31, 2016</b>			
Domestic	\$ 259,539	\$ 3,355	\$ 262,894
Foreign	23,634	6,425	30,059
Total expense	<u>\$ 283,173</u>	<u>\$ 9,780</u>	<u>\$ 292,953</u>
<b>December 31, 2015</b>			
Domestic	\$ 179,150	\$ 31,145	\$ 210,295
Foreign	(2,318)	19,946	17,628
Total expense	<u>\$ 176,832</u>	<u>\$ 51,091</u>	<u>\$ 227,923</u>
<b>December 31, 2014</b>			
Domestic	\$ 258,337	\$ 28,029	\$ 286,366
Foreign	12,969	3,258	16,227
Total expense	<u>\$ 271,306</u>	<u>\$ 31,287</u>	<u>\$ 302,593</u>

Income before income taxes from domestic operations was \$837 million, \$689 million and \$910 million for the years ended December 31, 2016, 2015 and 2014, respectively. Income before income taxes from foreign operations was \$59 million, \$43 million and \$42 million for the years ended December 31, 2016, 2015 and 2014, respectively.

A reconciliation of the income tax expense and the amounts computed by applying the Federal and foreign income tax rate of 35% to pre-tax income are as follows:

<b>(In thousands)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Computed "expected" tax expense	\$ 313,753	\$ 256,210	\$ 333,269
Tax-exempt investment income	(37,379)	(39,283)	(38,757)
Change in valuation allowance	1,420	2,702	1,335
Impact of foreign tax rates	1,984	4,447	6,239
State and local taxes	7,748	940	2,375
Other, net	5,427	2,907	(1,868)
Total expense	<u>\$ 292,953</u>	<u>\$ 227,923</u>	<u>\$ 302,593</u>

At December 31, 2016 and 2015, the tax effects of differences that give rise to significant portions of the deferred tax asset and deferred tax liability are as follows:

<b>(In thousands)</b>	<b>2016</b>	<b>2015</b>
Deferred tax asset:		
Loss reserve discounting	\$ 86,659	\$ 100,806
Unearned premiums	187,522	176,465
Other-than-temporary impairments	26,139	26,509
Restricted stock units	72,889	62,442
Other	104,130	89,761
Gross deferred tax asset	477,339	455,983
Less valuation allowance	(5,457)	(4,037)
Deferred tax asset	<u>471,882</u>	<u>451,946</u>
Deferred tax liability:		
Amortization of intangibles	21,192	20,316
Deferred policy acquisition costs	173,481	162,344
Unrealized investment gains	238,232	115,499
Property, furniture and equipment	34,857	33,398
Investment funds	85,075	79,124
Other	53,410	48,076
Deferred tax liability	<u>606,247</u>	<u>458,757</u>
Net deferred tax liability	<u>\$ 134,365</u>	<u>\$ 6,811</u>

The Company had current tax receivables of \$14,768,000 and \$55,763,000 at December 31, 2016 and 2015, respectively. At December 31, 2016, the Company had foreign net operating loss carryforwards of \$5.3 million that expire beginning in 2031, and an additional \$29.9 million that have no expiration date. At December 31, 2016, the Company had a valuation allowance of \$5.5 million, as compared to \$4.0 million at December 31, 2015. The Company has provided a valuation allowance against future tax benefits of certain foreign operations. The statute of limitations has closed for the Company's U.S. Federal tax returns through December 31, 2012.

The realization of the deferred tax asset is dependent upon the Company's ability to generate sufficient taxable income in future periods. Based on historical results and the prospects for future current operations, management anticipates that it is more likely than not that future taxable income will be sufficient for the realization of this asset.

The Company has not provided U.S. deferred income taxes on the undistributed earnings of approximately \$55 million of its non-U.S. subsidiaries since these earnings are intended to be permanently reinvested in the non-U.S. subsidiaries. However, in the future, if such earnings were distributed to the Company, taxes of approximately \$6.1 million, assuming all tax credits are realized, would be payable on such undistributed earnings and would be reflected in the tax provision for the year in which these earnings are no longer intended to be permanently reinvested in the foreign subsidiary.

## (18) Dividends from Subsidiaries and Statutory Financial Information

The Company's insurance subsidiaries are restricted by law as to the amount of dividends they may pay without the approval of regulatory authorities. The Company's lead insurer, Berkley Insurance Company (BIC), directly or indirectly owns all of the Company's other insurance companies. During 2017, the maximum amount of dividends that can be paid by BIC without such approval is approximately \$580 million.

BIC's combined net income and statutory capital and surplus, as determined in accordance with statutory accounting practices (SAP), are as follows:

<b>(In thousands)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net income	\$ 702,830	\$ 813,303	\$ 757,010
Statutory capital and surplus	\$ 5,493,044	\$ 5,296,435	\$ 5,438,063

The significant variances between SAP and GAAP are that for statutory purposes bonds are carried at amortized cost, acquisition costs are charged to income as incurred, deferred Federal income taxes are subject to limitations, excess and assumed workers' compensation reserves are discounted at different discount rates and certain assets designated as "non-admitted assets" are charged against surplus. The Commissioner of Insurance of the State of Delaware has allowed BIC to discount non-tabular workers' compensation loss reserves, which is a permitted practice that differs from SAP. The effect of using this permitted practice was an increase to BIC's statutory capital and surplus by \$231 million at December 31, 2016.

The National Association of Insurance Commissioners ("NAIC") has risk-based capital ("RBC") requirements that require insurance companies to calculate and report information under a risk-based formula which measures statutory capital and surplus needs based on a regulatory definition of risk in a company's mix of products and its balance sheet. This guidance is used to calculate two capital measurements: Total Adjusted Capital and RBC Authorized Control Level. Total Adjusted Capital is equal to the Company's statutory capital and surplus excluding capital and surplus derived from the use of permitted practices that differ from statutory accounting practices. RBC Authorized Control Level is the capital level used by regulatory authorities to determine whether remedial action is required. Generally, no remedial action is required if Total Adjusted Capital is 200% or more of the RBC Authorized Control Level. At December 31, 2016, BIC's Total Adjusted Capital of \$5.262 billion was 422% of its RBC Authorized Control Level.

See Note 4, Investments in Fixed Maturity Securities, for a description of assets held on deposit as security.

## (19) Common Stockholders' Equity

The weighted average number of shares used in the computation of net income per share was as follows:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Basic	122,650,997	124,040,313	127,873,708
Diluted	128,552,838	130,188,866	133,651,855

Treasury shares have been excluded from average outstanding shares from the date of acquisition. The difference in calculating basic and diluted net income per share is attributable entirely to the dilutive effect of stock-based compensation plans. Changes in shares of common stock outstanding, net of treasury shares, are presented below. Shares of common stock issued and outstanding do not include shares related to unissued restricted stock units and unexercised stock options.

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Balance, beginning of year	123,307,837	126,748,836	132,233,167
Shares issued	281,654	1,061,026	332,137
Shares repurchased	(2,395,892)	(4,502,025)	(5,816,468)
Balance, end of year	121,193,599	123,307,837	126,748,836

The amount of dividends paid is dependent upon factors such as the receipt of dividends from our subsidiaries, our results of operations, cash flow, financial condition and business needs, the capital and surplus requirements of our subsidiaries, and applicable insurance regulations that limit the amount of dividends that may be paid by our regulated insurance subsidiaries.

## (20) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2016 and 2015:

<u>(In thousands)</u>	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets:</b>				
Fixed maturity securities	\$ 13,190,668	\$ 13,204,814	\$ 12,444,394	\$ 12,462,847
Equity securities available for sale	669,200	669,200	150,866	150,866
Arbitrage trading account	299,999	299,999	376,697	376,697
Loans receivable	106,798	108,299	273,103	275,747
Cash and cash equivalents	795,285	795,285	763,631	763,631
Trading accounts receivable from brokers and clearing organizations	484,593	484,593	383,115	383,115
Due from broker	—	—	1,713	1,713
<b>Liabilities:</b>				
Due to broker	19,416	19,416	—	—
Trading account securities sold but not yet purchased	51,179	51,179	37,035	37,035
Subordinated debentures	727,630	687,504	340,320	355,880
Senior notes and other debt	1,760,595	1,914,727	1,844,621	2,029,572

The estimated fair values of the Company's fixed maturity securities, equity securities available for sale and arbitrage trading account securities are based on various valuation techniques that rely on fair value measurements as described in Note 13 above. The fair value of loans receivable are estimated by using current institutional purchaser yield requirements for loans with similar credit characteristics, which is considered a Level 2 input. The fair value of the senior notes and other debt and the subordinated debentures is based on spreads for similar securities, which is considered a Level 2 input.

## (21) Lease Obligations

The Company and its subsidiaries use office space and equipment under leases expiring at various dates. These leases are considered operating leases for financial reporting purposes. Some of these leases have options to extend the length of the leases and contain clauses for cost of living, operating expense and real estate tax adjustments. Future minimum lease payments, without provision for sublease income, are: \$45,305,000 in 2017; \$40,634,000 in 2018; \$35,805,000 in 2019; \$33,575,000 in 2020; \$29,374,000 in 2021 and \$100,704,000 thereafter. Rental expense was \$47,453,000, \$46,271,000 and \$45,198,000 for 2016, 2015 and 2014, respectively.

## (22) Commitments, 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.

At December 31, 2016, the Company had commitments to invest up to \$373.2 million and \$495.7 million in certain investment funds and real estate construction projects, respectively.

### (23) Stock Incentive Plan

Pursuant to the Company's 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. The following table summarizes RSU information for the three years ended December 31, 2016:

	2016	2015	2014
RSUs granted and unvested at beginning of period:	4,158,325	5,330,445	4,491,520
Granted	1,000,559	997,522	1,154,950
Vested	(77,250)	(1,938,000)	(81,500)
Canceled	(219,536)	(231,642)	(234,525)
RSUs granted and unvested at end of period:	<u>4,862,098</u>	<u>4,158,325</u>	<u>5,330,445</u>

Upon vesting, shares of the Company's common stock equal to the number of vested RSUs are issued or deferred to a later date, depending on the terms of the specific award agreement. As of December 31, 2016, 4,097,497 RSUs had been deferred. RSUs that have not yet vested and vested RSUs that have been deferred are not considered to be issued and outstanding shares. The fair value of RSUs at the date of grant are recorded as unearned compensation, a component of stockholders' equity, and expensed over the vesting period. Following is a summary of changes in unearned compensation for the three years ended December 31, 2016:

<u>(In thousands)</u>	2016	2015	2014
Unearned compensation at beginning of year	\$ 103,538	\$ 88,015	\$ 73,205
RSUs granted, net of cancellations	52,697	50,442	51,575
RSUs expensed	(35,585)	(30,691)	(27,966)
RSUs forfeitures	(4,685)	(4,228)	(8,799)
Unearned compensation at end of year	<u>\$ 115,965</u>	<u>\$ 103,538</u>	<u>\$ 88,015</u>

### (24) Compensation Plans

The Company and its subsidiaries have profit sharing plans in which substantially all employees participate. The plans provide for minimum annual contributions of 5% of eligible compensation; contributions above the minimum are discretionary and vary with each participating subsidiary's profitability. Employees become eligible to participate in the plan on the first day of the calendar quarter following the first full calendar quarter after the employee's date of hire provided the employee has completed 250 hours of service during the calendar quarter. The plans provide that 40% of the contributions vest immediately and that the remaining 60% vest at varying percentages based upon years of service. Profit sharing expense was \$39 million, \$42 million and \$38 million in 2016, 2015 and 2014, respectively.

The Company has a long-term incentive compensation plan ("LTIP") that provides for incentive compensation to key executives based on the growth in the Company's book value per share over a five year period. The following table summarizes the outstanding LTIP awards as of December 31, 2016:

	Units Outstanding	Maximum Value	Inception to date earned through December 31, 2016 on outstanding units
2013 grant	197,500	\$ 49,375,000	\$ 31,852,800
2014 grant	209,750	20,975,000	9,883,420
2015 grant	211,250	21,125,000	7,239,538
2016 grant	230,500	23,050,000	4,001,480

The following table summarizes the LTIP expense for each of the three years ended December 31, 2016:

<b>(In thousands)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
2011 grant	\$ (82)	\$ 7,397	\$ 9,855
2013 grant	8,918	7,336	9,493
2014 grant	3,503	2,935	3,663
2015 grant	4,072	3,205	—
2016 grant	4,002	—	—
Total	<u>\$ 20,413</u>	<u>\$ 20,873</u>	<u>\$ 23,011</u>

## **(25) Retirement Benefits**

The Company and its executive chairman of the board entered into an unfunded supplemental benefit agreement (SBA) in 2004. On March 28, 2013, the Company agreed to terminate and distribute the retirement benefit of the SBA. As a result, the Company distributed retirement benefits of \$4.6 million in 2014. The final retirement benefit of \$59.4 million, which was fully accrued at December 31, 2014, was distributed in 2015. Net retirement benefit expense was \$9,994,000 in 2014, and none in 2015 and 2016.

## **(26) Supplemental Financial Statement Data**

Other operating costs and expenses consist of the following:

<b>(In thousands)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Amortization of deferred policy acquisition costs	\$ 1,155,954	\$ 1,102,492	\$ 1,053,397
Operating insurance expenses	933,249	903,006	843,133
Service company expenses	138,908	127,365	102,726
Net foreign currency (gains) losses	(11,904)	400	(27)
Other costs and expenses	179,412	156,487	158,227
Total	<u>\$ 2,395,619</u>	<u>\$ 2,289,750</u>	<u>\$ 2,157,456</u>

## (27) Industry Segments

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

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

Commencing with the first quarter of 2016, the Company changed the aggregation of its reported segments. Operating units in the Insurance-Domestic segment and Insurance-International segment, previously reported separately, were combined into the Insurance segment. The segment disclosures for prior periods have been revised to be consistent with the new reportable business segment presentation.

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

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

(In thousands)	Revenues				Pre-Tax Income (Loss)	Net Income (Loss)
	Earned Premiums	Investment Income	Other	Total (1)		
<b>December 31, 2016:</b>						
Insurance	\$ 5,652,903	\$ 455,139	\$ 97,879	\$ 6,205,921	\$ 822,617	\$ 551,482
Reinsurance	640,445	78,967	—	719,412	74,799	51,531
Corporate, other and eliminations(2)	—	30,057	431,789	461,846	(267,983)	(174,650)
Net investment gains	—	—	267,005	267,005	267,005	173,553
Consolidated	<u>\$ 6,293,348</u>	<u>\$ 564,163</u>	<u>\$ 796,673</u>	<u>\$ 7,654,184</u>	<u>\$ 896,438</u>	<u>\$ 601,916</u>
<b>December 31, 2015:</b>						
Insurance	\$ 5,431,500	\$ 410,457	\$ 96,487	\$ 5,938,444	\$ 776,593	\$ 532,286
Reinsurance	609,109	74,226	—	683,335	94,852	66,627
Corporate, other and eliminations(2)	—	27,962	464,392	492,354	(231,739)	(155,230)
Net investment gains	—	—	92,324	92,324	92,324	60,011
Consolidated	<u>\$ 6,040,609</u>	<u>\$ 512,645</u>	<u>\$ 653,203</u>	<u>\$ 7,206,457</u>	<u>\$ 732,030</u>	<u>\$ 503,694</u>
<b>December 31, 2014:</b>						
Insurance	\$ 5,074,308	\$ 484,039	\$ 106,853	\$ 5,665,200	\$ 826,088	\$ 561,643
Reinsurance	670,110	88,821	—	758,931	115,677	79,720
Corporate, other and eliminations(2)	—	28,025	421,920	449,945	(244,421)	(158,133)
Net investment gains	—	—	254,852	254,852	254,852	165,654
Consolidated	<u>\$ 5,744,418</u>	<u>\$ 600,885</u>	<u>\$ 783,625</u>	<u>\$ 7,128,928</u>	<u>\$ 952,196</u>	<u>\$ 648,884</u>

**Identifiable Assets**

<b>(In thousands)</b>	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Insurance	\$ 19,137,758	\$ 18,063,730
Reinsurance	2,524,338	2,441,340
Corporate, other and eliminations(2)	1,702,748	1,225,897
Consolidated	<u>\$ 23,364,844</u>	<u>\$ 21,730,967</u>

(1) Revenues for Insurance includes \$830.8 million, \$828.3 million and \$890.1 million in 2016, 2015 and 2014, respectively, from foreign countries. Revenues for Reinsurance includes \$166.6 million, \$186.6 million and \$249.3 million in 2016, 2015 and 2014, respectively, from foreign countries.

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

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

<b>(In thousands)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Insurance</b>			
Other liability	\$ 1,798,771	\$ 1,650,131	\$ 1,541,836
Workers' compensation	1,408,911	1,363,513	1,198,701
Short-tail lines	1,299,545	1,298,883	1,291,021
Commercial automobile	642,452	674,078	642,713
Professional liability	503,224	444,895	400,037
Total Insurance	<u>5,652,903</u>	<u>5,431,500</u>	<u>5,074,308</u>
<b>Reinsurance</b>			
Casualty	390,863	421,811	487,264
Property	249,582	187,298	182,846
Total Reinsurance	<u>640,445</u>	<u>609,109</u>	<u>670,110</u>
Total	<u>\$ 6,293,348</u>	<u>\$ 6,040,609</u>	<u>\$ 5,744,418</u>

## (28) Quarterly Financial Information (Unaudited)

The following is a summary of quarterly financial data:

(In thousands, except per share data) Three months ended	2016			
	March 31	June 30	September 30	December 31
Revenues	\$ 1,807,211	\$ 1,855,914	\$ 2,019,727	\$ 1,971,333
Net income	119,511	108,967	220,650	152,790
Net income per share(1)				
Basic	0.97	0.89	1.80	1.26
Diluted	0.93	0.85	1.72	1.20

Three months ended	2015			
	March 31	June 30	September 30	December 31
Revenues	\$ 1,744,679	\$ 1,789,765	\$ 1,860,957	\$ 1,811,056
Net income	118,307	123,035	152,607	109,745
Net income per share(1)				
Basic	0.94	0.99	1.24	0.89
Diluted	0.89	0.95	1.18	0.85

(1) Net income per share ("EPS") in each quarter is computed using the weighted-average number of shares outstanding during that quarter, while EPS for the full year is computed using the weighted-average number of shares outstanding during the year. Thus, the sum of the four quarters EPS does not necessarily equal the full-year EPS.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### ITEM 9A. CONTROLS AND PROCEDURES

The Company's management, including its Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this annual 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 Exchange Act and the rules thereunder, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

During the quarter ended December 31, 2016, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

### Management's Report On Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of Treadway Commission. Based on our evaluation under the framework in Internal Control - Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

W. R. Berkley Corporation:

We have audited W. R. Berkley Corporation's internal control over financial reporting as of December 31, 2016 based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). W. R. Berkley Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, W. R. Berkley Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of W. R. Berkley Corporation and Subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated February 27, 2017 expressed an unqualified opinion on those consolidated financial statements.

/S/ KPMG LLP

New York, New York

February 27, 2017

## ITEM 9B. OTHER INFORMATION

None.

### **PART III**

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Reference is made to the registrant's definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2016, and which is incorporated herein by reference.

## ITEM 11. EXECUTIVE COMPENSATION

Reference is made to the registrant's definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2016, and which is incorporated herein by reference.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

### (a) Security ownership of certain beneficial owners

Reference is made to the registrant's definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2016, and which is incorporated herein by reference.

### (b) Security ownership of management

Reference is made to the registrant's definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2016, and which is incorporated herein by reference.

### (c) Changes in control

Reference is made to the registrant's definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2016, and which is incorporated herein by reference.

### (d) Equity compensation plan information

Reference is made to the registrant's definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2016, and which is incorporated herein by reference.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Reference is made to the registrant's definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2016, and which is incorporated herein by reference.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Reference is made to the registrant's definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2016, and which is incorporated herein by reference.

### **PART IV**

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

### (a) Index to Financial Statements

The schedules to the consolidated financial statements listed below should be read in conjunction with the consolidated financial statements included in this Annual Report on Form 10-K. Financial statement schedules not included in this Annual Report on Form 10-K have been omitted because they are not applicable or required information is shown in the financial statements or notes thereto.

<b>Index to Financial Statement Schedules</b>	<b>Page</b>
Independent Registered Public Accountants' Report on Schedules	107
Schedule II — Condensed Financial Information of Registrant	108
Schedule III — Supplementary Insurance Information	112
Schedule IV — Reinsurance	113
Schedule V — Valuation and Qualifying Accounts	114
Schedule VI — Supplementary Information Concerning Property — Casualty Insurance Operations	115

(b) Exhibits

The exhibits filed as part of this report are listed on pages 105 - 107 hereof.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By /s/ W. Robert Berkley, Jr.  
W. Robert Berkley, Jr., President and Chief  
Executive Officer

February 27, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ William R. Berkley</u> William R. Berkley	Executive Chairman of the Board of Directors	February 27, 2017
<u>/s/ W. Robert Berkley, Jr.</u> W. Robert Berkley, Jr.	President, Chief Executive Officer and Director (Principal executive officer)	February 27, 2017
<u>/s/ Christopher L. Augostini</u> Christopher L. Augostini	Director	February 27, 2017
<u>/s/ Ronald E. Blaylock</u> Ronald E. Blaylock	Director	February 27, 2017
<u>/s/ Mark E. Brockbank</u> Mark E. Brockbank	Director	February 27, 2017
<u>/s/ George G. Daly</u> George G. Daly	Director	February 27, 2017
<u>/s/ Mary C. Farrell</u> Mary C. Farrell	Director	February 27, 2017
<u>/s/ Jack H. Nusbaum</u> Jack H. Nusbaum	Director	February 27, 2017
<u>/s/ Mark L. Shapiro</u> Mark L. Shapiro	Director	February 27, 2017
<u>/s/ Richard M. Baio</u> Richard M. Baio	Senior Vice President, Chief Financial Officer and Treasurer (Principal financial officer and principal accounting officer)	February 27, 2017

## ITEM 15. (b) EXHIBITS

### Number

- (3.1) The Company's Restated Certificate of Incorporation, as amended through May 10, 2004 (incorporated by reference to Exhibits 3.1 and 3.2 of the Company's Quarterly Report on Form 10-Q (File No. 1-15202) filed with the Commission on August 6, 2003).
- (3.2) Amendment, dated May 11, 2004, to the Company's Restated Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.2 of the Company's Quarterly report on Form 10-Q (File No. 1-15202) filed with the Commission on August 5, 2004).
- (3.3) Amendment, dated May 16, 2006, to the Company's Restated Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K (File No. 1-15202) filed with the Commission on May 17, 2006).
- (3.4) Amended and Restated By-Laws (incorporated by reference to Exhibit 3 (ii) of the Company's Current Report on Form 8-K (File No. 1-15202) filed with the Commission on August 5, 2015).
- (4.1) Indenture, dated as of February 14, 2003, between the Company and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Annual Report on Form 10-K (File No. 1-15202) filed with the Commission of March 31, 2003).
- (4.2) Third Supplemental Indenture, dated as of August 24, 2004, between the Company and The Bank of New York, as Trustee, relating to \$150,000,000 principal amount of the Company's 6.150% Senior Notes due 2019, including form of the Notes as Exhibit A (incorporated by reference to Exhibit 4.4 of the Company's Annual Report on Form 10-K (File No. 1-15202) filed with the Commission on March 14, 2005).
- (4.3) Fifth Supplemental Indenture, dated as of February 9, 2007, between the Company and The Bank of New York, as Trustee, relating to \$250,000,000 principal amount of the Company's 6.25% Senior Notes due 2037, including form of the Notes as Exhibit A (incorporated by reference to Exhibit 4.7 of the Company's Annual Report on Form 10-K (File No. 1-15202) filed with the Commission on March 1, 2007).
- (4.4) Sixth Supplemental Indenture, dated as of September 14, 2009, between the Company and The Bank of New York Mellon, as Trustee, relating to \$300,000,000 principal amount of the Company's 7.375% Senior Notes due 2019, including form of the Notes as Exhibit A (incorporated by reference to Exhibit 4.7 of the Company's Annual Report on Form 10-K (File No. 1-15202) filed with the Commission on February 26, 2010).
- (4.5) Seventh Supplemental Indenture, dated as of September 16, 2010, between the Company and The Bank of New York Mellon, as Trustee, relating to \$300,000,000 principal amount of the Company's 5.375% Senior Notes due 2020, including form of the Notes as Exhibit A (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K (File No. 1-15202) filed with the Commission on September 16, 2010).
- (4.6) Eighth Supplemental Indenture, dated as of March 16, 2012, between the Company and The Bank of New York Mellon, as Trustee, relating to \$350,000,000 principal amount of the Company's 4.625% Senior Notes due 2022, including form of the Notes as Exhibit A (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K (File No. 1-15202) filed with the Commission on March 16, 2012).
- (4.7) Ninth Supplemental Indenture, dated as of August 6, 2014, between the Company and The Bank of New York Mellon, as Trustee, relating to \$350,000,000 principal amount of the Company's 4.75% Senior Notes due 2044, including form of the Notes as Exhibit A (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K (File No. 1-15202) filed with the Commission on August 6, 2014).
- (4.8) Subordinated Indenture, dated as of May 2, 2013, between the Company and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K (File No. 1-15202) filed with the Commission on May 2, 2013).
- (4.9) First Supplemental Indenture, dated as of May 2, 2013, between the Company and The Bank of New York Mellon, as Trustee, relating to \$350,000,000 principal amount of the Company's 5.625% Subordinated Debentures due 2053, including the form of the Securities as Exhibit A (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K (File No. 1-15202) filed with the Commission on May 2, 2013).

- (4.10) Subordinated Indenture, dated as of March 1, 2016, between the Company and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K (File No. 1-15202) filed with the Commission on March 1, 2016).
- (4.11) First Supplemental Indenture, dated as of March 1, 2016, between the Company and The Bank of New York Mellon, as Trustee, relating to \$110,000,000 principal amount of the Company's 5.9% Subordinated Debentures due 2056, including the form of the Securities as Exhibit A (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K (File No. 1-15202) filed with the Commission on March 1, 2016).
- (4.12) Second Supplemental Indenture, dated as of May 25, 2016, between the Company and The Bank of New York Mellon, as Trustee, relating to \$290,000,000 principal amount of the Company's 5.75% Subordinated Debentures due 2056, including the form of the Securities as Exhibit A (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K (File No. 1-15202) filed with the Commission on May 25, 2016).
- (4.13) The instruments defining the rights of holders of the other long term debt securities of the Company are omitted pursuant to Section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Company agrees to furnish supplementally copies of these instruments to the Commission upon request.
- (10.1) W. R. Berkley Corporation 2003 Stock Incentive Plan (incorporated by reference to Annex A of the Company's 2003 Proxy Statement (File No. 1-15202) filed with the Commission on April 14, 2003).
- (10.2) W. R. Berkley Corporation 2012 Stock Incentive Plan (incorporated by reference to Annex A of the Company's 2015 Proxy Statement (File No. 1-15202) filed with the Commission on April 20, 2015).
- (10.3) Form of 2014 Performance-Based Restricted Stock Unit Agreement under the W. R. Berkley Corporation 2012 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q (File No. 1-15202) filed with the Commission on November 7, 2014).
- (10.4) Form of 2015 Performance-Based Restricted Stock Unit Agreement under the W. R. Berkley Corporation 2012 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q (File No. 1-15202) filed with the Commission on November 9, 2015).
- (10.5) Form of Restricted Stock Unit Agreement under the W. R. Berkley Corporation 2012 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q (File No. 1-15202) filed with the Commission on November 8, 2012).
- (10.6) Form of Restricted Stock Unit Agreement under the W. R. Berkley Corporation 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q (File No. 1-15202) filed with the Commission on May 3, 2005).
- (10.7) Form of Restricted Stock Unit Agreement under the W. R. Berkley Corporation 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q (File No. 1-15202) filed with the Commission on August 6, 2010).
- (10.8) Form of Restricted Stock Unit Agreement for grant of April 4, 2003 (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q (File No. 1-15202) filed with the Commission on August 6, 2003).
- (10.9) W. R. Berkley Corporation Deferred Compensation Plan for Officers as amended and restated effective December 3, 2007 (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K (File No. 1-15202) filed with the Commission on December 19, 2007).
- (10.10) W. R. Berkley Corporation Deferred Compensation Plan for Directors as amended and restated effective December 3, 2007 (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K (File No. 1-15202) filed with the Commission on December 19, 2007).
- (10.11) W. R. Berkley Corporation 2007 Annual Incentive Compensation Plan (incorporated by reference to Annex A of the Company's 2006 Proxy Statement (File No. 1-15202) filed with the Commission on April 18, 2006).

- (10.12) W. R. Berkley Corporation Amended and Restated Annual Incentive Compensation Plan (incorporated by reference to Annex A of the Company's 2016 Proxy Statement (File No. 1-15202) filed with the Commission on April 15,
- (10.13) W. R. Berkley Corporation 2009 Long-Term Incentive Plan (incorporated by reference to Annex A of the Company's 2009 Proxy Statement (File No. 1-15202) filed with the Commission on April 17, 2009).
- (10.14) Form of 2011 Performance Unit Award Agreement under the W. R. Berkley Corporation 2009 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.12 of the Company's Annual Report on Form 10-K (File No. 1-15202) filed with the Commission on February 28, 2012).
- (10.15) W. R. Berkley Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Annex A of the Company's 2014 Proxy Statement (File No. 1-15202) filed with the Commission on April 7, 2014).
- (10.16) Form of 2014 Performance Unit Award Agreement under the W. R. Berkley Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q (File No. 1-15202) filed with the Commission on May 12, 2014).
- (10.17) Form of 2015 Performance Unit Award Agreement under the W. R. Berkley Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q (File No. 1-15202) filed with the Commission on May 4, 2015).
- (10.18) Form of 2016 Performance Unit Award Agreement under the W. R. Berkley Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q (File No. 1-15202) filed with the Commission on May 10, 2016).
- (10.19) W. R. Berkley Corporation 2009 Directors Stock Plan (incorporated by reference to Annex B of the Company's 2015 Proxy Statement (File No. 1-15202) filed with the Commission on April 20, 2015).
- (10.20) Supplemental Benefits Agreement between William R. Berkley and the Company as amended and restated as of December 21, 2011 (incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K (File No. 1-15202) filed with the Commission on February 28, 2012).
- (10.21) Form of Dividend Equivalent Rights Award Agreement Under the W. R. Berkley Corporation 2012 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q (File No. 1-15202) filed with the Commission on August 7, 2015).
- (14) Code of Ethics for Senior Financial Officers (incorporated by reference to Exhibit 14 of the Company's Annual Report on Form 10-K (File No. 1-15202) filed with the Commission on March 14, 2005).
- (21) List of the Company's subsidiaries.
- (23) Consent of Independent Registered Public Accounting Firm.
- (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.

ITEM 16. FORM 10-K Summary

None.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

W. R. Berkley Corporation:

Under date of February 27, 2017, we reported on the consolidated balance sheets of W. R. Berkley Corporation and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, which are included in the Annual Report on Form 10-K for the year ended December 31, 2016. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedules II through VI. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/S/ KPMG LLP

New York, New York

February 27, 2017

**W. R. Berkley Corporation**  
**Condensed Financial Information of Registrant**  
**Balance Sheets (Parent Company)**

<b>(In thousands)</b>	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 124,803	\$ 195,658
Fixed maturity securities available for sale at fair value (cost \$899,206 and \$201,256 at December 31, 2016 and 2015, respectively)	894,748	201,738
Loans receivable	23,419	—
Equity securities available for sale, at fair value (cost \$3,430 in 2016 and 2015)	3,430	3,430
Investment in subsidiaries	6,891,246	6,454,065
Deferred federal income taxes	—	37,135
Current federal income taxes	15,455	51,512
Property, furniture and equipment at cost, less accumulated depreciation	14,798	13,150
Other assets	7,122	6,153
<b>Total assets</b>	<b>\$ 7,975,021</b>	<b>\$ 6,962,841</b>
<b>Liabilities and stockholders' equity</b>		
<b>Liabilities:</b>		
Due to subsidiaries	\$ 234,014	\$ 143,669
Other liabilities	120,160	115,737
Deferred federal income taxes	90,966	—
Subordinated debentures	727,630	340,320
Senior notes	1,755,043	1,762,869
<b>Total liabilities</b>	<b>2,927,813</b>	<b>2,362,595</b>
<b>Stockholders' equity:</b>		
Preferred stock	—	—
Common stock	47,024	47,024
Additional paid-in capital	1,037,446	1,005,455
Retained earnings (including accumulated undistributed net income of subsidiaries of \$4,850,878 and \$4,746,934 at December 31, 2016 and 2015, respectively)	6,595,987	6,178,070
Accumulated other comprehensive income (loss)	55,568	(66,698)
Treasury stock, at cost	(2,688,817)	(2,563,605)
<b>Total stockholders' equity</b>	<b>5,047,208</b>	<b>4,600,246</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 7,975,021</b>	<b>\$ 6,962,841</b>

See accompanying Report of Independent Registered Public Accounting Firm and note to condensed financial statements.

**W. R. Berkley Corporation**  
**Condensed Financial Information of Registrant, Continued**  
**Statements of Income (Parent Company)**

<b>(In thousands)</b>	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Management fees and investment income including dividends from subsidiaries of \$700,664, \$642,421 and \$503,483 for the years ended December 31, 2016, 2015 and 2014, respectively	\$ 726,742	\$ 655,318	\$ 515,775
Net investment gains	909	696	5,487
Other income	376	348	450
Total revenues	728,027	656,362	521,712
Operating costs and expense	171,967	143,391	148,288
Interest expense	139,216	128,248	125,352
Income before federal income taxes	416,844	384,723	248,072
Federal income taxes:			
Federal income taxes provided by subsidiaries on a separate return basis	327,520	272,180	366,721
Federal income tax expense on a consolidated return basis	(246,389)	(199,322)	(273,310)
Net expense	81,131	72,858	93,411
Income before undistributed equity in net income of subsidiaries	497,975	457,581	341,483
Equity in undistributed net income of subsidiaries	103,941	46,113	307,401
Net income	\$ 601,916	\$ 503,694	\$ 648,884

See accompanying Report of Independent Registered Public Accounting Firm and note to condensed financial statements.

**W. R. Berkley Corporation**  
**Condensed Financial Information of Registrant, Continued**  
**Statements of Cash Flows (Parent Company)**

(In thousands)	Year Ended December 31,		
	2016	2015	2014
<b>Cash flows from operating activities:</b>			
Net income	\$ 601,919	\$ 503,694	\$ 648,884
Adjustments to reconcile net income to net cash from operating activities:			
Net investment gains	3,649	(696)	(5,487)
Depreciation and amortization	2,744	2,693	2,916
Equity in undistributed earnings of subsidiaries	(103,944)	(46,113)	(307,401)
Tax payments received from subsidiaries	414,386	311,482	462,809
Federal income taxes provided by subsidiaries on a separate return basis	(327,520)	(272,180)	(366,721)
Stock incentive plans	37,174	29,725	28,068
Change in:			
Federal income taxes	44,839	51,772	(15,239)
Other assets	1,772	301	(364)
Other liabilities	(88,282)	(92,752)	(39,780)
Accrued investment income	(2,743)	524	(820)
<b>Net cash from operating activities</b>	<b>583,994</b>	<b>488,450</b>	<b>406,865</b>
<b>Cash from (used in) investing activities:</b>			
Proceeds from sales of fixed maturity securities	373,252	380,986	289,683
Proceeds from maturities and prepayments of fixed maturity securities	210,904	123,639	103,646
Proceeds from sales of equity securities	—	308	7,356
Cost of purchases of fixed maturity securities	(1,285,101)	(432,645)	(605,768)
Change in loans receivable	(23,419)	—	—
Cost of acquired companies	—	—	(82,879)
Investments in and advances to subsidiaries, net	11,471	30,338	34,191
Change in balance due to security broker	—	—	(2,151)
Net additions to real estate, furniture & equipment	(3,042)	(4,425)	(1,615)
<b>Net cash from (used in) investing activities</b>	<b>(715,935)</b>	<b>98,201</b>	<b>(257,537)</b>
<b>Cash from (used in) financing activities:</b>			
Net proceeds from issuance of senior notes	386,830	—	344,472
Repayment of senior notes	(9,353)	(200,000)	—
Purchase of common treasury shares	(132,392)	(223,652)	(238,933)
Cash dividends to common stockholders	(183,999)	(58,034)	(181,489)
<b>Net cash from (used in) financing activities</b>	<b>61,086</b>	<b>(481,686)</b>	<b>(75,950)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(70,855)</b>	<b>104,965</b>	<b>73,378</b>
Cash and cash equivalents at beginning of year	195,658	90,693	17,315
<b>Cash and cash equivalents at end of year</b>	<b>\$ 124,803</b>	<b>\$ 195,658</b>	<b>\$ 90,693</b>

See accompanying Report of Independent Registered Public Accounting Firm and note to condensed financial statements.

**W. R. Berkley Corporation**  
**Condensed Financial Information of Registrant, Continued**  
**December 31, 2016**

**Note to Condensed Financial Statements (Parent Company)**

The accompanying condensed financial statements should be read in conjunction with the notes to consolidated financial statements included elsewhere herein. Reclassifications have been made in the 2015 and 2014 financial statements as originally reported to conform them to the presentation of the 2016 financial statements.

The Company files a consolidated federal tax return with the results of its domestic insurance subsidiaries included on a statutory basis. Under present Company policy, federal income taxes payable by subsidiary companies on a separate-return basis are paid to W. R. Berkley Corporation, and the Company pays the tax due on a consolidated return basis.

**W. R. Berkley Corporation and Subsidiaries**  
**Supplementary Insurance Information**  
**December 31, 2016, 2015 and 2014**

(In thousands)	Deferred Policy Acquisition Cost	Reserve for Losses and Loss Expenses	Unearned Premiums	Net Premiums Earned	Net Investment Income	Loss and Loss Expenses	Amortization of Deferred Policy Acquisition Cost	Other Operating Costs and Expenses	Net Premiums Written
<b>December 31, 2016</b>									
Insurance	\$ 446,875	\$ 9,747,934	\$ 2,993,063	\$ 5,652,903	\$ 455,139	\$ 3,449,857	\$ 964,838	\$ 968,611	\$ 5,775,913
Reinsurance	91,015	1,449,261	290,237	640,445	78,967	395,943	191,116	57,552	648,000
Corporate and adjustments	—	—	—	—	30,057	—	—	213,502	—
<b>Total</b>	<b>\$ 537,890</b>	<b>\$ 11,197,195</b>	<b>\$ 3,283,300</b>	<b>\$ 6,293,348</b>	<b>\$ 564,163</b>	<b>\$ 3,845,800</b>	<b>\$ 1,155,954</b>	<b>\$ 1,239,665</b>	<b>\$ 6,423,913</b>
<b>December 31, 2015</b>									
Insurance	\$ 430,664	\$ 9,248,306	\$ 2,854,461	\$ 5,431,500	\$ 410,457	\$ 3,300,283	\$ 929,982	\$ 931,586	\$ 5,591,397
Reinsurance	82,464	1,420,844	282,672	609,109	74,226	355,987	172,510	59,986	598,118
Corporate and adjustments	—	—	—	—	27,962	—	—	195,686	—
<b>Total</b>	<b>\$ 513,128</b>	<b>\$ 10,669,150</b>	<b>\$ 3,137,133</b>	<b>\$ 6,040,609</b>	<b>\$ 512,645</b>	<b>\$ 3,656,270</b>	<b>\$ 1,102,492</b>	<b>\$ 1,187,258</b>	<b>\$ 6,189,515</b>
<b>December 31, 2014</b>									
Insurance	\$ 408,161	\$ 8,856,715	\$ 2,727,257	\$ 5,074,308	\$ 484,039	\$ 3,075,007	\$ 884,018	\$ 880,087	\$ 5,345,663
Reinsurance	80,364	1,512,986	299,475	670,110	88,821	415,560	169,379	58,315	651,284
Corporate and adjustments	—	—	—	—	28,025	—	—	165,657	—
<b>Total</b>	<b>\$ 488,525</b>	<b>\$ 10,369,701</b>	<b>\$ 3,026,732</b>	<b>\$ 5,744,418</b>	<b>\$ 600,885</b>	<b>\$ 3,490,567</b>	<b>\$ 1,053,397</b>	<b>\$ 1,104,059</b>	<b>\$ 5,996,947</b>

See accompanying Report of Independent Registered Public Accounting Firm.

**W. R. Berkley Corporation and Subsidiaries**  
**Reinsurance**  
**Years ended December 31, 2016, 2015 and 2014**

(In thousands, other than percentages)	Premiums Written				Percentage of Amount Assumed to Net
	Direct Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	
<b>Year ended December 31, 2016:</b>					
Insurance	\$ 6,634,540	\$ 1,059,149	\$ 200,522	\$ 5,775,913	3.5%
Reinsurance	13,060	60,639	695,579	648,000	107.3%
Total	\$ 6,647,600	\$ 1,119,788	\$ 896,101	\$ 6,423,913	13.9%
<b>Year ended December 31, 2015:</b>					
Insurance	\$ 6,395,806	\$ 1,016,095	\$ 211,686	\$ 5,591,397	3.8%
Reinsurance	16,727	44,383	625,774	598,118	104.6%
Total	\$ 6,412,533	\$ 1,060,478	\$ 837,460	\$ 6,189,515	13.5%
<b>Year ended December 31, 2014:</b>					
Insurance	\$ 6,142,648	\$ 1,022,287	\$ 225,302	\$ 5,345,663	4.2%
Reinsurance	42,594	43,604	652,294	651,284	100.2%
Total	\$ 6,185,242	\$ 1,065,891	\$ 877,596	\$ 5,996,947	14.6%

See accompanying Report of Independent Registered Public Accounting Firm.

**W. R. Berkley Corporation and Subsidiaries**  
**Valuation and Qualifying Accounts**  
**Years ended December 31, 2016, 2015 and 2014**

(In thousands)	Opening Balance	Additions- Charged to Expense	Deduction- Amounts Written Off	Ending Balance
<b>Year ended December 31, 2016:</b>				
Premiums and fees receivable	\$ 22,524	\$ 10,006	\$ (5,961)	\$ 26,569
Due from reinsurers	1,020	20	9	1,049
Deferred federal and foreign income taxes	4,037	1,420	—	5,457
Loan loss reserves	2,094	1,303	—	3,397
Total	\$ 29,675	\$ 12,749	\$ (5,952)	\$ 36,472
<b>Year ended December 31, 2015:</b>				
Premiums and fees receivable	\$ 21,446	\$ 6,281	\$ (5,203)	\$ 22,524
Due from reinsurers	1,144	(24)	(100)	1,020
Deferred federal and foreign income taxes	1,335	2,702	—	4,037
Loan loss reserves	2,486	(392)	—	2,094
Total	\$ 26,411	\$ 8,567	\$ (5,303)	\$ 29,675
<b>Year ended December 31, 2014:</b>				
Premiums and fees receivable	\$ 20,951	\$ 5,944	\$ (5,449)	\$ 21,446
Due from reinsurers	1,385	301	(542)	1,144
Deferred federal and foreign income taxes	—	1,335	—	1,335
Loan loss reserves	2,087	399	—	2,486
Total	\$ 24,423	\$ 7,979	\$ (5,991)	\$ 26,411

See accompanying Report of Independent Registered Public Accounting Firm.

**W. R. Berkley Corporation and Subsidiaries**  
**Supplementary Information Concerning Property-Casualty Insurance Operations**  
**Years Ended December 31, 2016, 2015 and 2014**

<b>(In thousands)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Deferred policy acquisition costs	\$ 537,890	\$ 513,128	\$ 488,525
Reserves for losses and loss expenses	11,197,195	10,669,150	10,369,701
Unearned premiums	3,283,300	3,137,133	3,026,732
Net premiums earned	6,293,348	6,040,609	5,744,418
Net investment income	564,163	512,645	600,885
Losses and loss expenses incurred:			
Current year	3,826,620	3,653,561	3,495,825
Prior years	(29,904)	(46,713)	(75,764)
Loss reserve discount accretion	49,084	49,422	70,506
Amortization of deferred policy acquisition costs	1,155,954	1,102,492	1,053,397
Paid losses and loss expenses	3,454,174	3,257,015	3,115,227
Net premiums written	6,423,913	6,189,515	5,996,947

See accompanying Report of Independent Registered Public Accounting Firm.

# Operating Units

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

## INSURANCE

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Marlborough, Massachusetts	Tel: (888) 665 1170
Rocky Hill, Connecticut	Tel: (866) 382 0036
South Burlington, Vermont	Tel: (800) 224 8847
Syracuse, New York	Tel: (866) 811 7722

### Admiral Insurance Group

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Mount Laurel, New Jersey 08054  
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Chicago, Illinois	Tel: (312) 705 1121
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**Berkley Recreational Marine Division**

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Syndicate 1967 At Lloyd's

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W. R. Berkley Corporation's operating units conduct business through the following insurance entities:

Acadia Insurance Company; Admiral Indemnity Company; Admiral Insurance Company; American Mining Insurance Company; Berkley Argentina de Reaseguros S.A.; Berkley Assurance Company; Berkley Insurance Company; Berkley International Aseguradora de Riesgos del Trabajo S.A.; Berkley International do Brasil Seguros S.A.; Berkley International Seguros S.A.; Berkley International Seguros Colombia S.A.; Berkley International Seguros S.A. (Uruguay); Berkley Life and Health Insurance Company; Berkley National Insurance Company; Berkley Regional Insurance Company; Berkley Regional Specialty Insurance Company; Carolina Casualty Insurance Company; Clermont Insurance Company; Continental Western Insurance Company; East Isles Reinsurance, Ltd.; Firemen's Insurance Company of Washington, D.C.; Gemini Insurance Company; Great Divide Insurance Company; Greenwich Knight Insurance Company, Ltd.; Intrepid Insurance Company, Key Risk Insurance Company; Midwest Employers Casualty Company; Nautilus Insurance Company; Preferred Employers Insurance Company; Queen's Island Insurance Company, Ltd.; Riverport Insurance Company; StarNet Insurance Company; Syndicate 1967 at Lloyd's; Tri-State Insurance Company of Minnesota; Union Insurance Company; Union Standard Lloyds; W. R. Berkley Europe AG; W. R. Berkley Insurance (Europe), Limited.

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**Mir Mazhar**  
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*Senior Vice President – General Counsel*

**Jonathan A. Schriber**  
*Senior Vice President – Underwriting*

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**Ira S. Lederman**  
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## Annual Meeting

The Annual Meeting of Stockholders of W. R. Berkley Corporation will be held at 1:00 p.m. on May 16, 2017 at the offices of W. R. Berkley Corporation, 475 Steamboat Road, Greenwich, Connecticut 06830.

## Shares Traded

Common Stock of W. R. Berkley Corporation is traded on the New York Stock Exchange.  
Symbol: WRB

## Transfer Agent and Registrar

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For additional information, including press releases, visit our internet site at: <http://www.wrberkley.com>  
Follow us on Twitter @WRBerkleyCorp

## Auditors

KPMG LLP, New York, New York

## Outside Counsel

Willkie Farr & Gallagher LLP, New York, New York



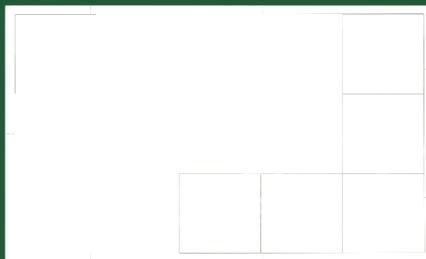
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“Always do right.  
This will gratify some people  
and astonish the rest.”

—Mark Twain—

ON THE COVER:



*Queen Anne's Lace, 1890*  
George Hitchcock (1850-1913)

**W. R. Berkley Corporation**  
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