

BERKLEY W R CORP

FORM 10-K (Annual Report)

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FORM 10-K

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D. C. 20549

(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, 1997

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 0-7849

W. R. BERKLEY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

22-1867895
(I.R.S. employer
identification number)

165 Mason Street, P.O. Box 2518, Greenwich, CT
(Address of principal executive offices)

06836-2518
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

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

Common stock, par value \$.20 per share
Series A Cumulative Redeemable Preferred Stock, par value \$.10 per share

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 twelve 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 /X/ 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 Form 10-K or any amendment to this Form 10-K. //

Aggregate market value of voting stock held by non-affiliates of the registrant based on the closing price of such stock as of March 2, 1998: \$1,143,221,275.

Number of shares of common stock, \$.20 par value, outstanding as of March 2, 1998: 29,611,359

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's 1997 Annual Report to Stockholders for the year ended December 31, 1997 are incorporated herein by reference in Part II, and portions of the registrant's definitive proxy statement, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 1997, are incorporated herein by reference in Part III.

W. R. BERKLEY CORPORATION

ANNUAL REPORT ON FORM 10-K

December 31, 1997

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PART I

ITEM 1. BUSINESS

General Description of the Company's Business

W. R. Berkley Corporation (the "Company"), a Delaware corporation, is an insurance holding company, which through its subsidiaries, presently operates in all segments of the property casualty insurance business: regional property casualty insurance; reinsurance (conducted through Signet Star Holdings, Inc.); specialty lines of insurance (including excess and surplus lines and commercial transportation); alternative markets (including the management of alternative insurance market mechanisms); and international (conducted through Berkley International, LLC). The Company was founded on the concept that a group of autonomous regional and specialty insurance entities could compete effectively in selected markets within a very large industry. Decentralized control allows each subsidiary to respond to local or specialty market conditions while capitalizing on the effectiveness of centralized investment and reinsurance management, and actuarial, financial and legal staff support.

The Company's regional insurance operations are conducted primarily in the Midwestern, Southern and Northeastern sections of the United States. Reinsurance, specialty insurance and alternative markets operations are conducted nationwide. Presently, international operations are conducted primarily in Argentina and the Philippines.

Net premiums written, as reported on a generally accepted accounting principles ("GAAP") basis, by the Company's five major insurance industry segments for the five years ended December 31, 1997 were as follows:

	Year Ended December 31,				
	1997	1996	1995	1994	1993
	-----	-----	-----	-----	-----
	(Amounts in thousands)				
Net premiums written:					
Regional insurance operations	\$ 632,459	\$ 531,147	\$ 471,716	\$ 386,530	\$ 301,890
Reinsurance operations (1)	206,652	218,200	196,299	176,130	106,575
Specialty insurance operations (1)	208,570	202,338	160,536	135,284	124,252
Alternative markets operations	87,881	75,644	25,998	19,989	4,929
International Operations	42,079	25,182	5,872	--	--
	-----	-----	-----	-----	-----
Total net premiums written	\$ 1,177,641	\$ 1,052,511	\$ 860,421	\$ 717,933	\$ 537,646
	=====	=====	=====	=====	=====
Percentage of net premiums written:					
Regional insurance operations	53.7%	50.5%	54.8%	53.8%	56.2%
Reinsurance operations (1)	17.5	20.7	22.8	24.6	19.8
Specialty insurance operations (1)	17.7	19.2	18.7	18.8	23.1
Alternative markets operations	7.5	7.2	3.0	2.8	.9
International Operations	3.6	2.4	.7	--	--
	-----	-----	-----	-----	-----
Total	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====

(1) The Reinsurance and specialty insurance operations have been restated in accordance with FAS 131.

The following sections briefly describe the Company's insurance segments and subsidiaries. The statutory information contained herein is derived from that reported to state regulatory authorities in accordance with statutory accounting practices ("SAP"). The amount of statutory net premiums shown for the subsidiaries exclude the effects of intercompany reinsurance. In connection with the acquisition of Midwest Employers Casualty Company ("Midwest") in November 1995, the Company established the alternative markets segment to reflect the markets served by each of its business segments. The alternative markets segment consists of Midwest, Signet Star Holding's alternative markets division and the Company's insurance services units which manage alternative market mechanisms. The descriptions contain

each significant insurance subsidiary's rating by A.M. Best and Company, Inc. ("A.M. Best"). 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: "Best's Ratings reflect [its] opinion as to the relative financial strength and performance of each insurer in comparison with others, based on [its] analysis of the information provided to [it]. These Ratings are not a warranty of an insurer's current or future ability to meet its contractual obligations."

REGIONAL INSURANCE OPERATIONS

The Company's regional property casualty subsidiaries write standard commercial and personal lines insurance for such risks as automobiles, homes and businesses. American West Insurance Company ("American West"), Continental Western Insurance Company ("Continental Western"), Great River Insurance Company ("Great River"), Tri-State Insurance Company of Minnesota ("Tri-State"), Union Insurance Company ("Union") and Union Standard Insurance Company ("Union Standard") obtain their business primarily in the smaller communities of the midwest and southwest through over 2,000 independent insurance agencies, which represent them on a non-exclusive basis and are compensated on a commission basis. Firemen's Insurance Company of Washington D.C. ("Firemen's"), FICO Insurance Company ("FICO"), Chesapeake Bay Property and Casualty Insurance Company ("Chesapeake") and Berkley Insurance Company of the Carolinas ("BICC") primarily sell their policies through agents in the District of Columbia, and the States of Maryland, North Carolina, Pennsylvania and Virginia. FICO's commercial lines of business are marketed principally through brokers in the New York metropolitan area. Acadia Insurance Company ("Acadia") currently operates in the States of Maine, New Hampshire and Vermont, and sells its personal and commercial coverage's through independent agencies.

In 1996, the Company formed Berkley Regional Insurance Company ("BRIC") to act as an intermediate holding Company. The Company contributed to BRIC all of the capital stock of the regional insurance companies. In 1997 BRIC reinsured varying portions of the business written by the regional operations. In addition, BRIC is expanding its licenses so that it will be eligible to write personal and commercial lines on a direct basis nationally. BRIC's statutory surplus as of December 31, 1997 was \$307,812,000. BRIC is rated A+ by A.M. Best.

Acadia Insurance Company

Acadia was organized by the Company and incorporated in April 1992. It writes multiple line property and casualty coverage's in the States of Maine, New Hampshire, Vermont and Massachusetts. Acadia is rated A+ by A.M. Best. Acadia's statutory surplus and statutory net premiums written as of December 31, 1997 and for the year then ended were \$44,943,000 and \$127,990,000, respectively.

American West Insurance Company

American West is a successor to a company that was organized in 1903 as a mutual insurance company and converted to a stock company in June 1986. Its business consists primarily of personal lines in the States of Minnesota, Montana, Wisconsin and South Dakota. American West is rated A+ by A.M. Best. American West's statutory surplus and statutory net premiums written as of December 31, 1997 and for the year then ended were \$9,771,000 and \$12,074,000, respectively. American West is managed by Tri-State, its immediate parent.

Berkley Insurance Company of the Carolinas

In December 1995, the Company organized BICC, a North Carolina domiciled company. It writes personal and commercial lines in North Carolina and is expanding to surrounding states. BICC is rated A+ by A.M. Best. BICC's statutory surplus and statutory net premiums written as of December 31, 1997 and for the year then ended were \$9,505,000 and \$30,407,000, respectively.

Chesapeake Bay Property and Casualty Insurance Company

Chesapeake, a Maine domiciled company owned by Acadia, was formed in 1993. In 1997 Firemen's Chesapeake Insurance Division moved its operations to Chesapeake. Chesapeake writes personal and commercial lines in Virginia and is expanding to surrounding states. Chesapeake is rated A+ by A.M. Best. Chesapeake's statutory surplus and statutory net premiums written as of December 31, 1997 and for the year then ended were \$7,624,000 and \$28,030,000, respectively.

Continental Western Insurance Company

Continental Western was organized in 1907. It writes a diverse commercial lines book of business as well as personal lines principally in the States of Iowa, Nebraska, Kansas, Illinois, Missouri, Wisconsin and Montana. Continental Western is rated A+ by A.M. Best. Continental Western's statutory surplus and statutory net premiums written as of December 31, 1997 and for the year then ended were \$86,786,000 and \$153,618,000, respectively.

Firemen's Insurance Company of Washington, D.C.

Firemen's was originally incorporated by an Act of Congress in 1836. Firemen's writes homeowners, other personal lines and commercial risks in the District of Columbia, and in the States of Maryland, North Carolina and Virginia. In March 1995, Firemen's established the Presque Isle Insurance Division in order to expand its operations into the State of Pennsylvania. Firemen's is rated A+ by A.M. Best. Firemen's statutory surplus and statutory net premiums written as of December 31, 1997 and for the year then ended were \$34,667,000 and \$54,553,000, respectively.

FICO Insurance Company

FICO was established in 1988 and is owned by Firemen's. FICO writes commercial business consisting primarily of multiple dwelling coverage's principally in the state of New York through operations conducted by Clermont Specialty Managers, Ltd., an underwriting manager which is owned by the Company. FICO is rated A+ by A.M. Best. FICO's statutory surplus and net premiums written as of December 31, 1997 and for the year then ended were \$8,172,000 and \$10,702,000, respectively.

Great River Insurance Company

In December 1993, the Company organized Great River, a Mississippi domiciled company. It writes personal and commercial lines in Mississippi and Tennessee and is expanding to surrounding states. Great River is rated A+ by A.M. Best. Great River's statutory surplus and statutory net premiums written as of December 31, 1997 and for the year then ended were \$13,030,000 and \$41,824,000, respectively.

Tri-State Insurance Company of Minnesota

Tri-State was originally organized in 1902 as a mutual insurance company. It writes various commercial lines (specializing in grain elevator coverages), as well as personal lines primarily, in the States of Minnesota, Iowa, North and South Dakota, Nebraska, Wisconsin and Illinois. Tri-State is rated A+ by A.M. Best. Tri-State's statutory surplus and statutory net premiums written as of December 31, 1997 and for the year then ended were \$38,580,000 and \$55,556,000, respectively.

Union Insurance Company

Union was organized originally in 1886 as a mutual insurance company. Union's business consists of personal lines as well as commercial lines insurance concentrated in the States of Nebraska, Kansas, Colorado and South Dakota. Union is rated A+ by A.M. Best. Union's statutory surplus and statutory net premiums written as of December 31, 1997 and for the year then ended were \$26,003,000 and \$53,523,000, respectively.

Union Standard Insurance Company

Union Standard is a successor to a company that was organized in 1970. Union Standard writes personal lines and commercial lines of insurance for small businesses in the States of Texas, Oklahoma, Arkansas and Colorado. Union Standard is rated A+ by A.M. Best. Union Standard's statutory surplus and statutory net premiums written as of December 31, 1997 and for the year then ended were \$34,434,000 and \$61,192,000, respectively.

Regional operations: Business

The following table sets forth the percentages of direct premiums written, by line, by the Company's regional insurance operations:

	1997	1996	1995	1994	1993
	-----	-----	-----	-----	-----
Commercial Multi-Peril	21.1	20.9%	21.4%	22.0%	19.6%
Workers' Compensation	19.4	20.1	20.8	18.7	16.9
Automobile:					
Personal	15.3	16.7	17.5	17.6	19.4
Commercial	19.2	17.3	15.5	16.4	17.4
General Liability	6.6	6.4	6.5	6.6	6.9
Homeowners	6.9	7.9	8.9	9.2	9.8
Fire and Allied Lines	4.9	4.7	4.5	4.8	5.5
Inland Marine	1.9	2.8	2.6	2.6	2.6
Other	4.7	3.2	2.3	2.1	1.9
	-----	-----	-----	-----	-----
Total	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====

The following table sets forth the percentages of direct premiums written, by state, by the Company's regional insurance operations:

	1997	1996	1995	1994	1993
	-----	-----	-----	-----	-----
Maine	10.0	10.7%	10.7%	10.5%	8.3%
Iowa	7.5	8.4	9.3	11.1	13.8
Nebraska	7.4	8.1	9.1	11.0	13.6
Texas	6.7	7.5	7.9	9.2	10.0
New Hampshire	5.7	5.9	6.0	4.7	.9
Mississippi	5.6	6.0	5.4	2.9	--
Minnesota	5.2	5.4	5.5	6.0	6.6
Pennsylvania	4.7	2.2	--	--	--
Kansas	4.5	4.8	4.8	5.2	5.7
Virginia	4.4	3.9	3.0	2.1	.6
North Carolina	4.2	1.5	.1	--	--
South Dakota	4.1	5.4	6.7	4.9	5.7
Colorado	3.5	3.8	4.0	4.5	5.1
Missouri	3.5	3.6	3.7	3.8	3.7
Vermont	3.1	3.0	2.4	1.1	--
Illinois	2.7	3.0	3.5	3.8	4.2
Wisconsin	2.5	2.9	3.5	3.6	4.4
New York	2.2	2.8	2.9	2.6	3.0
Arkansas	1.8	1.8	2.1	2.8	3.1
Montana	1.3	1.4	1.4	1.4	1.6
North Dakota	1.2	1.5	2.6	3.2	3.9
Oklahoma	1.2	1.3	1.4	1.5	1.5
District of Columbia	1.1	1.6	1.9	2.3	2.4
Idaho	1.1	0.6	0.2	0.2	0.3
South Carolina	1.0	--	--	--	--
Tennessee	1.0	0.4	--	--	--
Other	2.8	2.5	1.9	1.6	1.6
	-----	-----	-----	-----	-----
Total	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====

REINSURANCE OPERATIONS

The Company's reinsurance operations consists of six operating units which specialize in underwriting property, casualty and surety reinsurance on both a treaty and a facultative basis. Signet Star Holdings, Inc. (Signet Star), through its subsidiary Signet Star Reinsurance Company, includes the results of the reinsurance operations and the results of its alternative markets divisions. For financial segment reporting purposes the results of the alternative market division are included in the alternative markets segment. Signet Star Reinsurance Company is rated A by A.M. Best. Signet Star Reinsurance Company's statutory surplus and statutory net premiums written as of December 31, 1997 and for the year then ended were \$271,127,000 and \$206,652,000, respectively.

The Property Casualty Treaty Division

The largest business unit in terms of personnel and premiums written, this division of Signet Star is committed exclusively to the broker market segment of the treaty reinsurance industry. It functions as a traditional reinsurer in specialty and standard reinsurance lines.

Facultative ReSources, Inc.

Facultative ReSources, Inc. ("Fac Re") specializes in individual certificate and program facultative business. Fac Re's highly experienced underwriters seek to offset the underwriting and pricing cycles in the underlying insurance business by developing risk management solutions and through superior risk selection. Fac Re develops its business through brokers and on a direct basis where the client does not choose to use an intermediary.

The Fidelity and Surety Division

The Fidelity and Surety Division ("F&S") operates as a lead reinsurer in a niche market of the United States property casualty industry where its highly specialized knowledge and expertise are essential to meet the needs of Fidelity and Surety primary writers. Business is marketed principally through brokers as well as directly to clients not served by intermediaries.

The Latin American and Caribbean Division

Signet Star's newest business unit is devoted exclusively to Latin American and Caribbean business ("LACD"). This division handles most traditional lines of property and casualty treaty business and is developing a book of niche business.

Gemini Insurance Company

Gemini is an excess and surplus lines insurance company created to provide Signet Star with primary issuing carrier capability and thereby generate "reverse flow" business. Under the reverse flow concept, a reinsurer writes primary business that it then cedes back to itself. Gemini provides Signet Star with a controlled source of new business. It operates as an authorized insurance company in the State of Delaware and will operate nationwide, as necessary legal and regulatory requirements are met, as an approved excess and surplus lines carrier.

Reinsurance Operations: Business

The following table sets forth the percentages of gross premiums written, by line, by the Company's reinsurance operations:

	1997	1996	1995	1994	1993
Treaty:	-----	-----	-----	-----	-----
Specialty and other	35.8%	31.7%	46.8%	49.1%	56.4%
Regional	12.8	24.7	21.0	24.9	22.9
Nonstandard Automobile	11.7	16.7	10.4	9.5	9.3
Total Treaty	60.3	73.1	78.2	83.5	88.6
Facultative	15.4	11.7	14.2	10.9	6.4
Fidelity and Surety	10.5	9.5	7.6	5.6	5.0
Latin American and Caribbean	13.8	5.7	--	--	--
Total	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====

The following table sets forth the percentage of gross premiums written, by property versus casualty business, by the Company's reinsurance operations:

	1997	1996	1995	1994	1993
Property	32.7	35.2%	33.4%	40.2%	44.0%
Casualty	67.3	64.8	66.6	59.8	56.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	-----	-----	-----	-----

SPECIALTY INSURANCE OPERATIONS

The Company's specialty lines of insurance consist primarily of excess and surplus lines ("E & S"), commercial transportation, professional liability, directors and officers liability and surety. Specialty lines also included the results of the Company's reinsurance operations through June 30, 1993 (see:

"Other information about the Company's business").

Admiral Insurance Company

The majority of the Company's E & S insurance business is conducted by Admiral Insurance Company ("Admiral"). Admiral specializes in general liability coverages, including products liability and professional liability. Admiral insures risks requiring specialized treatment not available in the conventional market, with coverage designed to meet the specific needs of the insured. Business is received from wholesale brokers via retail agents, whose clients are the insureds. E & S carriers operate on a non-admitted basis in the states where they write business. They are generally free from rate regulation and policy form requirements. Admiral's business is obtained on a nationwide basis from approximately 190 non-exclusive brokers, who do not have the authority to commit the Company, and who are compensated on a commission basis. Admiral also writes directors and officers liability insurance through operations conducted by Monitor Liability Managers, Inc., an underwriting manager established by the Company. Admiral is rated A++ by A.M. Best. Admiral's statutory surplus and statutory net premiums written as of December 31, 1997 and for the year then ended were \$218,917,000 and \$72,103,000, respectively.

Carolina Casualty Insurance Company

The Company's commercial transportation operations are primarily conducted by Carolina Casualty Insurance Company ("Carolina"). Carolina writes liability, physical damage and cargo insurance for the transportation industry, concentrating on long-haul trucking companies. Municipal bus lines, charter buses and school buses also make up a substantial part of Carolina's book of business. Carolina's business is obtained nationwide from approximately 120 agents and brokers who are compensated on a commission basis. In June 1995, Carolina began writing surety bonds through operations conducted by Monitor Surety Managers, Inc., an

underwriting manager established by the Company. In December 1997, Carolina began writing directors and officers liability insurance through operations conducted by Monitor Liability Managers, Inc. Carolina is rated A by A.M. Best. Carolina's statutory surplus and statutory net premiums written as of December 31, 1997 and for the year then ended were \$66,004,000 and \$50,550,000, respectively.

Nautilus Insurance Company

Nautilus Insurance Company ("Nautilus") was established in 1985 to insure E & S risks which involve a lower degree of expected severity than those covered by Admiral. Nautilus obtains its business nationwide from approximately 135 non-exclusive general agents, some of which also provide business to Admiral. A substantial portion of Nautilus' business is written on a binding authority basis, subject to certain contractual limitations. Nautilus is rated A by A.M. Best. Nautilus's statutory surplus and statutory net premiums written as of December 31, 1997 and for the year then ended were \$68,092,000 at \$45,494,000, respectively. Great Divide Insurance Company ("Great Divide"), a subsidiary of Nautilus, writes transportation risks, as well as other specialty lines, on an admitted basis.

Specialty Operations: Business

The following table sets forth the percentages of gross premiums written, by line, by the Company's specialty insurance operations:

	1997	1996	1995	1994	1993
	-----	-----	-----	-----	-----
General Liability	35.5	35.9%	38.2%	42.2%	41.3%
Automobile Liability	17.7	20.5	27.4	28.1	30.7
Professional Liability	15.3	12.3	7.1	6.3	6.9
Directors and Officers Liability	8.4	10.2	9.2	5.8	4.4
Fire and Allied Lines	7.8	7.2	5.0	4.6	3.5
Automobile Physical Damage	5.0	5.3	6.8	5.9	5.0
Medical Malpractice	4.2	3.4	3.2	3.6	2.6
Inland Marine	1.5	1.7	2.1	1.8	1.9
Other	4.6	3.5	1.0	1.7	3.7
	-----	-----	-----	-----	-----
Total	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====

ALTERNATIVE MARKETS

The Company's alternative markets operations specialize in insuring, reinsuring and administering self-insurance programs and other alternative risk transfer mechanisms for public entities, private employers and associations. Typical clients are those who are driven by various factors to seek less costly and more efficient techniques to manage their exposure to claims. The Company's alternative markets segment consists of: excess workers' compensation insurance written by Midwest Employers Casualty Company ("Midwest"); reinsurance of alternative risk business; and insurance services operations which manage alternative market mechanisms.

Midwest Employers Casualty Company

In November 1995, the Company acquired Midwest Employers Casualty Company ("Midwest"). Midwest markets and underwrites excess workers' compensation ("EWC") insurance. EWC insurance is marketed to employers and employer groups which have elected and have qualified or been approved by state regulatory authorities to self-insure their workers' compensation programs. EWC insurance provides coverage to a self-insured employer once the employers' losses exceed the employer's retention amount. Midwest offers a complete line of EWC products, including specific and aggregate EWC insurance policies and surety bonds. In addition, Midwest began to offer a "large deductible" product in 1996. Midwest is rated A- by A.M. Best. Midwest's statutory surplus and statutory net premiums written as of December 31, 1997 and for the year then ended were \$118,070,000 and \$54,859,000, respectively.

Signet Star - Alternative Markets Division

Signet Star Reinsurance Company's Alternative Markets Division specializes in providing custom designed reinsurance products and services to alternative markets ("ARM") clients, such as captive insurance companies, risk retention groups, public entity insurance trusts and governmental pools. ARM clients are generally self-insured vehicles which provide insurance buyers with a mechanism for assuming part of their own risk, managing their exposures, modifying their loss costs and, ultimately, participating in the underwriting results. Signet Star has been an active reinsurer of ARM clients for over ten years and is considered to be one of the leading broker market reinsurers of ARM business. The Alternative Markets Division has access to substantial additional resources within the Company, which has enabled it to concentrate and coordinate the Company's focus on this growing sector of the reinsurance market.

Insurance Services Operations

The Company's insurance service operations offer a variety of products, which includes underwriting and claims administration and alternative insurance market mechanisms. In addition, the insurance services operations subsidiaries of the Company provide agency and brokerage services to both affiliated and unaffiliated entities.

Berkley Administrators

Berkley Administrators, a division of Tri-State headquartered in Minneapolis, Minnesota, provides risk management and administration services to its clients, including underwriting, loss control, policy issuance and claims handling. A significant portion of Berkley Administrators' present business is the administration of the Minnesota Workers' Compensation Assigned Risk Plan.

Berkley Risk Services, LLC

The Company acquired Berkley Risk Services LLC and its subsidiaries ("Berkley Risk") operations beginning in 1988. In 1997 Berkley Risk Services, Inc. was restructured into a limited liability company. Berkley Risk, based in Minneapolis, Minnesota, is a property casualty risk management firm which specializes in the development and administration of group and single-employer alternative insurance funding techniques. Berkley Risk also manage entities which provide liability insurance and claim adjusting services to public entities and not-for-profit organizations.

Key Risk Management Services, Inc.

The Company acquired Key Risk Management Services, Inc. ("Key Risk") in 1994. Key Risk, based in Greensboro, North Carolina, is a property casualty risk management firm which specializes in management and administration of group self-insured funds. A significant portion of Key Risk's present business is the administration of the North Carolina Associated Industries Workers' Compensation Fund. In 1998 the Company organized Key Risk Insurance Company as of North Carolina Insurance Company for usage by Key Risk.

Berkley Risk Managers

Berkley Risk Managers is a successor to a company acquired in 1990. Berkley Risk Managers, based in Somerset, New Jersey, is primarily involved in the development and administration of self-funded property casualty and health insurance programs primarily for municipalities and other governmental entities.

All American Agency Facilities, Inc.

All American Agency Facilities, Inc., based in Denver, Colorado, provides wholesale brokerage and general agency services on a nationwide basis for unaffiliated insurance carriers as well as certain of the Company's insurance subsidiaries.

Berkley Care Network, Inc.

The Company established Berkley Care Network, Inc. ("Berkley Care") in 1995. Berkley Care, based in Greensboro, North Carolina, is a managed health care company offering utilization review and case management services for workers' compensation carriers in North Carolina. In 1997, the Company acquired Berkley Care Network, Northeast to provide managed care services in the State of Connecticut. Berkley Care expects to expand the geographic scope of its operations over the next several years.

Alternative Markets Operations: Business

The following table sets forth the percentages of revenues, by major source of business, of the alternative markets operations:

	1997	1996	1995	1994	1993
	-----	-----	-----	-----	-----
Midwest Employers Casualty Company	46.1%	48.8%	14.8%	--%	--%
Insurance Service Operations	35.9	37.5	63.1	78.6	91.6
Signet Star - Alternative Markets Division	18.0	13.7	22.1	21.4	8.4
	-----	-----	-----	-----	-----
Total	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====

INTERNATIONAL OPERATIONS

In 1995, the Company and Northwestern Mutual Life International, Inc. ("NML"), a wholly-owned subsidiary of The Northwestern Mutual Life Insurance Company, entered into a joint venture to form Berkley International LLC ("Berkley International"), a limited liability company. The Company agreed to contribute up to \$65 million to Berkley International in exchange for a 65% membership interest and NML agreed to contribute up to \$35 million to Berkley International in exchange for a 35% membership interest.

Berkley International owns 99.9916% of Berkley International Argentina S.A. ("Berkley S.A."), an Argentine holding company. Berkley S.A. owns the following property casualty insurance companies: 76.66% of Union Berkley Compania de Seguros, S.A.; 80% of Independencia Compania Argentina de Seguros, S.A.; 99.9667% of Berkley International Aseguradora de Riesgos de Trabajo S.A., and 85% of Oceano Compania Argentina de Seguros. Berkley S.A. also owns 99.9167% of Risk Management Services S.A., which is third-party administrator and 90% of Jackson Berkley Life. In addition, Berkley International owns 59% of a Philippine holding company, as well as Family First, Inc. Philippine Insurance Holdings, Inc. owns 100% of the following companies: Berkley International Life Insurance Company, Inc., Berkley International Plans, Inc., and Berkley Insurance Company of the Philippines, Inc.

RESULTS BY INDUSTRY SEGMENT

Summary financial information about the Company's operating segments is presented on a GAAP basis in the following table (all amounts include realized capital gains and losses):

	1997	1996	Year Ended December 31,		1993
	----	----	1995	1994	----
			----	----	
			(Amounts in thousands)		
Regional Insurance Operations					
Total revenues	\$ 650,735	\$ 544,400	\$ 478,547	\$ 376,576	\$316,448
Income before income taxes	49,180	37,745	40,486	26,669	29,993
Reinsurance Operations (1)					
Total revenues	242,086	244,066	221,241	193,658	121,490
Income (loss) before income taxes	42,193	32,756	19,661	(8,954)	7,253
Specialty Insurance Operations (1)					
Total revenues	270,849	232,920	200,946	178,545	176,601
Income before income taxes	66,042	49,274	35,325	31,429	45,592
Alternative Markets Operations					
Total revenues	182,612	171,317	103,656	75,798	53,531
Income before income taxes	35,223	32,541	10,254	7,068	8,058
International Operations					
Total Revenues	45,360	26,435	7,313	--	--
Loss Before Income Taxes	(3,566)	(1,283)	(259)	--	--

(1) The Reinsurance and specialty operations have been restated in accordance with FAS 131.

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. Summary information for the Company's insurance companies and the insurance industry is presented in the following table (1):

	Year Ended December 31,				
	1997	1996	1995	1994	1993
Regional Insurance Operations					
Loss ratio	66.4%	66.7%	65.1%	65.3%	67.1%
Expense ratio	34.0	34.1	33.9	34.3	34.2
Policyholders' dividend ratio	.7	.7	.9	.9	.9
Combined ratio	101.1%	101.5%	99.9%	100.5%	102.2%
Reinsurance Operations (2)					
Loss ratio	69.2%	73.3%	78.1%	87.4%	77.7%
Expense ratio	32.1	30.1	26.4	27.7	32.0
Combined ratio	101.3%	103.4%	104.5%	115.1%	109.7%
Specialty Insurance Operations (2)					
Loss ratio	62.1%	68.8%	78.9%	78.3%	74.8%
Expense ratio	33.4	30.9	28.3	25.3	25.4
Combined ratio	95.5%	99.7%	107.2%	103.6%	100.2%
Alternative Markets Operations					
Loss ratio	73.0%	74.8%	72.3%	72.5%	72.5%
Expense ratio	35.5	34.7	31.9	27.7	21.0
Combined ratio	108.5%	109.5%	104.2%	100.2%	93.5%
International Operations					
Loss ratio	59.8%	49.7%	50.0%	---	---
Expense ratio	54.6	49.9	58.3	--	--
Combined ratio	114.4%	99.6%	108.3%	---	---
Combined Insurance Operations					
Loss ratio	66.4%	68.7%	70.7%	73.7%	71.1%
Expense ratio	34.4	33.1	31.3	30.8	31.7
Policyholders' dividend ratio	.4	.4	.5	.5	.5
Combined ratio	101.2%	102.2%	102.5%	105.0%	103.3%
Combined Insurance Operations					
Premiums to surplus ratio (3)	1.2	1.2	1.0	1.1	.8
Industry Ratios					
Combined ratio	101.8% (4)	107.0% (5)	107.2% (5)	108.9% (5)	107.9% (5)
Premiums to surplus ratio	.9% (4)	1.0% (6)	1.2% (6)	1.3% (6)	1.3% (6)

(1) Based on U.S. statutory accounting practices.

(2) The Reinsurance and specialty insurance operations have been restated in accordance with FAS 131.

(3) Based on the Company's consolidated net premiums written to statutory surplus.

(4) Estimated by A.M. Best

(5) Source: A.M. Best Aggregates & Averages, for stock companies.

(6) Source: A.M. Best Aggregates & Averages, for total industry.

Investments

Investment results before income tax effects were as follows:

	1997	1996	1995	1994	1993
	----	----	----	----	----
	(Amounts in thousands)				
Average investments, at cost	\$2,873,730	\$2,538,806	\$2,081,547	\$1,853,030	\$1,584,763
	=====	=====	=====	=====	=====
Investment income, before expenses	\$ 205,812	\$ 171,047	\$ 143,527	\$ 115,619	\$ 98,368
	=====	=====	=====	=====	=====
Percent earned on average investments	7.2%	6.7%	6.9%	6.2%	6.2%
	=====	=====	=====	=====	=====
Realized gains (losses)	\$ 13,186	\$ 7,437	\$ 10,357	\$ (170)	\$ 23,523
	=====	=====	=====	=====	=====
Change in unrealized investment gains (losses) (1)	\$ 66,306	\$ (22,409)	\$ 142,475	\$ (124,756)	\$ 13,556
	=====	=====	=====	=====	=====

(1) The change in unrealized investment gains (losses) represents the difference between fair value and cost of investments at the beginning and end of the calendar year, including investments carried at cost.

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 have the right to call or prepay obligations.

	1997	1996	December 31, 1995	1994	1993
	-----	-----	-----	-----	-----
1 year or less	4.4%	3.1%	4.2%	4.0%	3.5%
Over 1 year through 5 years	26.4	20.7	17.9	27.6	34.0
Over 5 years through 10 years	19.1	25.0	29.4	21.4	22.8
Over 10 years	29.2	27.1	26.2	27.0	27.5
Mortgage-backed securities	20.9	24.1	22.3	20.0	12.2
	-----	-----	-----	-----	-----
Total	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====

Loss and Loss Adjustment Expense Reserves

In the property casualty industry, it is not unusual for significant periods of time, ranging up to several years or more, to elapse between the occurrence of an insured loss, the report of the loss to the insurer and the insurer's payment of that loss. To recognize liabilities for unpaid losses, 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. The Company's loss reserves reflect current estimates of the ultimate cost of closing outstanding claims; other than its Excess Workers Compensation business, as discussed below, the Company does not discount its reserves to estimated present value for financial reporting purposes.

In general, when a claim is reported, claims personnel establish a "case reserve" for the estimated amount of the ultimate payment. 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 which provide for losses incurred but not yet reported to the insurer, potential inadequacy of case reserves, the estimated expenses of settling claims, including legal and other fees and general expenses of administering the claims adjustment process ("LAE"), and a provision for potentially uncollectible reinsurance. Each insurance subsidiary's net retention for each line of insurance is taken into consideration in the computation of ultimate losses.

In examining reserve adequacy, historical data is reviewed and consideration is given to such factors as 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, judgmentally adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events. Reserve amounts are necessarily based on management's informed estimates and judgments using data currently available. As additional experience and other data become available and are reviewed, these estimates and judgments are revised, resulting in increases or decreases to reserves for insured events of prior years. The reserving process implicitly recognizes the impact of inflation and other factors affecting loss costs by taking into account changes in historic claim patterns and perceived trends. There is no precise method to evaluate the impact of any specific factor on the adequacy of reserves, because the ultimate cost of closing claims is influenced by numerous factors.

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 fluctuation. In particular, high levels of jury verdicts against insurers, as well as judicial decisions which "re-formulate" policies to expand their coverage to previously unforeseen theories of liability, including those regarding pollution and other environmental exposures, have produced unanticipated claims and increased the difficulty of estimating the loss and loss adjustment expense reserves provided by the Company. With respect to year 2000 claims exposure for our insurance and reinsurance subsidiaries, to date, no significant losses have arisen. However, due to the potential judicial decisions which re-formulate policies to expand their coverage to previously unforeseen theories of liabilities which may produce unanticipated claims, at this point in time, the estimation of any potential year 2000 liabilities is not determinable.

Due to the nature of EWC business and the long period of time over which losses are paid in this line of business, the Company discounts its liabilities for EWC losses and loss expenses. Discounting liabilities for losses and loss expenses gives recognition to the time value of money set aside to pay claims in the future and is intended to appropriately match losses and loss expenses to income earned on investment securities supporting the liabilities. The expected losses and loss expense payout pattern subject to discounting was derived from Midwest's loss payout experience and is supplemented with data compiled by insurance companies writing workers' compensation on an excess-of-loss basis. The expected payout pattern has a very long duration because it reflects the nature of losses which generally penetrate self-insured retention limits contained in EWC policies. The Company has limited the expected payout duration to 30 years in order to introduce an additional level of conservatism into the discounting process. These liabilities have been discounted using "risk-free" discount rates determined by reference to the U.S. Treasury yield curve weighted for EWC premium volume to reflect the seasonality of the anticipated duration of losses associated with such coverages. The average discount rate for accident years 1997, 1996 and 1995 and prior was approximately 5.98%, 5.90% and 5.80%, respectively. The aggregate net discount, after reflecting the effects of ceded reinsurance, is \$189,600,000, \$172,415,000 and \$152,235,000 at December 31, 1997, 1996 and 1995, respectively.

To date, known pollution and environmental claims at the Company's insurance company subsidiaries have not had a material impact on the Company's operations. Environmental claims have not materially impacted the Company because these subsidiaries generally did not insure the larger industrial companies which are subject to significant environmental exposures.

The Company's net reserves for losses and loss adjustment expenses relating to pollution and environmental claims were \$33.1 million and \$35.2 million at December 31, 1997 and 1996, respectively. The Company's gross reserves for losses and loss adjustment expenses relating to pollution and environmental claims were \$68.4 million and \$71.9 million at December 31, 1997 and 1996, respectively. Net incurred losses and loss expenses for reported pollution and environmental claims were approximately \$0.1 million, \$6.9 million and \$8.0 million in 1997, 1996 and 1995, respectively. Net paid losses and loss expenses has averaged approximately \$3 million for each of the last three years. The estimation of these liabilities is subject to significantly greater than normal variation and uncertainty because it is difficult to make a reasonable actuarial estimate of these liabilities due to the absence of a generally accepted actuarial methodology for these exposures and the potential affect 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 is highly uncertain.

The table below provides a reconciliation of the beginning and ending reserve balances, on a gross of reinsurance basis (dollars in thousands):

	1997	1996	1995
Net reserves at beginning of year	\$ 1,333,122	\$ 1,209,250	\$ 895,440
Net reserves of acquired companies	4,984	--	191,963
Net provision for losses and loss expenses:			
Claims occurring during the current year (1)	747,977	675,674	580,594
Decrease in estimates for claims occurring in prior years	(21,313)	(15,219)	(9,596)
Amortization of discount	7,760	8,705	--
	734,424	669,160	570,998
Net payments for claims			
Current year	315,370	280,565	228,100
Prior years	324,149	264,723	221,051
	639,519	545,288	449,151
Net reserves at end of year	1,433,011	1,333,122	1,209,250
Ceded reserves at end of year	476,677	449,581	450,770
Gross reserves at end of year	\$ 1,909,688	\$ 1,782,703	\$ 1,660,020

A reconciliation, as of December 31, 1997, between the reserves reported in the accompanying consolidated financial statements which have been prepared in accordance with GAAP and those reported on a SAP basis is as follows (in thousands):

Net reserves reported on a SAP basis	
Additions (deductions) to statutory reserves:	\$1,492,581
Loss reserve discounting (2)	(71,464)
Outstanding drafts reclassified as reserves	11,894
Net reserves reported on a GAAP basis	1,433,011
Ceded reserves reclassified as assets	476,677
Gross reserves reported on a GAAP basis	\$1,909,688

(1) Claims occurring during the current year is net of discount of \$29,783,000, 28,885,000 and \$708,000 for the years ended December 31, 1997, 1996 and 1995, respectively.

(2) For statutory purposes, Midwest uses a discount rate of 3.0% as permitted by the Department of Insurance of the State of Ohio. For GAAP purposes, Midwest uses a discount rate based on the U. S. Treasury yield curve weighted for the expected payout period, as described above.

The following table presents the development of net reserves for 1986 through 1997. The top line of the table shows the estimated reserves for unpaid losses and loss expenses recorded at the balance sheet date for each of the indicated years. This represents the estimated amount of losses and loss expenses for claims arising in all prior years that are unpaid at the balance sheet date, including losses that had been incurred but not yet reported to the Company. The upper portion of the table shows the re-estimated amount of the previously recorded reserves based on experience as of the end of each succeeding year. The estimate changes as more information becomes known about the frequency and severity of claims for individual years.

The "cumulative redundancy (deficiency)" represents the aggregate change in the estimates over all prior years. For example, the 1986 reserves have developed a \$47 million deficiency over ten years. That amount has been reflected in income over the ten years. The impact on the results of operations of the past three years of changes in reserve estimates is shown in the reconciliation tables above.

It should be noted that the table presents a "run off" of balance sheet reserves, rather than accident or policy year loss development. Therefore, each amount in the table includes the effects of changes in reserves for all prior years. For example, assume a claim that occurred in 1987 is reserved for \$2,000 as of December 31, 1987. Assuming this claim was settled for \$2,300 in 1997, the \$300 deficiency would appear as a deficiency in each year from 1987 through 1996.

	1987	1988	Year Ended December 31,				1993	1994	1995	1996	1997
	----	----	----	----	----	----	----	----	----	----	
			(Amounts in millions)								
Discounted net reserves for losses and loss expenses	\$423	\$531	\$611	\$643	\$680	\$710	\$783	\$895	\$1,209	\$1,333	\$1,433
Reserve discounting	--	--	--	--	--	--	--	--	152	172	190
Undiscounted net reserve											
Net Re-estimated as of:											
One year later	419	524	605	635	676	704	776	885	1,346	1,481	
Two years later	413	518	599	632	659	694	775	872	1,305		
Three years later	405	513	596	620	650	665	744	833			
Four years later	402	511	587	612	637	655	708				
Five years later	402	505	581	603	631	630					
Six years later	401	510	585	588	609						
Seven years later	405	514	574	569							
Eight years later	418	507	557								
Nine years later	414	495									
Ten years later	408										
Cumulative redundancy (deficiency) undiscounted	15	36	54	74	71	80	75	62	56	\$ 24	
	====	===	===	===	===	===	===	===	===	===	
Cumulative amount of net liability paid through:											
One year later	\$ 91	\$114	\$158	\$139	\$160	\$169	\$186	\$221	\$265	\$332	
Two years later	152	217	234	235	264	275	221	355	434		
Three years later	201	262	294	304	332	306	291	445			
Four years later	225	295	334	345	346	344	334				
Five years later	244	315	358	377	371	362					
Six years later	256	331	380	395	384						
Seven years later	268	348	392	402							
Eight years later	282	357	396								
Nine years later	289	359									
Ten years later	291										
Discounted net Reserves							783	895	1,209	1,333	1,433
Ceded Reserves							1,233	1,176	451	450	477
							-----	-----	-----	-----	-----
Discounted gross Reserves							2,016	2,071	1,660	1,783	1,910
Reserve discounting							--	--	192	216	241
							-----	-----	-----	-----	-----
Gross reserve							\$2,016	\$2,071	1,852	1,999	2,151
							=====	=====	=====	=====	=====
Gross Re-estimated as of											
One year later							2,010	2,043	1,827	1,965	
Two years later							1,966	2,026	1,789		
Three years later							1,955	1,983			
Four years later							1,913				
Gross cumulative redundancy							\$ 103	\$ 88	\$ 63	\$ 34	
							=====	=====	=====	=====	

Regulation

The Company's insurance subsidiaries are subject to varying degrees of regulation and supervision in the jurisdictions in which they do business, under 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 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 and losses; and requirements regarding numerous other matters. In general, the Company's regional property casualty subsidiaries as well as Carolina, Great Divide and Midwest must file all rates for personal and commercial insurance with the insurance department of each state in which they operate. The Company's E&S and reinsurance subsidiaries generally operate free of rate and form regulation.

In addition to regulatory supervision of its insurance subsidiaries, the Company is subject to state statutes governing insurance holding company systems. Typically, such statutes require the Company periodically to file information with the state insurance commissioner, including information concerning its capital structure, ownership, financial condition and general business operations. Under the terms of applicable state statutes, any person or entity desiring to purchase more than a specified percentage (commonly 10%) of the Company's outstanding voting securities would be required to obtain regulatory approval of the purchase. Under Florida law, which is applicable to the Company due to its ownership of Carolina, a Florida domiciled insurer, the acquisition of more than 5% of the Company's capital stock must receive regulatory approval. Further, state insurance statutes typically place limitations on the amount of dividends or other distributions payable by insurance companies in order to protect their solvency. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

During the past several years, various regulatory and legislative bodies adopted or proposed new laws or regulations to deal with the cyclical nature of the insurance industry, catastrophic events and their effects on shortage of capacity and pricing. These regulations, which have not had a material impact on the Company's operations, include (i) the creation of "market assistance plans" under which insurers are induced to provide certain coverages, (ii) restrictions on the ability of insurers to cancel certain policies in mid-term, (iii) advance notice requirements or limitations imposed for certain policy non-renewals and (iv) limitations upon or decreases in rates permitted to be charged. The passage of Proposition 103 in the State of California did not have a material adverse impact on the Company's operations because the Company's subsidiaries operate in that State primarily on a non-admitted basis. The non-admitted market in California, however, has been subjected to increased levels of regulation. Admiral and Nautilus, both of which derive significant premiums from California, may be adversely impacted by increased regulation which causes business to remain in the admitted market.

Various state and federal organizations, including Congressional committees and the National Association of Insurance Commissioners ("NAIC"), have been conducting investigations into various aspects of the insurance business. The NAIC has adopted 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. The implementation of RBC did not effect the operations of the Company's insurance subsidiaries since all of its subsidiaries have an RBC amount above the authorized control level RBC, as defined by the NAIC. Federal legislation is being considered which would either abolish or limit the current exemption of the insurance industry from portions of the antitrust laws, impose direct federal oversight or federal solvency standards. No assurance can be given that future legislative or regulatory changes resulting from such activity will not adversely affect the Company's insurance subsidiaries.

The Company's insurance subsidiaries are also subject to assessment by state guaranty funds when an insurer in that jurisdiction has been judicially declared insolvent and insufficient funds are available from the liquidated company to pay policyholders and claimants. 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. 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 the Company's insurance subsidiaries are required to be members) have limited assessment authority with regard to deficits in certain lines of business. To date, assessments have not had a material adverse impact on operations.

The Company receives funds from its insurance subsidiaries in the form of dividends and fees for certain management services. Annual dividends in excess of maximum amounts prescribed by state statutes ("extraordinary dividends") may not be paid without the approval of the insurance commissioner of the state in which an insurance subsidiary is domiciled. The NAIC has proposed and certain states have adopted legislation that lowers the threshold amount for determining what constitutes an extraordinary dividend. Such legislative changes could make it more difficult for insurance subsidiaries to pay dividends to their parents. Similarly, the NAIC has proposed a new model investment law that may affect the statutory carrying values of certain investments; however, the final outcome of that proposal is not certain, nor is it possible to predict what impact the proposal will have on the Company or whether the proposal will be adopted in the foreseeable future.

Tax Law Changes

There were no tax law changes in 1997 that significantly affected the Company.

Competition

The property casualty insurance and reinsurance business is competitive, with over 2,000 insurance companies transacting business in the United States. The Company competes directly with a large number of these companies. The Company's strategy in this highly fragmented industry is to seek specialized areas or geographic regions where its insurance subsidiaries can gain a competitive advantage by responding quickly to changing market conditions. Each of the Company's subsidiaries establishes its own pricing practices. Such practices are based upon a Company-wide philosophy to price products with the general intent of making an underwriting profit. Competition in the industry generally changes with profitability.

The regional property casualty subsidiaries compete with mutual and other regional stock companies as well as national carriers. Direct writers of property casualty insurance compete with the regional subsidiaries by writing insurance through their salaried employees, generally at a lower cost than through independent agents such as those used by the Company.

Signet Star's competition comes from domestic and foreign reinsurers, some of which have greater financial resources than Signet Star who place their business either on a direct basis or through the broker market.

The E & S area is a highly specialized segment of the insurance industry. Admiral and Nautilus compete with other E & S carriers, some of which are larger and have greater resources than Admiral and Nautilus. Under certain market conditions, standard carriers may compete for the types of business written by Admiral and Nautilus. In addition, there are regional and specialty carriers competing with Admiral and Nautilus when they underwrite business in their regions or specialties.

Carolina and Great Divide's competition comes mainly from other specialty transportation insurers and large national multi-line companies.

Midwest's competition comes from insurance and reinsurance companies, some of which have greater financial resource than Midwest. Most of these carriers write specific EWC

coverage, do not offer aggregate EWC coverage and tend to focus on risks larger than those targeted by Midwest. In addition, Midwest competes with other specialty EWC insurers.

The Insurance Services Operations face competition from several large nationally known service organizations as well as local competitors. The International Operations compete with native insurance operations both large and small, which maybe related to government entities, as well as with branch or local subsidiaries of multi-national companies.

Employees

As of March 2, 1998, the Company employed 4,046 persons. Of this number, the Company's subsidiaries employed 3,999 persons, of whom 2,283 were executive and administrative personnel and 1,716 were clerical personnel. The Company employed the remaining 47 persons in its parent company and investment operations, of whom 38 were executive and administrative personnel and 9 were clerical personnel.

Other information about the Company's business:

The Company maintains an ongoing interest in acquiring additional companies and developing new insurance entities, products and packages as opportunities arise. In addition, the insurance subsidiaries develop new coverages or lines of business to meet the needs of insureds.

Seasonal weather variations affect the severity and frequency of losses sustained by the insurance and reinsurance subsidiaries. Although the effect on the Company's business of such natural catastrophes as tornadoes, hurricanes, hailstorms and earthquakes is mitigated by reinsurance, they nevertheless can have a significant impact on the results of any one reporting period.

The Company has no customer which accounts for 10 percent or more of its consolidated revenues.

Compliance by the Company and its subsidiaries with federal, state and local provisions which 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 the capital expenditures, earnings or competitive position of the Company.

The Company currently does not engage in material operations in foreign countries nor is a material portion of its revenues presently derived from customers in foreign countries. In 1995, the Company entered into a joint venture to acquire insurance and insurance related operations outside the United States (see "International Operations"). However, the Company's insurance subsidiaries regularly purchase a portion of their catastrophe reinsurance coverage from foreign reinsurers, including syndicate members of Lloyd's of London. While Queen's Island is domiciled in Bermuda, to date its business has exclusively been reinsurance of its domestic affiliates.

On July 1, 1993, the Company exchanged all the stock of Signet Reinsurance Company ("Signet") for 60% of the stock of Signet Star, a newly formed holding company. Signet Star simultaneously acquired all the stock of North Star Reinsurance Company ("North Star Reinsurance") from General Re in exchange for 40% of the stock of Signet Star and senior and convertible notes. In connection with the formation of Signet Star, North Star Reinsurance entered into a Retrocessional Agreement (the "Retrocessional Agreement") with General Reinsurance Corporation ("GRC"), pursuant to which North Star Reinsurance reinsured its respective liabilities and assigned its respective rights and obligations arising from any insurance or reinsurance contracts written prior to January 1, 1993 with and to GRC.

On December 31, 1995, the Company purchased General Re's interest in Signet Star by issuing to General Re 458,667 shares of Series B Cumulative Redeemable Preferred Stock of the Company having an aggregate liquidation preference of \$68,800,000, which was redeemed in 1997. In addition, the Company guaranteed a senior subordinated promissory note of Signet Star which was issued to General Re in exchange for the convertible note which General Re held. As part

of this transaction, Signet Star sold to General Re Signet Star Reinsurance Company and renamed Signet Reinsurance Company, Signet Star Reinsurance Company.

In connection with the 1995 acquisition of the remaining 40% interest in Signet Star, North Star Reinsurance was sold to General Re and all business written subsequent to July 1, 1993 was novated to Signet Star. As a result, business written by North Star Reinsurance prior to January 1, 1993, which had been retroceded to General Re, is no longer reflected in the Company's financial statements. The only effect on the Company's financial statements resulting from this aspect of the transaction is that the Company's reserves for losses and loss expenses is reduced by \$735,144,000 and "due from reinsurers" is reduced by the same amount. This aspect of the transaction does not effect the Company's cash flow, equity or statements of operations.

ITEM 2. PROPERTIES

The Company and its subsidiaries own or lease office buildings or office space suitable to conduct their operations. Such owned property is as follows:

Location -----	Company -----	Size (sq. ft.) -----
Cherry Hill, New Jersey	Admiral	42,000
Grand Forks, North Dakota	American West	10,000
Jacksonville, Florida	Carolina (1)	19,000
Lincoln, Nebraska	Union	43,000
Lincoln, Nebraska	Continental Western	20,000
Luverne, Minnesota	Tri-State	33,000
Meridian, Mississippi	Great River	30,000
Scottsdale, Arizona	Nautilus	34,000
Urbandale, Iowa	Continental Western	80,000
Westbrook, Maine	Acadia	54,000

(1) Presently leased to a third party.

In addition, the Company and its subsidiaries lease office facilities in various other cities under leases with varying terms and expiration dates.

ITEM 3. LEGAL PROCEEDINGS

Claims under insurance policies written by the Company's insurance subsidiaries are investigated and settled either by claims adjusters employed by them, by their independent agents or by independent adjusters. Each subsidiary employs a staff of claims adjusters at its home office and at some regional offices. Some independent agents may have the authority to settle small claims. Independent claims adjusting firms are used to assist in handling various claims in areas where insurance volume does not warrant the maintenance of a staff adjuster. If a claim or loss cannot be settled and results in litigation, the subsidiary generally retains outside counsel.

At present, neither the Company nor any of its subsidiaries is engaged in any litigation known to the Company which is expected to have a material adverse effect upon the Company's business. As is common with property casualty insurance companies, the Company's subsidiaries are regularly engaged in the defense of claims arising out of the conduct of the insurance business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of 1997 to a vote of holders of the Company's Common Stock.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER

MATTERS

The Common Stock of the Company is traded in the over-the-counter market and is quoted on the National Association of Securities Dealers Automated Quotation ("NASDAQ") National Market System under the symbol "BKLY". The following table sets forth the high and low sale prices for the indicated periods, all as reported by NASDAQ(1).

	Price Range		Common
	High	Low	Dividends Paid
	-----	-----	-----
	-----	-----	Per Share
	-----	-----	-----
1997:			
Fourth Quarter	\$ 45	\$ 39	\$.11 cash
Third Quarter	43 1/16	36	\$.10 cash
Second Quarter	39 1/4	31 5/16	\$.10 cash
First Quarter	36 5/16	29 13/16	\$.09 cash
1996:			
Fourth Quarter	\$ 35 5/8	\$ 30	\$.09 cash
Third Quarter	31 3/8	27	\$.09 cash
Second Quarter	31 1/8	27 5/8	\$.08 cash
First Quarter	35 1/2	30 1/8	\$.08 cash

(1) Adjusted for the 3 for 2 stock split.

The closing price on March 2, 1998, as reported on the NASDAQ National Market System, was \$44.875 per share. The approximate number of record holders of the Common Stock on March 2, 1998 was 829.

On December 20, 1996, the W.R. Berkley Capital Trust (the "Trust") issued for cash \$210,000,000 of 8.197% Company obligated mandatorily redeemable preferred securities of a subsidiary trust holding solely junior subordinated debentures (the "Capital Securities") representing preferred beneficial interests in the Trust. The Company is the owner of the beneficial interests represented by the common securities of the Trust. The Trust exists for the sole purpose of issuing the Capital Securities and investing the proceeds in the 8.197% Junior Subordinated Deferrable Interest Debentures issued by the Company. The Capital Securities were not registered under the Securities Act of 1933, as amended (the "Securities Act"), and were sold to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A, or to institutional "accredited investors" (as defined in Rule 501

(a) (1), (2), (3) or (7) under the Securities Act.) See Note 8 of "Notes to Consolidated Financial Statements."

ITEM 6. SELECTED FINANCIAL DATA FOR THE FIVE YEARS ENDED DECEMBER 31, 1997

	Year Ended December 31,				
	1997	1996	1995	1994	1993
	(Amounts in thousands, except per share data)				
Net premiums written	\$ 1,177,641	\$ 1,052,511	\$ 860,421	\$ 717,933	\$ 537,646
Net premiums earned	1,111,747	981,221	803,336	655,038	501,433
Net investment income	199,588	164,490	137,332	109,683	92,773
Management fees and commissions	71,456	69,246	68,457	64,536	54,027
Realized investment gains (losses)	13,186	7,437	10,357	(170)	23,523
Total revenues	1,400,310	1,225,166	1,021,943	830,790	673,306
Interest expense	48,869	31,963	28,209	27,601	25,275
Income before Federal income taxes	129,241	115,049	82,747	30,774	61,364
Federal income tax (expense) benefit	(30,668)	(25,102)	(17,554)	1,552	(9,181)
Income before minority interest	98,573	89,947	65,193	32,326	52,183
Net income before preferred dividends	99,047	90,263	60,882	35,094	51,587
Preferred dividends	7,828	13,909	11,062	10,356	--
Net income attributable to common stockholders	91,219	76,354	49,820	24,738	51,587
Data per common share (1):					
Net income:					
Basic	3.09	2.56	1.91	.96	1.91
Diluted	3.02	2.53	1.90	.95	1.89
Stockholders' equity	28.72	25.13	23.59	17.79	20.24
Cash dividends declared	\$.42	\$.35	\$.32	\$.29	\$.27
Weighted average shares outstanding (1):					
Basic	29,503	29,792	26,121	25,773	26,919
Diluted	30,185	30,130	26,262	25,951	27,270
Investments	\$ 3,321,322	\$ 2,991,606	\$ 2,588,346	\$ 1,901,715	\$ 1,748,702
Total assets	4,599,284	4,136,973	3,618,684	3,582,291	3,337,705
Reserves for losses and loss expenses	1,909,688	1,782,703	1,660,020	2,070,886	2,016,348
Long-term Debt	390,415	390,104	319,287	331,002	330,722
Company-obligated mandatorily redeemable capital securities of a subsidiary trust holding solely 8.197% junior subordinated debentures	207,944	207,901	--	--	--
Stockholders' equity	947,292	879,732	929,815	597,601	526,281

(1) Data per common share have been adjusted to reflect the 3 for 2 stock split. Basic and Diluted income per share and weighted averages shares have been calculated in accordance with FAS 128.

The information required by Items 7 and 8 of Part II is incorporated by reference to the Company's 1997 Annual Report to Shareholders as follows:

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Pages 18 through 23 of the 1997 Annual Report to Shareholders.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Pages 24 through 40 of the 1997 Annual Report to Shareholders.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following information is provided as to the Directors and executive officers of the Company as of March 4, 1998:

Name ----	Age ---	Position -----
William R. Berkley	52	Chairman of the Board and Chief Executive Officer
John D. Vollaro	53	President, Chief Operating Officer and a Director
Sam Daniel, Jr.	59	Senior Vice President, Regional Operations
Anthony J. Del Tufo	53	Senior Vice President, Chief Financial Officer and Treasurer
E. LeRoy Heer	59	Senior Vice President, Chief Corporate Actuary
H. Raymond Lankford, Jr.	55	Senior Vice President, Alternative Markets Operations
Ira S. Lederman	44	Senior Vice President, Assistant General Counsel and Assistant Secretary
James G. Shiel	38	Senior Vice President - Investments
Edward A. Thomas	49	Senior Vice President, Specialty Operations
Donald J. Veldkamp	58	Senior Vice President, Technology and Distribution Systems
Robert P. Cole	47	Senior Vice President
Clement P. Patafio	33	Vice President - Corporate Controller
Scott A. Siegel	39	Vice President - Taxes
Robert B. Hodes	72	Director
Henry Kaufman	70	Director
Richard G. Merrill	67	Director
Jack H. Nusbaum	57	Director
Mark L. Shapiro	54	Director
Martin Stone	69	Director

As permitted by Delaware law, the Board of Directors of the Company is divided into three classes, the classes being divided as equally as possible and each class having a term of three years. Directors generally serve until their respective successors are elected at the annual meeting of stockholders which ends their term. None of the Company's Directors has any family relationship with any other Director or executive officer. Each year the term of office of one class expires. In May 1997, the term of a class consisting of two Directors expired. William R. Berkley and Robert B. Hodes were elected as Directors to hold office for a term of three years until the Annual Meeting of Stockholders in 2000 and until their successors are duly chosen.

William R. Berkley has been Chairman of the Board and Chief Executive Officer of the Company since its formation in 1967. He also served as President at various times from 1967 to 1995. He also serves as Chairman of the Board or Director of a number of public and private companies. These include The Greenwich Bank & Trust Company, a newly formed Connecticut chartered commercial bank; Pioneer Companies, Inc., a chemical manufacturing and marketing company; Strategic Distribution, Inc., an industrial products distribution and services company; and Interlaken Capital, Inc., a private investment firm with interests in various businesses. His current term as a Director expires in 2000.

John D. Vollaro has been President and Chief Operating Officer of the Company since January, 1996 and Director since September, 1995. He was Chief Executive Officer of Signet Star Holdings, Inc., an affiliate of the Company, from July, 1993 to December, 1995. He served as Executive Vice President of the Company from 1991 until 1993 and was Chief Financial Officer and Treasurer of the Company from 1983 through 1993; and Senior Vice President, Chief Financial Officer and Treasurer of the Company from 1983 to 1991. Mr. Vollaro's current term as a Director expires in 1998.

Sam Daniel, Jr. has been Senior Vice President - Regional Operations since April 1990. Prior thereto, he was employed by Hanover Insurance Company for more than five years as Vice President.

Anthony J. Del Tufo has been Senior Vice President, Chief Financial Officer and Treasurer of the Company since September 1993. Before joining the Company Mr. Del Tufo was a partner with KPMG Peat Marwick from 1975 to 1993.

E. LeRoy Heer has been Senior Vice President - Chief Corporate Actuary since January 1991. Prior thereto, he had been Vice President - Corporate Actuary since May 1978.

H. Raymond Lankford, Jr. has been Senior Vice President - Alternative Markets Operations since April 1996. Prior thereto, he was President of All American Agency Facilities, Inc., a subsidiary of the Company, from October 1991 having joined All American in 1990. He has been in the insurance business in various capacities for more than 20 years.

Ira S. Lederman has been Senior Vice President since January 1997. Additionally he was named General Counsel of Berkley International in January 1998. He is also Assistant General Counsel a position he has held since July 1989 and Assistant Secretary since May 1986. Previously, he was Vice President from May 1986 until January 1997. Prior thereto he was Insurance Counsel of the Company since May 1986 and Associate Counsel from April 1983.

James G. Shiel has been Senior Vice President - Investments of the Company since January 1997. Prior thereto, he was Vice President - Investments of the Company since January 1992. Since February 1994, he has been President of Berkley Dean & Company, Inc., a subsidiary of the Company, which he joined in 1987.

Edward A. Thomas has been Senior Vice President - Specialty Operations of the Company since April 1991. Prior thereto, he was President of Signet Reinsurance Company, a subsidiary of the Company, for more than five years.

Robert P. Cole was named Senior Vice President in January 1998. Prior thereto, he was Vice President since October 1996. Before joining the Company Mr. Cole was a senior Officer of Christania Reinsurance Company of New York which was purchased by Folksamerica Reinsurance Company in 1996 and prior to that was associated with reinsurers for twenty years.

Donald J. Veldkamp was named Senior Vice President, Technology and Distribution Systems in January 1998. He most recently served as Chairman of Union Insurance Company, a subsidiary of the Company, since July 1997. Prior to that he was President of Union Insurance Company from May 1990 to July 1997 and President of Tri-State Insurance Company of Minnesota, also a subsidiary of the Company, from February 1980 to May 1990.

Clement P. Patafio has been Vice President - Corporate Controller since January 1997. Prior thereto, he was Assistant Vice President - Corporate Controller in July 1994 and Assistant Controller since May 1993. Before joining the Company Mr. Patafio was with KPMG Peat Marwick from 1986 to 1993.

Scott A. Siegel has been Vice President - Taxes since January 1997. Prior thereto, he was Director of Taxes since September 1991. Before joining the Company Mr. Siegel was with KPMG Peat Marwick from 1981 to 1991.

Robert B. Hodes has been a Director of the Company since 1970. Mr. Hodes is Counsel to the New York law firm of Wilkie Farr & Gallagher. He is also a director of Crystal Oil Company; Globalstar Telecommunications, Limited.; K&F Industries Inc.; Loral Space & Communications Ltd.; Mueller Industries, Inc.; R.V.I. Guaranty, Ltd.; LCH Investments N.V.; and Restructured Capital Holdings, Ltd. Mr. Hodes' current term as a Director expires in 2000.

Henry Kaufman has been a Director of the Company since 1994. Dr. Kaufman is President of Henry Kaufman & Co., Inc., an investment, economic and financial consulting company since its establishment in 1988. Dr. Kaufman serves as Chairman of the Board of Overseers, Stern School of Business of NYU; Chairman of the Board of Trustees, Institute of International Education; Member of the Board of Directors, Federal Home Loan Mortgage Corporation; Member of the Board of Directors, Lehman Brothers Holdings Inc.; Member of the Board of Trustees, New York University; Member of the International Capital Markets Advisory Committee of the Federal Reserve Bank of New York; Member of the Board of Trustees, Whitney Museum of American Art; Member of the Advisory Committee to the Investment Committee, International Monetary Fund Staff Retirement Plan and Member of the Board of Governors, Tel-Aviv University. Dr. Kaufman's current term as a Director expires in 1998.

Richard G. Merrill has been a Director of the Company since 1994. Mr. Merrill was Executive Vice President of Prudential Insurance Company of America from August 1987 to March 1991 when he retired. Prior thereto, Mr. Merrill served as Chairman and President of Prudential Asset Management Company since 1985. Mr. Merrill is a Director of Sysco Corp. Mr. Merrill's current term as a Director expires in 1999.

Jack H. Nusbaum has been a Director of the Company since 1967. Mr. Nusbaum is the Chairman of the New York law firm of Willkie Farr & Gallagher where he has been a partner for more than the last five years. He is a director of Fine Host Corporation; Pioneer Companies, Inc.; Prime Hospitality Corp.; Strategic Distribution Inc.; and The Topps Company, Inc. Mr. Nusbaum's current term as a Director expires in 1999.

Mark L. Shapiro has been a Director of the Company since 1974. Since July 1997, Mr. Shapiro has been a Senior Consultant to the Export-Import Bank of the United States. Previously, he was a Managing Director in the investment banking firm of Schroder & Co. Inc. for more than the past five years. Mr. Shapiro's current term as a Director expires in 1999.

Martin Stone has been a Director of Berkley since 1990. Mr. Stone is Chairman of Professional Sports, Inc. (the Tucson Sidewinders AAA baseball team) and Chairman of Adirondack Corporation, all for more than the past five years. Mr. Stone is also a director of Canyon Ranch, Inc. and a member of the Advisory Board of Yosemite National Park. Mr. Stone's current term as a Director expires in 1998.

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, 1997, and which is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(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, 1997, 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, 1997, 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, 1997, and which is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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, 1997, and which is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

Index to Financial Statements

The Management's Discussion and Analysis and the Company's financial statements, together with the report thereon of KPMG Peat Marwick LLP, appearing on pages 18 through 40 of the Company's 1997 Annual Report to Shareholders, are incorporated by reference in this Annual Report on Form 10-K. With the exception of the aforementioned information, the 1997 Annual Report to Shareholders is not deemed to be filed as part of this report. The schedules to the financial statements listed below should be read in conjunction with the financial statements in such 1997 Annual Report to Shareholders. Financial statement schedules not included in this Annual Report on Form 10-K have been omitted because they are not applicable or required information as shown in the financial statements or notes thereto.

(a)	Index to Financial Statement Schedules	Page
	Independent Auditors' Report on Schedules and Consent	33
	Schedule II - Condensed Financial Information of Registrant	34
	Schedule III - Supplementary Insurance Information	38
	Schedule IV - Reinsurance	39
	Schedule VI - Supplementary Information concerning Property & Casualty Insurance Operations	40
(b)	Reports on Form 8-K	
(c)	Exhibits	

The exhibits filed as part of this report are listed on pages 31 and 32 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/ William R. Berkley

*William R. Berkley, Chairman of the Board and
Chief Executive Officer*

March 10, 1998

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.

Signature	Title	Date
<hr/> /s/ William R. Berkley <hr/> William R. Berkley Principal executive officer	Chairman of the Board and Chief Executive Officer	March 10, 1998
<hr/> /s/ John D. Vollaro <hr/> John D. Vollaro	President, Chief Operating Officer and Director	March 10, 1998
<hr/> /s/ Robert B. Hodes <hr/> Robert B. Hodes	Director	March 10, 1998
<hr/> /s/ Henry Kaufman <hr/> Henry Kaufman	Director	March 10, 1998
<hr/> /s/ Richard G. Merrill <hr/> Richard G. Merrill	Director	March 10, 1998
<hr/> /s/ Jack H. Nusbaum <hr/> Jack H. Nusbaum	Director	March 10, 1998
<hr/> /s/ Mark L. Shapiro <hr/> Mark L. Shapiro	Director	March 10, 1998
<hr/> /s/ Martin Stone <hr/> Martin Stone	Director	March 10, 1998
<hr/> /s/ Anthony J. Del Tufo <hr/> Anthony J. Del Tufo Principal financial officer	Senior Vice President, Chief Financial Officer and Treasurer	March 10, 1998
<hr/> /s/ Clement P. Patafio <hr/> Clement P. Patafio	Vice President, Corporate Controller	March 10, 1998

ITEM 14. (c) EXHIBITS

Number

(2.1) Agreement and Plan of Merger between the Company, Berkley Newco Corp. and MECC, Inc. (incorporated by reference to Exhibit 2.1 of the current reports on Form 8-K (file No. 0-7849) filed with the Commission September 28, 1995).

(2.2) Agreement and Plan of Restructuring, dated July 20, 1995, by and among the Company, Signet Star Holdings, Inc., Signet Star Reinsurance Company, Signet Reinsurance Company and General Re Corporation (incorporated by reference to Exhibit 2.2 of the Company's current Report on Form 8-K (file No. 0-7849) filed with the Commission on September 28, 1995).

(3.1) Restated Certificate of Incorporation, as amended

(3.2) By-laws

(4) The instruments defining the rights of holders of the 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) The Company's 1982 Stock Option Plan, (incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-1 (File No. 2-98396) filed with the Commission on June 14, 1985).

(10.2) The Company's 1992 Stock Option Plan, (incorporated by reference to Exhibit 28.1 of the Company's Registration Statement on Form S-8 (File No. 33-55726) filed with the Commission on December 15, 1992).

(10.2a) Signet Star Holdings, Inc. 1993 Stock Option Plan, (incorporated by reference to Exhibit 10.14 of Signet Star Holdings, Inc. Registration Statement on Form S-1 (File No. 33-69964) filed with the Commission on October 4, 1993).

(10.2b) First Amended and Restated W. R. Berkley Corporation 1992 Stock Option Plan.

(10.3) The Company's lease dated June 3, 1983 with the Ahneman, Devaul and Devaul Partnership, incorporated by reference to Exhibit 10.3 of the Company's Registration Statement on Form S-1 (File No. 2-98396) filed with the Commission on June 14, 1985.

(10.4) W.R. Berkley Corporation Deferred Compensation Plan for officers as amended January 1, 1991.

(10.5) W. R. Berkley Corporation Deferred Compensation Plan for Directors as adopted March 7, 1996.

(10.6) Sale Agreement by and between the Company and Lembo-Feinerman Fleming Morell Trust for the acquisition of real property.

(10.7) W. R. Berkley Corporation Annual Incentive Compensation Plan.

(10.8) W. R. Berkley Corporation Long Term Incentive Plan.

(13.1) 1997 Annual Report to Shareholders of W. R. Berkley Corporation (only those portions of such Annual Report that are incorporated by reference in this Report on Form 10-K are deemed filed herewith).

(21) Following is a list of the Company's significant subsidiaries. Subsidiaries of subsidiaries are indented and the parent of each such corporation owns 100% of the outstanding voting securities of such corporation except as noted below.

	Jurisdiction of incorporation -----	Percentage owned by Company -----
All American Agency Facilities, Inc.	Delaware	100%
Berkley Regional Insurance Company:	Missouri	100%
Acadia Insurance Company:	Maine	100%
Chesapeake Bay Property and Casualty Insurance Company	Maine	100%
Berkley Insurance Company of the Carolinas	North Carolina	100%
Continental Western Insurance Company:	Iowa	100%
Continental Western Casualty Company	Iowa	100%
Firemen's Insurance Company of Washington, D.C.:	Maryland	100%
FICO Insurance Company	Maryland	100%
Great River Insurance Company	Mississippi	100%
Tri-State Insurance Company of Minnesota:	Minnesota	100%
American West Insurance Company	North Dakota	100%
Union Insurance Company	Nebraska	100%
Union Standard Insurance Company	Oklahoma	100%
Berkley International, LLC	New York	65%
Carolina Casualty Insurance Company	Florida	100%
Clermont Specialty Managers, Ltd.	New Jersey	100%
J/I Holding Corporation:	Delaware	100%
Admiral Insurance Company:	Delaware	100%
Berkley Risk Services, LLC.	Minnesota	100%
Nautilus Insurance Company:	Arizona	100%
Great Divide Insurance Company	North Dakota	100%
Key Risk Management Services, Inc.	North Carolina	100%
MECC, Inc.:	Delaware	100%
Midwest Employers Casualty Company	Ohio	100%
Monitor Liability Managers, Inc.	Delaware	100%
Monitor Surety Managers, Inc.	Delaware	100%
Queen's Island Insurance Company, Ltd.	Bermuda	100%
Rasmussen Agency, Inc.	New Jersey	100%
Signet Star Holdings, Inc.:	Delaware	100%
Signet Star Reinsurance Company	Delaware	100%
Facultative ReSources, Inc.	Connecticut	100%

(23) See Independent Auditors' report on schedules and consent.

(28) Information from reports furnished to state insurance regulatory authorities. This exhibit which will be filed supplementally includes the Company's combined Schedule P as prepared for its 1997 combined Annual Statement which will be provided to state regulatory authorities. The schedule has been prepared on a statutory basis. The combined schedule includes the historical results of the Company's insurance subsidiaries as if they had been owned from their inception date. It should be noted that the combined schedule includes data of seventeen operating companies and, as a result, any statistical extrapolation from the schedule may not be meaningful.

(The combined Schedule P as filed with the Securities and Exchange Commission, has been omitted from this copy. It is available upon request from Mr. Anthony J. Del Tufo, Senior Vice President, Chief Financial Officer and Treasurer of the Company, at the address shown on page 1.)

INDEPENDENT AUDITORS' REPORT ON SCHEDULES AND CONSENT

Board of Directors and Stockholders
W. R. Berkley Corporation

The audit referred to in our report dated February 25, 1998 included the related financial statement schedules as of December 31, 1997 and 1996 and for each of the years in the three-year period ended December 31, 1997 included in the Form 10-K. 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 financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We consent to the use of our reports incorporated by reference in the Registration Statements (No. 2-98396) on Form S-1 and (No. 33-55726) on Form S-8 and (No. 33-30684) and (No. 33-95552) and (No. 333-00459) on Forms S-3 and (No. 33-88640) and (No. 333-33935) on Forms S-8 of W. R. Berkley Corporation.

KPMG Peat Marwick LLP

New York, New York
March 23, 1998

Schedule II

W. R. Berkley Corporation

Condensed Financial Information of Registrant Balance Sheets (Parent Company)

(Amounts in thousands)

	December 31,	
	1997	1996
	-----	-----
Assets		
Cash (including invested cash)	\$ 18,018	\$ 55,305
Fixed maturity securities:		
Held to maturity, at cost		
(fair value \$5,600 and \$10,101)	5,600	10,101
Available for sale at fair value (cost \$116,597 and \$122,760)	116,839	122,592
Equity securities, at fair value:		
Available for sale (cost \$698 and \$1,433)	690	3,733
Trading account (cost \$619 and \$33,331)	619	33,331
Investments in subsidiaries	1,389,085	1,212,474
Due from subsidiaries	64,641	56,334
Current Federal income taxes receivable	--	--
Real estate, furniture & equipment at cost, less accumulated depreciation	20,673	22,194
Other assets	4,147	4,316
	-----	-----
	\$ 1,620,312	\$ 1,520,380
	=====	=====
 Liabilities, Debt and Stockholders' Equity		
Liabilities:		
Due to subsidiaries (principally deferred income taxes)	\$ 58,830	\$ 47,308
Deferred Federal income taxes	32,887	4,013
Other liabilities	18,737	27,115
	-----	-----
	110,454	78,436
	-----	-----
Long-term debt	354,622	354,311
Subsidiary trust junior subordinated debt	207,944	207,901
Stockholders' equity:		
Preferred stock	65	93
Common stock	7,281	7,281
Additional paid-in capital	428,760	469,065
Retained earnings (including accumulated undistributed net income of subsidiaries of \$510,814 and \$417,604 in 1997 and 1996, respectively)	569,160	490,338
Equity in net unrealized investment gains net of taxes	58,206	31,075
Treasury stock, at cost	(116,180)	(118,120)
	-----	-----
	947,292	879,732
	-----	-----
	\$ 1,620,312	\$ 1,520,380
	=====	=====

See note to condensed financial statements.

Schedule II, Continued

W. R. Berkley Corporation

Condensed Financial Information of Registrant, Continued Statements of Operations (Parent Company)

(Amounts in thousands)

	Years ended December 31,		
	1997	1996	1995
	-----	-----	-----
Management fees and investment income from affiliates, including dividends of \$33,911, \$60,264, and \$38,091 for 1997, 1996 and 1995, respectively	\$ 40,058	\$ 72,377	\$ 50,839
Realized investment gains (losses)	2,739	486	(306)
Other income	10,972	4,058	5,615
	-----	-----	-----
Total revenues	53,769	76,921	56,148
Expenses, other than interest expense	(23,801)	(16,121)	(12,256)
Interest expense	(47,645)	(30,014)	(22,907)
	-----	-----	-----
Income (loss) before Federal income taxes	(17,677)	30,786	20,985
	-----	-----	-----
Federal income taxes:			
Federal income taxes provided by subsidiaries on a separate return basis	54,884	41,002	22,481
Federal income tax provision on a consolidated return basis	(30,849)	(25,102)	(15,454)
	-----	-----	-----
Net benefit	24,035	15,900	7,027
	-----	-----	-----
Income before undistributed equity in net income of subsidiaries	6,358	46,686	28,012
Equity in undistributed net income of subsidiaries	93,210	43,577	32,870
	-----	-----	-----
Income before preferred dividends	99,568	90,263	60,882
Preferred dividends	(8,349)	(13,909)	(11,062)
	-----	-----	-----
Net income attributable to common stockholders	\$ 91,219	\$ 76,354	\$ 49,820
	=====	=====	=====

See note to condensed financial statements.

Schedule II, Continued

W. R. Berkley Corporation

Condensed Financial Information of Registrant, Continued Statement of Cash Flows (Parent Company)

(Amounts in thousands)

	Years ended December 31,		
	1997	1996	1995
Cash flows from operating activities:			
Net income before preferred dividends	\$ 99,568	\$ 90,263	\$ 60,882
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Equity in undistributed net income of subsidiaries	(93,210)	(43,577)	(32,870)
Tax payments received from subsidiaries	45,999	35,613	17,104
Federal income taxes provided by subsidiaries on a separate return basis	(54,884)	(40,848)	(22,481)
Change in Federal income taxes	(1,409)	4,840	3,654
Realized investment losses	(2,739)	(486)	306
Other, net	4,114	6,050	4,087
Net cash provided by operating activities before trading account sales (purchases)	(2,561)	51,855	30,682
Trading account sales (purchases), net	32,712	1,722	(26,065)
Net cash provided by operating activities	30,151	53,577	4,617
Cash flow used in investing activities:			
Proceeds from sales, excluding trading account:			
Fixed maturity securities available for sale	19,954	13,121	23,158
Equity securities	1,432	786	1
Proceeds from maturities and prepayments of fixed maturity securities	--	--	15,206
Cost of purchases, excluding trading account:			
Fixed maturity securities	(9,305)	(130,003)	(3,452)
Equity securities	(2,098)	--	(1,733)
Cost of companies acquired	(7,238)	(15,955)	(217,096)
Investments in and advances to subsidiaries, net	(14,986)	(38,936)	(70,972)
Net additions to real estate, furniture & equipment	444	(21,270)	(328)
Other, net	5,539	--	--
Net cash used in investing activities	(6,258)	(192,257)	(255,216)
Cash flows from financing activities:			
Net proceeds from issuance of common stock	--	--	144,739
Net proceeds from issuance of preferred stock	--	--	66,000
Net proceeds from issuance of long-term debt	--	98,850	--
Net proceeds from issuance of a subsidiary trust junior subordinated debt	--	207,900	--
Purchase of treasury shares	--	(24,152)	(4,095)
Cash dividends to common stockholders	(11,695)	(10,143)	(7,844)
Cash dividends to preferred shareholders	(8,717)	(12,824)	(11,062)
Purchase of Preferred Stock	(41,523)	(77,572)	--
Payment of subsidiary debt	--	--	--
Other, net	755	1,258	1,441
Net cash provided by financing activities	(61,180)	183,316	189,179
Net increase in cash and invested cash	(37,287)	44,636	(61,420)
Cash and invested cash at beginning of year	55,305	10,669	72,089
Cash and invested cash at end of year	\$ 18,018	\$ 55,305	\$ 10,669

See note to condensed financial statements

Schedule II, Continued

W. R. Berkley Corporation

Condensed Financial Information of Registrant, Continued

December 31, 1997, 1996 and 1995

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 1996 and 1995 financial statements as originally reported to conform them to the presentation of the 1997 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 (or refundable to) subsidiary companies on a separate-return basis are paid to (or refunded by) W. R. Berkley Corporation, and the Company pays the tax due on a consolidated return basis.

Included in fixed maturities available for sale and invested cash is \$113,207,000 and 3,221,000, respectively, of securities placed in a trust which will be used to service the remaining outstanding shares of the Series A Preferred Stock. The Company expects that the proceeds of the trust will be utilized to redeem the Series A Preferred Stock.

Schedule III

W. R. Berkley Corporation and Subsidiaries Supplementary Insurance Information December 31, 1997, 1996 and 1995

(Amounts in thousands)

	Deferred policy acquisition cost	Reserve for losses and loss expenses	Unearned premiums	Premiums earned	Net investment income	Loss and Loss expenses
	-----	-----	-----	-----	-----	-----
December 31, 1997						
Regional	\$ 81,933	\$ 418,489	\$324,336	\$ 589,306	\$ 54,069	\$394,218
Reinsurance	22,620	389,285	77,159	195,825	45,520	135,530
Specialty	28,238	730,443	140,541	202,459	58,064	126,958
Alternative markets	7,122	343,086	29,562	84,169	34,339	53,808
International	5,824	28,385	17,786	39,988	3,623	23,910
Corporate and adjustments	--	--	--	--	3,973	--
Total	\$145,737	\$1,909,688	\$589,384	\$1,111,747	\$199,588	\$734,424
	=====	=====	=====	=====	=====	=====
December 31, 1996						
Regional	\$ 68,780	\$ 386,123	\$282,543	\$ 494,819	\$ 45,544	\$332,535
Reinsurance	16,947	366,947	65,388	206,297	37,542	151,254
Specialty	25,588	711,597	132,749	176,100	47,715	122,568
Alternative markets	5,518	302,606	25,281	79,012	29,118	50,372
International	2,324	15,430	8,252	24,993	1,426	12,431
Corporate and adjustments	--	--	--	--	3,145	--
Total	\$119,157	\$1,782,703	\$514,213	\$ 981,221	\$164,490	\$669,160
	=====	=====	=====	=====	=====	=====
December 31, 1995						
Regional	\$ 58,469	\$ 343,546	\$247,633	\$ 434,282	\$ 40,827	\$285,146
Reinsurance	8,388	319,336	55,539	185,558	33,512	144,948
Specialty	15,265	720,547	109,089	145,008	46,792	116,357
Alternative markets	5,184	262,872	29,551	31,588	6,978	21,096
International	2,211	13,719	8,710	6,900	377	3,451
Corporate and adjustments	--	--	--	--	8,846	--
Total	\$ 89,517	\$1,660,020	\$450,522	\$ 803,336	\$137,332	\$570,998
	=====	=====	=====	=====	=====	=====

	Amortization of deferred policy acquisition Costs	Other operating cost and expenses	Net premiums written
	-----	-----	-----
December 31, 1997			
Regional	\$172,237	\$ 35,100	\$ 632,459
Reinsurance	58,200	3,836	206,652
Specialty	70,005	7,845	208,570
Alternative markets	25,290	68,723	87,881
International	12,139	12,874	42,079
Corporate and adjustments	--	21,527	--
Total	\$337,871	\$149,905	\$1,177,641
	=====	=====	=====
December 31, 1996			
Regional	\$144,342	\$ 29,778	\$ 531,147
Reinsurance	52,925	4,529	218,200
Specialty	49,064	12,014	202,338
Alternative markets	25,457	67,397	75,644
International	11,854	3,433	25,182
Corporate and adjustments	--	8,201	--
Total	\$283,642	\$125,352	\$1,052,511
	=====	=====	=====
December 31, 1995			
Regional	\$131,152	\$ 21,601	\$ 471,716
Reinsurance	48,280	3,050	196,299
Specialty	39,064	10,200	160,536
Alternative markets	6,382	70,373	25,998

International	3,732	551	5,872
Corporate and adjustments	--	5,604	--
	-----	-----	-----
Total	\$228,610	\$111,379	\$ 860,421
	=====	=====	=====

Schedule IV

W. R. Berkley Corporation and Subsidiaries Reinsurance Years ended December 31, 1997, 1996 and 1995

(Amounts in thousands)

	Direct amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
	-----	-----	-----	-----	-----
Premiums written:					
Year ended December 31, 1997:					
Regional insurance	\$ 708,441	\$ 85,917	\$ 9,935	\$ 632,459	1.6%
Reinsurance	--	17,059	223,711	206,652	108.3%
Specialty insurance	323,555	115,667	682	208,570	--
Alternative Markets	53,652	7,266	41,495	87,881	47.2%
International	56,924	14,845	--	42,079	--
	-----	-----	-----	-----	-----
Total	\$1,142,572	\$ 240,754	\$ 275,823	\$1,177,641	23.4%
	=====	=====	=====	=====	=====
Year ended December 31, 1996:					
Regional insurance	\$ 604,942	\$ 78,041	\$ 4,246	\$ 531,147	0.8%
Reinsurance	--	10,708	228,908	218,200	104.9%
Specialty insurance	302,832	111,826	11,332	202,338	5.7%
Alternative Markets	58,065	5,353	22,932	75,644	30.3%
International	29,263	4,081	--	25,182	--
	-----	-----	-----	-----	-----
Total	\$ 995,102	\$ 210,009	\$ 267,418	\$1,052,511	25.4%
	=====	=====	=====	=====	=====
Year ended December 31, 1995:					
Regional insurance	\$ 529,004	\$ 72,504	\$ 15,216	\$ 471,716	3.2%
Reinsurance	--	12,464	208,763	196,299	106.4%
Specialty insurance	277,752	123,585	6,369	160,536	4.2%
Alternative Markets	4,980	2,068	23,086	25,998	88.8%
International	7,420	1,548	--	5,872	--
	-----	-----	-----	-----	-----
Total	\$ 819,156	\$ 212,169	\$ 253,434	\$ 860,421	29.5%
	=====	=====	=====	=====	=====

Schedule VI

W. R. Berkley Corporation and Subsidiaries Supplementary Information Concerning Property-Casualty Insurance Operations December 31, 1997, 1996 and 1995

(Amounts in thousands)

	1997	1996	1995
	-----	-----	-----
Deferred policy acquisition costs	\$ 145,737	\$ 119,157	\$ 89,517
Reserves for losses and loss expenses	1,909,688	1,782,703	1,660,020
Unearned premium	589,384	514,213	450,522
Premiums earned	1,111,747	981,221	803,336
Net investment income	199,588	164,490	137,332
Losses and loss expenses incurred:			
Current Year	747,977	675,674	580,594
Prior Years	(21,313)	(15,219)	(9,596)
Amortization of discount	7,760	8,705	--
Amortization of deferred policy acquisition costs	337,871	283,642	228,610
Paid losses and loss expenses	639,519	545,288	449,151
Net premiums written	1,177,641	1,052,511	860,421

EXHIBIT 10.7

04/16/97

W.R. BERKLEY CORPORATION ANNUAL INCENTIVE COMPENSATION PLAN

ARTICLE I

PURPOSE

The purpose of the Annual Incentive Compensation Plan (the "Plan") is to provide incentive compensation to senior executives of W.R. Berkley Corporation (the "Company") in recognition of their significant contributions to the growth, profitability and success of the Company from year to year.

The Company intends that compensation payable under the Plan will constitute "qualified performance-based compensation" under Section 162 (m) of the Internal Revenue Code of 1986, as amended. The Plan shall be administratively interpreted and construed in a manner consistent with such intent.

Subject to approval by the Company's stockholders, the Plan is effective as of January 1, 1997.

ARTICLE II

DEFINITIONS

2.1 Annual Incentive Pool: For any Year, the amount equal to the percentage of Earnings determined by the Board at the beginning of the Year, subject to the condition that Earnings meet the Corporate Threshold for that Year.

2.2 Board: The Board of Directors of the Company.

2.3 Code: The Internal Revenue Code of 1986, as amended from time to time.

2.4 Committee: The Compensation and Stock Option Committee of the Board, which is comprised solely of two or more "outside directors" within the meaning of Section 162(m) of the Code.

2.5 Company: W.R. Berkley Corporation, a Delaware corporation, and its consolidated subsidiaries, or any successors thereto.

2.6 Corporate Threshold: For any Year, 85 percent of budgeted Earnings, which is the minimum amount of Earnings that the Company must achieve in order to establish an Annual Incentive Pool for that Year.

2.7 Disability: Disability, as defined in a Participant's employment agreement with the Company, or, absent an agreement, in the Company's group disability insurance contract.

2.8 Earnings: For any Year, net income of the Company available to common stockholders, on a consolidated basis, determined in accordance with generally accepted accounting principles, as reported in the Company's audited consolidated financial statements for that Year.

2.9 Incentive Allocation: For any Year, a Participant's formulated share of the Annual Incentive Pool, determined by the Committee in accordance with Sections 6.3 and 6.4.

2.10 Incentive Award: For any Year, the amount of compensation payable under the Plan to a Participant, determined by the Committee in accordance with Section 6.5.

2.11 Participant: For any Year, an executive of the Company designated by the Committee to participate in the Plan.

2.12 Performance Goals: For any Year, the performance measures applicable to a Participant, established by the Committee in accordance with Article V.

2.13 Plan: The W.R. Berkley Corporation Annual Incentive Compensation Plan, as herein set forth and as it may be amended from time to time.

2.14 Target Allocation: For any Year, a Participant's share of the Annual Incentive Pool for achievement of his or her Performance Goals for that Year, determined by the Committee in accordance with Section 6.1.

2.15 Termination Without Cause: Termination of a Participant's employment by the Company without "Cause," as defined in the Participant's employment agreement with the Company, or, absent an agreement defining "Cause," termination of the Participant's employment by the Company for any reason other than (i) continuing and material failure to fulfill his or her employment obligations or willful misconduct or gross neglect in the performance of such duties, (ii) commission of fraud, misappropriation or embezzlement in the performance of such duties, or (iii) conviction of a felony, which, as determined in good faith by the Board, constitutes a crime involving moral turpitude and may result in material harm to the Company.

2.16 Year: The calendar year, which is the fiscal year of the Company.

ARTICLE III

ADMINISTRATION

3.1 The Plan shall be administered by the Committee. For any Year, the Committee shall (i) designate the executives of the Company who shall participate in the Plan, (ii) establish

Performance Goals for each Participant and certify the extent of their achievement and (iii) determine each Participant's Target Allocation, Incentive Allocation and Incentive Award.

3.2 Subject to the provisions of the Plan, the Committee shall have full power and authority to (i) interpret the Plan, (ii) adopt rules and regulations relating to the conduct of its business and to the Plan and (iii) make all determinations necessary or advisable for the administration of the Plan. Determinations of the Committee in the administration of the Plan shall be conclusive and binding on the Participants and all other parties concerned.

ARTICLE IV

PARTICIPATION

4.1 Only executives of the Company who, in the Committee's judgment, have contributed, or have the capacity to contribute, in a substantial measure to the successful performance of the Company for a given Year, shall be eligible to participate in the Plan for that Year.

4.2 In selecting Participants for any Year, the Committee shall take into account such factors as the individual's position, experience, knowledge, responsibilities, advancement potential and past and anticipated contribution to Company performance.

ARTICLE V

PERFORMANCE GOALS

5.1 Not later than 90 days after the beginning of any Year, the Committee shall establish Performance Goals for each Participant for that Year.

5.2 Performance Goals established by the Committee for any Year may differ among Participants. The Performance Goals of individual Participants shall be based on criteria in one or more of the following categories, as may be applicable: (i) Earnings per share of common stock, net income and insurance premiums written, (ii) return on common stockholders' equity, (iii) the Company's combined ratio compared to the property and casualty industry combined ratio as calculated by A.M. Best Company and (iv) individual performance, taking into account individual goals and objectives.

5.3 In establishing Performance Goals for any Year, the Committee shall determine, in its discretion, from among the categories specified in Section 5.2, the categories and criteria to be used in measuring each Participant's performance and the percentage allocation for each of the categories and each of the criteria, the sum of which allocations, respectively, shall equal 100 percent. The Committee shall also determine for each Participant for the same Year a threshold level of performance below which no Incentive Award will be payable and a maximum incentive opportunity.

ARTICLE VI

TARGET ALLOCATION, INCENTIVE ALLOCATION AND INCENTIVE AWARD

6.1 Not later than 90 days after the beginning of any Year, the Committee shall determine each Participant's Target Allocation for that Year as a percentage of his or her salary for the Year, assuming that the Performance Goals for the Participant are fully met. A Participant's Performance Goals and Target Allocation shall preclude discretion on the part of the Committee to increase the amount payable under the Plan to the Participant to the extent that such discretion would be inconsistent with the requirements for "qualified performance-based compensation" under Section 162(m) of the Code.

6.2 When the Committee has determined the Target Allocation for a Participant for any Year and the performance categories and criteria that establish his or her Performance Goals, it shall communicate this information to the Participant.

6.3 As soon as practicable following verification by the Company's independent public accountants of Earnings for any Year and receipt of information regarding the actual performance of Participants against their respective Performance Goals for the Year, the Committee shall certify (i) the amount, if any, by which Earnings for the Year exceeded the Corporate Threshold for the Year and (ii) the extent to which each Participant achieved his or her Performance Goals for the Year.

6.4 Based on the information certified in accordance with Section 6.3, the Committee shall determine each Participant's Incentive Allocation for the Year by multiplying his or her Target Allocation for the Year by the percentage representing the extent of achievement of his or her Performance Goals for the Year.

6.5 Notwithstanding the provisions of Section 6.4, the Committee may, in its discretion, reduce or eliminate a Participant's Incentive Allocation for any Year based on such objective or subjective criteria as it deems appropriate to take into account circumstances that could not have been anticipated when it established the Participant's Performance Goals for the Year. The amount of a Participant's Incentive Allocation as finally determined by the Committee shall constitute his or her Incentive Award for the Year; provided, however, that no Incentive Award for any Participant for any Year shall exceed 5 percent of Earnings for that Year.

6.6 The Committee shall not be obligated to apply the entire Annual Incentive Pool for any Year to Participants' Incentive Awards. Any amount not so applied shall remain part of the general assets of the Company and shall not be carried over to the Annual Incentive Pool for any subsequent Year.

ARTICLE VII

PAYMENT OF INCENTIVE AWARDS

7.1 Except as provided in Section 7.2, a Participant's Incentive Award for any Year shall be paid in a cash lump sum as soon as practicable following the Committee's determination of the amount in accordance with Article VI.

7.2 From time to time, the Committee, in its discretion (under uniform rules applicable to all Participants), may offer Participants the opportunity to defer receipt of all or a portion of the Incentive Award for any Year. Any election to defer shall be made prior to the beginning of the Year except for the first Year that the Plan is in effect. Deferrals shall be in increments of 10 percent of the Participant's Target Allocation for the Year.

Deferred amounts are not forfeitable and shall be paid after termination of employment with the Company. They constitute unfunded general obligations of the Company.

Deferred amounts shall be credited with an interest equivalent amount until the time of final payment at a rate determined by the Committee from time to time. The sum of the amount deferred for any Year plus all interest equivalents shall be paid in a single sum or in up to 15 installments, as specified by the Participant when making the deferral election.

7.3 Each Participant shall designate, in a manner prescribed by the Committee, a beneficiary to receive payments due under the Plan in the event of his or her death. If a Participant dies prior to the date of payment of his or her Incentive Award for any Year or to receipt of all amounts, if any, that were deferred, and if no properly designated beneficiary survives the Participant, the Incentive Award or any other amount due shall be paid to his or her estate or personal representative.

ARTICLE VIII

TERMINATION OF EMPLOYMENT

8.1 If a Participant's employment with the Company terminates by reason of retirement on or after attainment of age 65, death, Disability or Termination Without Cause, or for any other reason specifically approved in advance by the Committee, the Committee shall determine the Participant's Incentive Award as if he or she were employed for the entire Year, and the Participant shall be entitled to receive the Incentive Award prorated to the date of his or her termination of employment.

8.2 If a Participant's employment with the Company terminates for any reason other than as provided in Section 8.1, he or she forfeits any right to receive an Incentive Award for the Year in which the termination occurs.

ARTICLE IX

TERMINATION AND AMENDMENT OF THE PLAN

9.1 The Company reserves the right, by action of the Committee, to terminate the Plan at any time. Subject to such earlier termination, the Plan shall have a term of five years from its effective date.

9.2 The Plan may be amended at any time, and from time to time, by a written document adopted by the Committee. No amendment shall be effective prior to approval by the Company's stockholders to the extent that such approval is required by Section 162(m) of the Code or is otherwise required by law.

ARTICLE X

GENERAL PROVISIONS

10.1 Nothing in the Plan shall confer upon any employee a right to continue in the employment of the Company or affect any right of the Company to terminate a Participant's employment.

10.2 A Participant may not alienate, assign, pledge, encumber, transfer, sell or otherwise dispose of any rights or benefits awarded hereunder prior to the actual receipt thereof; and any attempt to alienate, assign, pledge, sell, transfer or assign prior to such receipt, or any levy, attachment, execution or similar process upon any such rights or benefits shall be null and void.

10.3 The Plan shall at all times be entirely unfunded, and no provision shall at any time be made to segregate assets of the Company for payment of any amounts hereunder. No Participant, beneficiary or other person shall have any interest in any particular assets of the Company by reason of the right to receive incentive compensation under the Plan. Participants and beneficiaries shall have only the rights of a general unsecured creditor of the Company.

10.4 The Plan shall be governed by and construed in accordance with the laws of the State of Delaware without reference to principles of conflict of laws.

10.5 The Company shall be authorized to withhold from any award or payment it makes under the Plan to a Participant the amount of withholding taxes due with respect to such award or payment and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes.

10.6 Nothing in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval as may be necessary, and such arrangements may be either generally applicable or applicable only in specific cases.

10.7 Participants shall not be required to make any payment or provide any consideration for awards under the Plan other than the rendering of services.

EXHIBIT 10.8

Amended 08/12/97
as of 01/01/97

W.R. BERKLEY CORPORATION LONG-TERM INCENTIVE COMPENSATION PLAN

ARTICLE I

PURPOSE

The purpose of the Long-Term Incentive Compensation Plan (the "Plan") is to promote the interests of W.R. Berkley Corporation (the "Company") and its stockholders by (i) helping the Company to attract and retain outstanding management, (ii) stimulating management's efforts on behalf of the Company by giving participants a direct interest in the performance of the Company and (iii) suitably rewarding participants' contributions to the success of the Company.

The Company intends that compensation payable under the Plan will qualify for deduction under Section 162(m) of the Internal Revenue Code of 1986, as amended.

ARTICLE II

DEFINITIONS

2.1 Award Certificate: A written instrument evidencing the award of Units to a Participant.

2.2 Base Year EPS: Earnings Per Share for the Fiscal Year ended December 31, 1996, which is \$3.84, or, for Units awarded as of any date subsequent to the Effective Date, Earnings Per Share for the Fiscal Year immediately preceding such date.

2.3 Beneficiary: The person or persons designated by a Participant, in accordance with Section 9.1, to receive any amount payable under the Plan upon the Participant's death.

2.4 Board: The Board of Directors of the Company.

2.5 Code: The Internal Revenue Code of 1986, as amended from time to time.

2.6 Committee: The Compensation and Stock Option Committee of the Board, which is comprised solely of two or more "outside directors" within the meaning of Section 162(m) of the Code.

2.7 Common Shares: Shares of common stock (\$.20 par value) of the Company.

2.8 Company: W.R. Berkley Corporation, a Delaware corporation, and its consolidated subsidiaries, or any successors thereto.

2.9 Cumulative Unit Value: The amount determined in accordance with Section 7.2.

2.10 Disability: Disability, as defined in a Participant's employment agreement with the Company, or, absent an agreement, in the Company's group disability insurance contract.

2.11 Earnings: For any Fiscal Year, the consolidated net income of the Company available to common stockholders, prepared in accordance with generally accepted accounting principles, as reported in the Company's audited consolidated financial statements for that Fiscal Year; adjusted on an after-tax basis to (a) exclude (i) in its entirety any item of nonrecurring gain or loss in excess of \$5,000,000 and (ii) any accruals for this Plan and (b) to add back write-offs required in connection with any acquisition in the year of acquisition.

2.12 Earnings Per Share: For any Fiscal Year, Earnings divided by the number of Common Shares used to determine the Company's basic earnings per share for that Fiscal Year, as reported in the Company's audited consolidated financial statements for that Fiscal Year.

2.13 Effective Date: The effective date of the Plan, which is January 1, 1997.

2.14 Fiscal Year: Any calendar year during the term of the Plan.

2.15 Incremental Unit Value: The amount determined in accordance with Section 7.1.

2.16 Maximum Cumulative Unit Value: For all Units awarded as of the beginning of any Fiscal Year, the amount determined by the Committee for those Units when they are awarded.

2.17 Measuring Price: For each Unit awarded as of the Effective Date, \$50.75; for each Unit awarded thereafter, the closing price of a Common Share as reported on the NASDAQ National Market System on the last day of the Fiscal Year preceding the date as of which the Unit is awarded.

2.18 Participant: A key employee of the Company designated by the Committee to participate in the Plan.

2.19 Plan: The W.R. Berkley Corporation Long-Term Incentive Compensation Plan, as herein set forth and as it may be amended from time to time.

2.20 Term of the Plan: The period commencing on the Effective Date and ending five years after the final award of Units, in accordance with Section 5.1, or on such earlier date as the Maximum Cumulative Unit Value of such Units may be achieved.

2.21 Termination Without Cause: Termination of a Participant's employment by the Company without "Cause," as defined in the Participant's employment agreement with the Company, or, absent an agreement defining Cause, termination of the Participant's employment by the Company for any reason other than (i) continuing and material failure to fulfill his or her employment obligations or willful misconduct or gross neglect in the performance of such duties, (ii) commission of fraud, misappropriation or embezzlement in the performance of such duties, or (iii) conviction of a felony, which, as determined in good faith by the Board, constitutes a crime involving moral turpitude and may result in material harm to the Company.

22.22 Unit: A unit of participation in the Plan awarded to a Participant in accordance with Article V.

22.23 Valuation Date: The last day of any Fiscal Year.

ARTICLE III

ADMINISTRATION

3.1 The Plan shall be administered by the Committee. A majority of the Committee shall constitute a quorum. Committee decisions and determinations shall be made by a majority of its members present at a meeting at which a quorum is present, and they shall be final. The actions of the Committee with respect to the Plan shall be binding on all affected Participants. Any decision or determination reduced to writing and signed by all of the members of the Committee shall be fully effective as if it had been made by a vote at a meeting duly called and held. The Committee shall keep minutes of its meetings and shall make such rules and regulations for the conduct of its business as it shall deem advisable.

3.2 The Committee shall have full authority, subject to the provisions of the Plan (i) to select Participants and determine the extent and terms of their participation; (ii) to adopt, amend and rescind such rules and regulations as, in its opinion, may be advisable in the administration of the Plan, (iii) to construe and interpret the Plan, the rules and regulations adopted thereunder and any notice or Award Certificate given to a Participant; and (iv) to make all other determinations that it deems necessary or advisable in the administration of the Plan. The Committee may request advice or assistance or employ such persons as it deems necessary for the proper administration of the Plan and may rely on such advice or assistance; provided, however, that in making any determinations with respect to the administration of the Plan, the Committee shall at all times be obligated to act in good faith and in conformity with the terms of the Plan.

3.3 In the event of any stock split, stock dividend, reclassification, recapitalization or other change that affects the character or amount of outstanding Common Shares and Earnings Per Share, the Committee shall make such adjustments in the number of Units (whether authorized or outstanding and unexercised), the Measuring Price or both as shall, in the sole judgment of the Committee, be equitable and appropriate in order to make the value of such Units, as nearly as may

be practicable, equivalent to the value of Units outstanding and unexercised immediately prior to such change. In no event, however, shall any such adjustment give any Participant any additional benefits.

3.4 The Committee shall be precluded from increasing compensation payable under the Plan to a Participant, including acceleration of payment and increase of any amount payable, unless specifically provided for by the Plan.

ARTICLE IV

PARTICIPATION

4.1 Only key employees of the Company who, in the Committee's judgment, will have a significant impact on the success of the business shall be eligible to participate in the Plan. The Committee, in its sole discretion, shall select the Participants.

4.2 In selecting Participants and in determining the number of Units to be awarded to each Participant for any Fiscal Year, the Committee shall take into account such factors as the individual's position, experience, knowledge, responsibilities, advancement potential and past and anticipated contribution to Company performance.

ARTICLE V

AWARD OF UNITS

5.1 Subject to adjustment as provided in Section 3.3, a maximum of 750,000 Units may be awarded under the Plan. A Participant who has been awarded Units may be awarded additional Units from time to time and new Participants may be awarded Units, both in the discretion of the Committee; provided, however, that no Units shall be awarded after 2006.

5.2 Units shall be awarded solely by the Committee and shall be evidenced by an Award Certificate, as provided in Article X.

5.3 Subject to adjustment as provided in Section 3.3, the maximum number of Units awarded to any one individual shall not exceed 250,000 during the Term of the Plan.

ARTICLE VI

TERM AND VESTING OF UNITS

6.1 Each Unit shall have a term of five years from the date of award, subject to earlier termination (i) upon exercise by a Participant, (ii) as provided in Article XI or (iii) upon achievement before five years of the Unit's Maximum Cumulative Unit Value. Units shall be deemed to be

awarded as of the Effective Date or the first day of any subsequent Fiscal Year through 2006, as the case may be.

6.2 Units shall become vested on the Valuation Date immediately preceding the fifth anniversary of the date of their award.

6.3 Notwithstanding Section 6.2, each Unit shall immediately become vested in the event of (i) attainment of its Maximum Cumulative Unit Value, (ii) a Participant's Termination Without Cause or (iii) termination of a Participant's employment with the Company by reason of retirement on or after attainment of age 65, death or Disability.

ARTICLE VII

DETERMINATION OF VALUE OF A UNIT

7.1 For any Fiscal Year, the Incremental Unit Value of a Unit shall be equal to the product of (i) the Measuring Price, multiplied by (ii) .85 of the percentage by which Earnings Per Share for the Fiscal Year exceeds Base Year EPS. In the event Base Year EPS exceeds Earnings Per Share for any Fiscal Year, the Incremental Unit Value for the Fiscal Year shall be zero. The Committee shall notify each Participant of the Incremental Unit Value of his or her Units for each Fiscal Year as soon as practicable after the Valuation Date for the Fiscal Year.

7.2 The Incremental Unit Value of each Unit for any Fiscal Year shall be cumulated with the Incremental Unit Value of the Unit for all prior Fiscal Years from the date of the Unit's award. The cumulative amount thus determined shall be the then Cumulative Unit Value of such Unit.

ARTICLE VIII

PAYMENT OF UNITS

8.1 Except as provided in Article XI, a Unit that is vested, in accordance with Article VI, shall thereupon be exercised.

8.2 In order to exercise vested outstanding Units, a Participant (i) shall give written notice of exercise, as provided in Section 8.3, and (ii) shall deliver his or her Award Certificate to the Secretary of the Company, who shall endorse thereon a notation of such exercise and return the same to the Participant. The date of exercise of Units shall be the date on which the Company receives the required documentation. Upon exercise of Units, the Participant shall be entitled to receive their Cumulative Unit Value, determined as of the concurrent or immediately preceding Valuation Date, but not in excess of their Maximum Cumulative Unit Value.

8.3 Notice of exercise of vested Units shall be in writing addressed to the Secretary of the Company. Payment of the amount due under the Plan shall be made not later than five days

following the date of exercise or the date of such other event as shall entitle the Participant to payment; provided, however, that, before any payment may be made, the Committee must certify in writing that all performance criteria under the Plan have been met. Not less than 50 percent of any amount due shall be paid in cash, and the balance shall be paid in cash or in Common Shares or both, as determined by the Committee in its discretion.

ARTICLE IX

LIMITS ON TRANSFERABILITY OF UNITS

9.1 Each Participant shall file with the Committee a written designation of one or more persons as the Beneficiary who shall be entitled to receive any amount or any Common Shares payable under the Plan upon his or her death. A Participant may, from time to time, revoke or change his or her Beneficiary designation without the consent of any previously designated Beneficiary by filing a new designation with the Committee. The last such designation received by the Committee shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Committee prior to the Participant's death, and in no event shall it be effective as of a date prior to such receipt. If at the date of a Participant's death, there is no designation of a Beneficiary in effect for the Participant, or if no Beneficiary survives to receive any amount payable under the Plan by reason of the Participant's death, the Participant's estate shall be treated as the Beneficiary for purposes of the Plan.

9.2 A Unit may be exercised only by the Participant to whom it was awarded, except in the event of the Participant's death, when a Unit may be exercised by his or her Beneficiary. Except as provided in Section 9.1, a Participant may not transfer, assign, alienate or hypothecate any benefits under the Plan.

ARTICLE X

AWARD CERTIFICATE

Promptly following the making of an award, the Company shall deliver to the recipient an Award Certificate, specifying the terms and conditions of the Unit. This writing shall be in such form and contain such provisions not inconsistent with the Plan as the Committee shall prescribe.

ARTICLE XI

TERMINATION OF UNITS

11.1 An outstanding Unit awarded to a Participant shall be canceled and all rights with respect thereto shall expire upon the earlier to occur of (i) its exercise as provided in Section 8.1 or (ii) termination of the Participant's employment with the Company; provided, however, that if such termination occurs by reason of retirement on or after attainment of age 65, death, Disability or

Termination Without Cause, or for any other reason specifically approved in advance by the Committee, the term of such Unit shall continue for a period of 14 months from the date of termination (the "Extended Term"). For purposes of this Section 11.1, the Cumulative Unit Value of such Unit shall be determined as of the Valuation Date concurrent with or immediately preceding the end of the Extended Term or any earlier exercise date, whichever is applicable. A Unit whose term is continued for an Extended Term shall be deemed to be automatically exercised as of the last Valuation Date within the Extended Term, unless sooner exercised by the Participant or his or her legal representative.

11.2 Nothing contained in Section 11.1 shall be deemed to extend the term of any Unit beyond the end of the Term of the Plan.

ARTICLE XII

TERMINATION AND AMENDMENT OF THE PLAN

The Company reserves the right to amend or terminate the Plan at any time, by action of the Committee, but no such amendment or termination shall adversely affect the rights of any Participant with respect to outstanding Units held by the Participant without his or her written consent. No amendment shall be effective prior to approval by the Company's stockholders to the extent that such approval is required by Section 162 (m) of the Code or is otherwise required by law.

ARTICLE XIII

GENERAL PROVISIONS

13.1 Nothing in the Plan, nor the award of any Unit, shall confer a right to continue in the employment of the Company or affect any right of the Company to terminate a Participant's employment.

13.2 The Plan shall be governed by and construed in accordance with the laws of the State of Delaware without reference to principles of conflict of laws.

13.3 The Company shall be authorized to withhold from any award or payment it makes under the Plan to a Participant the amount of withholding taxes due with respect to such award or payment and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes.

13.4 Nothing in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval as may be necessary, and such arrangements may be either generally applicable or applicable only in specific cases.

13.5 Participants shall not be required to make any payment or provide any consideration for awards under the Plan other than the rendering of services.

Financial Statements

[DOLLAR SYMBOL GRAPHIC]

INDUSTRY OVERVIEW

The demand for insurance can be characterized as fairly stable and is influenced primarily by general economic conditions, while the supply of insurance is directly related to available capacity, i.e., the level of policyholders' surplus employed in the industry and the willingness of insurance management to risk that capital. In general, it is believed that the amount of available capacity changes as the perceived rate of return on capital employed fluctuates based on the adequacy of premium rates and available investment returns. 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 may impact policy rates. These factors can have a significant impact on the ultimate adequacy of premium rates because a property casualty insurance policy is priced before its costs are known, as premiums usually are determined long before claims are reported. Over the past several years a significant increase in capacity has produced a trend of increasing price competition.

OPERATING RESULTS FOR THE YEAR ENDED DECEMBER 31, 1997 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 1996

The Company has adopted SFAS No. 128, which establishes new standards for computing and reporting earnings per share and all income per share amounts have been adjusted to reflect the prescribed changes (see notes to consolidated financial statements). Accordingly, per share results are reported as "basic" and "diluted."

Net income attributable to common stockholders ("Net Income") for 1997 was \$91 million, or \$3.09 of basic earnings per share, (\$3.02 per share diluted), compared with 1996 earnings of \$76 million, or \$2.56 basic, (\$2.53 diluted). The 1997 results include after-tax realized investment gains of \$9 million, or \$.29 basic, (\$.28 diluted) compared with \$5 million, or \$.16 basic, (\$.16 diluted) for 1996.

Net premiums written in 1997 rose 12% to \$1,178 million from \$1,053 million written during 1996 due to growth recorded by the regional, specialty, alternative markets, and international operations. Premiums written by the regional operations grew by 19% to \$632 million from \$531 million written in 1996. The majority of this growth was due to business units which were started during the past several years. Premiums written by the reinsurance segment decreased by 5% to \$207 million from \$218 million in 1996. This decrease was substantially due to a decrease in treaty business which more than offset premiums generated by the Latin American and Caribbean division that commenced operations in February 1996. Premiums written by the specialty operations grew by 3% to \$209 million from \$202 million in 1996. This increase was due to an increase in premiums written by the Excess and Surplus operations which more than offset a decline in premiums written by our transportation unit. Premiums written by the alternative markets operations grew by 16% to \$88 million from \$76 million in 1996. This increase was due primarily to increased market penetration by Signet Star's alternative markets division. Premiums written by the international operations grew by 67% to \$42 million from \$25 million. This increase was due to the July 1996 start-up of a workers' compensation company in Argentina.

In 1998, the Company expects to start a new operation in the specialty segment as well as a number of units in the Philippines. It is anticipated that the start-up operations will incur operating losses during the first years of operation and that international operations will continue to incur operating losses in 1998. Such losses are not expected to have a material adverse impact on the Company's results of operations.

Pre-tax net investment income increased to \$200 million from \$164 million earned in 1996. This increase was partially due to an increase in average investable assets produced by the issuance of \$210 million of capital trust securities issued in December 1996. Excluding the effects of the issuance of these securities, pre-tax net investment income was \$193 million, an increase of \$29 million over the comparable 1996 amount. This growth was mainly due to an increase in average investable assets produced in cash flow from operations. In addition, an increase in investment income earned in our trading portfolio contributed to the growth in investment income (see "Liquidity and Capital Resources").

Management fees and commissions consist primarily of fees earned by the alternative markets segment. Management fees and commissions increased 3% to \$71 million from \$69 million in 1996. The increase in management fees and commissions is due primarily to a 1997 acquisition, as intense competition in the workers' compensation market continued to inhibit growth.

Realized investment gains increased to \$13 million from \$7 million in 1996. Realized gains on fixed income securities resulted primarily from the Company's strategy of maintaining an appropriate balance between the duration of its fixed income portfolio and the duration of its liabilities; realized gains on equity securities arise primarily as a result of a variety of factors which influence the Company's valuation criteria for such securities. The majority of the 1997 and 1996 realized gains resulted from the sale of equity securities.

The consolidated combined ratio (on a statutory basis) of the Company's insurance operations decreased to 101.2% in 1997 from 102.2% in 1996 due to an improvement in the consolidated loss ratio which was partially offset by an increase in the consolidated expense ratio. The consolidated loss ratio (losses and loss expenses incurred expressed as a percentage of premiums earned) decreased to 66.4% from 68.7%. This improvement was primarily due to a decrease in weather related losses incurred by our regional operations and better than expected experience on business written in prior years recorded by our specialty operations.

Other operating costs and expenses, which consist of the expenses of the Company's insurance and alternative markets operations, as well as the Company's corporate and investment expenses, increased by 19% to \$488 million from \$409 million in 1996. The increase in other operating costs is primarily due to the substantial premium growth discussed above, which in turn results in an increase in underwriting expenses. The consolidated expense ratio of the Company's insurance operations (underwriting expenses expressed as a percentage of premiums written) increased to 34.4% for the 1997 period from 33.1% for the comparable 1996 period. This increase resulted primarily from higher commission expenses incurred to generate premium growth.

The increase in interest expense is due to the issuance in December 1996 of \$210 million Company-obligated mandatorily redeemable capital securities of a subsidiary trust holding solely junior subordinate debentures (see "Liquidity and Capital Resources").

The Federal income tax provision resulted in an effective tax rate of 24% in 1997 (22% in 1996). The tax rate is lower than the statutory tax rate of 35% because a substantial portion of investment income is tax-exempt. The increase in the effective rate in 1997 is due primarily to the increase in realized gains on investments which are taxed at the full corporate rate.

Preferred dividends decreased as a result of the 1997 repurchase of 276,855 shares of the Series A Preferred Stock, (see "Liquidity and Capital Resources").

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OPERATING RESULTS FOR THE YEAR ENDED DECEMBER 31, 1996 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 1995

Net income attributable to common stockholders ("Net Income") for 1996 was \$76 million, or \$2.56 basic (\$2.53 diluted), compared with 1995 earnings of \$50 million, or \$1.91 basic (\$1.90 diluted). The 1996 results include after-tax realized investment gains of \$5 million, or \$.16 basic (\$.16 diluted), compared with \$6 million, or \$.26 basic (\$.26 diluted) for 1995.

Net premiums written in 1996 grew 22% to \$1,053 million from \$860 million written during 1995 due to increases recorded by all segments of our operations. Premiums written by the regional operations grew by 13% to \$531 million from \$471 million written during 1995. Regional net premiums written grew by 16% excluding business assumed from national workers' compensation pools. The majority of this growth was due to new operations which the Company has established during the past five years. Premiums written by the reinsurance operations grew by 11% to \$218 million from \$196 million written during 1995. The growth in reinsurance premiums written was substantially due to the start-up of a Latin American and Caribbean division and an increase in business written by the Fidelity and Surety division. Premiums written by the specialty operations grew by 26% to \$202 million from \$161 million. The growth in specialty premiums written is due to an increase in business written by Admiral and Monitor as well as increases in the amount of business retained by Admiral, Monitor and Nautilus. These increases more than offset a decline in premiums written by Carolina Casualty. Premiums written by the alternative markets operations grew by \$50 million, to \$76 million. This increase is due to the inclusion of results of Midwest Employers Casualty Company ("MECC"), which was acquired in November, 1995. Premiums written by the international segment grew by \$19 million to \$25 million. The increase in premiums written is due to the inclusion of our primary insurance operations in Argentina, which were acquired in 1995, for a full year and the start up of an Argentine operation in 1996.

Pre-tax net investment income increased to \$164 million from \$137 million earned in 1995. Approximately three-fourths of this increase was due to the inclusion of the results of MECC. The remainder of this increase was due to the increase in average investable assets generated by cash flow from operations which more than offset the effects of lower yields available in the financial markets (see "Liquidity and Capital Resources").

Management fees and commissions consist primarily of fees earned by the alternative markets segment. Management fees and commissions were basically unchanged for 1996 as market conditions, particularly in workers' compensation insurance, inhibited growth.

Realized gains from the sale of fixed income securities result primarily from the Company's strategy of maintaining an approximate balance between the duration of its fixed income portfolio and the duration of its liabilities; realized gains on equity securities arise primarily as a result of a variety of factors which influence the Company's valuation criteria for such securities. The majority of the 1996 realized gains were from the sale of equity securities.

The consolidated combined ratio (on a statutory basis) of the Company's insurance operations decreased to 102.2% in 1996 from 102.5% in 1995 due to an improvement in the consolidated loss ratio which was partially offset by an increase in the consolidated expense ratio. The consolidated loss ratio (losses and loss expenses incurred expressed as a percentage of premiums earned) decreased to 68.7% from 70.7% primarily due to improved losses at certain specialty companies resulting from a change in the mix of business partially offset by greater catastrophe losses impacting regional operations.

Other operating costs and expenses, which consists of the expenses of the Company's insurance and alternative markets segments as well as the Company's corporate and investment expenses increased by 20% to \$409 million from \$340 million recorded in 1995. The increase in other operating costs is primarily due to the substantial premium growth volume in all segments of the Company's business, which in turn results in an increase in underwriting expenses. The consolidated expense ratio of the Company's insurance operations

(underwriting expenses expressed as a percentage of premiums written) increased to 33.1% for the 1996 period from 31.3% for the comparable 1995 period. This increase resulted from the higher commission expenses incurred to generate premium growth.

Interest expense increased due to the January 1996 issuance of \$100 million of long-term debt. In addition, in December 1996, the Company issued \$210 million of Company-obligated mandatorily redeemable capital securities of a subsidiary trust holding solely junior subordinated debentures (see "Liquidity and Capital Resources").

The Federal income tax provision resulted in an effective tax rate of 22% in 1996 and 21% in 1995. The tax rate is lower than the statutory tax rate of 35% because a substantial portion of investment income is tax-exempt. The increase in the effective tax rate in 1996 is due primarily to a decrease in the percentage of pre-tax income that is tax-exempt.

In December 1995, the Company purchased all the remaining outstanding common stock of Signet Star Holdings. As a result of this acquisition, the minority interest in 1996 was solely related to international operations.

Preferred dividends increased as a result of the December 1995 issuance of Series B Cumulative Redeemable Preferred Stock (see "Liquidity and Capital Resources").

LIQUIDITY AND CAPITAL RESOURCES

GENERAL The Company's subsidiaries are highly liquid, receiving substantial cash from premiums, investment income, management fees and proceeds from sales and maturities of portfolio investments. The principal outflows of cash are payments of claims, taxes, interest and operating expenses. The net cash provided from operating activities (before trading account transactions) was \$229 million in 1997, \$244 million in 1996 and \$207 million in 1995.

As a holding company, the Company derives cash from its subsidiaries in the form of dividends, tax payments and management fees. The Company is obligated to service its debt, pay consolidated Federal income taxes and pay its expenses. Tax payments and management fees from the insurance subsidiaries are made under agreements which generally are subject to approval by state insurance departments. Maximum amounts of dividends that can be taken without regulatory approval are prescribed by statute (see Note 3 of "Notes to Consolidated Financial Statements").

FINANCING ACTIVITY In October 1995, the Company issued 5,175,000 shares of common stock, par value \$.20 per share and received net proceeds of approximately \$145 million which was used to finance the acquisition of MECC.

On December 31, 1995, in connection with the acquisition of the remaining 40% of Signet Star, the Company issued to General Reinsurance Corporation ("General Re"), 458,667 shares of Series B Cumulative Redeemable Preferred Stock having an aggregate liquidation preference of \$68,800,000. In addition, the Company guaranteed a senior subordinated promissory note of Signet Star in the principal amount of \$35,793,085, which matures July 1, 2003 and bears interest at the rate of 6.5%. This note was issued to General Re in exchange for the convertible note previously held by General Re. In November 1993, Signet Star borrowed the maximum amount available under its revolving credit facility and used the proceeds to redeem senior notes issued in connection with the July 1, 1993 acquisition. The revolving credit facility was repaid on January 19, 1996 as discussed below.

On January 19, 1996, the Company issued \$100 million of 6.25%, ten-year notes which are not redeemable until maturity and utilized a portion of the proceeds to retire \$28.4 million of Signet Star's bank debt. In addition, a portion of the proceeds were used to retire \$28 million of Series B Preferred Stock.

On December 19, 1996, the Company issued \$210 million of Company-obligated mandatorily redeemable capital securities of a subsidiary trust holding solely junior subordinated debentures of the Corporation due December 15, 2045 ("Capital Trust Securities") and utilized \$38.4 million of the proceeds to retire the remaining outstanding shares of the Series B Preferred Stock. In addition, during December 1996 and January 1997, the Company utilized \$39.2 million of the proceeds to retire 252,273

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shares of the Series A Preferred Stock and placed \$115.8 million in a trust which will be used to service the remaining outstanding Series A Preferred Stock. In the second and third quarters of 1997, 93,775 shares of the Series A Preferred Stock were purchased by subsidiaries of the Company. The Company expects that the balance of the proceeds of the trust will be utilized to redeem the Series A Preferred Stock on January 25, 1999. The balance of the proceeds is available for acquisitions, working capital and other general corporate purposes.

In March 1995, the Company purchased 175,500 shares of Common Stock for approximately \$4.1 million. During 1996, the Company purchased 862,500 shares of Common Stock for approximately \$24.2 million. On November 11, 1997, the Board of Directors authorized the Company to repurchase up to 2,000,000 shares of Common Stock.

The Company has on file two "shelf" Registration Statements with the Securities and Exchange Commission with a combined remaining balance of \$190 million in additional equity and/or debt securities. The securities may be offered from time-to-time as determined by funding requirements and market conditions. In addition, the Company has a \$50 million line-of-credit available.

INVESTMENTS In its investment strategy, the Company establishes a level of cash and highly liquid short-term and intermediate-term securities which, combined with expected cash flow, is believed adequate to meet foreseeable payment obligations. As part of this strategy, the Company attempts to maintain an appropriate relationship between the average duration of the investment portfolio and the approximate duration of its liabilities, i.e., policy claims and debt obligations.

The 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, active management of the portfolio is considered necessary to maintain an approximate matching of assets and liabilities as well as to adjust the portfolio as changes in financial market conditions alter the assumptions underlying the purchase of certain securities.

The investment portfolio, valued on a cost basis, grew in 1997 by \$282 million to approximately \$3,218 million primarily due to the combined effects of net cash flow from operations and the financing activities discussed above.

During 1997, the Company invested approximately \$243 million of its available cash inflow in invested cash and fixed income securities. At December 31, 1997, the portion of the portfolio invested in tax-exempt securities was 32% (30% in 1996); U.S. Government securities and cash equivalents remained at 26%; mortgage-backed securities were 16% (18% in 1996); corporate fixed maturity securities remained at 14%; trading account securities remained at 9%; and other equity securities represented the balance.

FEDERAL INCOME TAXES The Company files a consolidated Federal income tax return. At December 1997, the Company had a deferred tax liability of \$79 million, which primarily relates to unrealized investment gains and intangible assets, and a deferred tax asset of \$47 million, which primarily relates to the discounting of loss reserves for Federal income tax purposes.

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 current operations, management anticipates that it is more likely than not that future taxable income will be sufficient for the realization of this asset.

REINSURANCE

The Company follows the customary industry practice of reinsuring a portion of its exposures, paying to reinsurers a part of the premiums received on the policies it writes. 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 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, financially sound carriers.

REGIONAL OPERATIONS In 1997, all regional subsidiaries generally retained \$300,000 on individual property casualty risks. Acadia Insurance Company retained up to \$1.3 million per bond for surety business. Other regional companies writing surety business retained up

to \$450,000 (\$325,000 prior to October 1, 1997). The regional group also maintained catastrophe reinsurance protection for approximately 95% of weather-related losses above \$6 million per occurrence up to a maximum of \$34 million. In addition, certain of the regional operating units carried additional aggregate catastrophe protection of \$13.5 million in excess of \$4 million for storms exceeding \$500,000; \$5 million in excess of \$6.5 million for storms exceeding \$1.0 million; and \$4.5 million in excess of \$7 million for storms exceeding \$1.5 million.

REINSURANCE OPERATIONS Signet Star's catastrophe retrocession program provides coverage for property losses in four layers as follows: (i) 100% of \$7.5 million in excess of \$6.0 million per occurrence; (ii) 95% of \$7.5 million in excess of \$13.5 million per occurrence; and (iii) 95% of \$9.0 million in excess of \$21.0 million per occurrence, and 100% of \$15 million in excess of \$30 million, (for California only and only under certain conditions). In 1997, Signet Star has a variable quota share program on its casualty facultative business with retentions varying from \$425,000 up to \$2.5 million depending on the certificate limit. Property facultative business is covered on a per risk basis for \$4.7 million in excess of \$300,000. These coverages apply to Signet Star's individual certificate and master certificate business. During 1997, Signet Star had retrocession coverage for its fidelity and surety business for 100% of each loss up to \$2.5 million in excess of \$750,000 per occurrence and 79.5% of each loss up to \$2.5 million in excess of \$3.25 million per occurrence for its fidelity and surety business. During 1997, the Latin American and Caribbean division retained \$250,000 for property business and \$500,000 for Marine, Energy and Aviation business.

SPECIALTY OPERATIONS Admiral's retention in 1997 was \$175,000 per risk for most classes of business and \$5.0 million, per insured, for business written by Monitor Liability Managers. In addition, in 1997 Admiral's Directors' and Officers' coverage also included additional protection on an aggregate basis. Nautilus generally retained \$140,000 per risk in 1997 and Carolina maintained its retention at \$300,000 on property and liability exposures. In 1997, Carolina Casualty (on business underwritten by Monitor Surety Managers), retained up to \$1.5 million on a per principal per bond basis. Great Divide retained \$120,000 per risk in 1997 (\$187,500 in 1998). The Specialty Group (except Carolina) is also covered under the regional group's property catastrophe protection for 95% of \$34 million in excess of \$6 million.

ALTERNATIVE MARKETS OPERATIONS Midwest's retention is generally \$1 million per occurrence above the self insured's underlying retention.

INTERNATIONAL OPERATIONS The international operations generally retained between \$50,000 and \$250,000 per occurrence or individual risk.

YEAR 2000

The Company continues to address system programming issues with regards to system requirements for the year 2000. Costs associated with the year 2000 projects, which to date have not been significant, are expensed as incurred. The Company has examined the year 2000 issues and does not expect it to have a material impact on the Company's operations. With respect to year 2000 claims exposure for our insurance and reinsurance subsidiaries, to date, no significant losses have arisen. However, due to the potential for judicial decisions which re-formulate policies to expand their coverage to previously unforeseen theories of liabilities which may produce unanticipated claims, at this point in time, the estimation of any potential year 2000 liabilities is not determinable.

CAPITALIZATION

For the year ended December 31, 1997, Stockholders' equity increased by approximately \$68 million. The increase in stockholders' equity is attributable to an increase in retained earnings and an increase in unrealized gains in marketable securities which was partially offset by the repurchase of the Series A Preferred stock discussed above. Accordingly, the Company's total capitalization increased to \$1,546 million at December 31, 1997 and the percentage of the Company's capital attributable to long-term debt decreased to 25% at December 31, 1997 from 26% at December 31, 1996.

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CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)

Years ended December 31,	1997	1996	1995
Revenues:			
Net premiums written	\$ 1,177,641	\$ 1,052,511	\$ 860,421
Change in net unearned premiums	(65,894)	(71,290)	(57,085)
Premiums earned	1,111,747	981,221	803,336
Net investment income	199,588	164,490	137,332
Management fees and commissions	71,456	69,246	68,457
Realized investment gains	13,186	7,437	10,357
Other income	4,333	2,772	2,461
Total revenues	1,400,310	1,225,166	1,021,943
Operating costs and expenses:			
Losses and loss expenses	(734,424)	(669,160)	(570,998)
Other operating costs and expenses	(487,776)	(408,994)	(339,989)
Interest expense	(48,869)	(31,963)	(28,209)
Income before income taxes and minority interest	129,241	115,049	82,747
Federal income tax expense	(30,668)	(25,102)	(17,554)
Income before minority interest	98,573	89,947	65,193
Minority interest	474	316	(4,311)
Net income before preferred dividends	99,047	90,263	60,882
Preferred dividends	(7,828)	(13,909)	(11,062)
Net income attributable to common stockholders	\$ 91,219	\$ 76,354	\$ 49,820
Earnings per share:			
Basic	\$ 3.09	\$ 2.56	\$ 1.91
Diluted	\$ 3.02	\$ 2.53	\$ 1.90

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

December 31,	1997	1996
	-----	-----
ASSETS		
Investments:		
Invested cash	\$ 417,967	\$ 327,193
Fixed maturity securities:		
Held to maturity, at cost (fair value \$194,919 and \$208,232)	182,172	204,234
Available for sale, at fair value (cost \$2,240,901 and \$2,066,327)	2,322,971	2,098,670
Equity securities, at fair value:		
Available for sale (cost \$76,134 and \$78,435)	86,243	93,900
Trading account (cost \$301,136 and \$260,167)	311,969	267,609
Cash	21,669	19,292
Premiums and fees receivable	331,774	256,441
Due from reinsurers	432,516	427,419
Accrued investment income	36,930	34,577
Prepaid reinsurance premiums	72,148	70,057
Deferred policy acquisition costs	145,737	119,157
Real estate, furniture and equipment at cost, less accumulated depreciation	126,831	116,303
Excess of cost over net assets acquired	73,142	73,404
Other assets	37,215	28,717
	-----	-----
	\$ 4,599,284	\$ 4,136,973
	=====	=====
LIABILITIES, RESERVES, DEBT AND STOCKHOLDERS' EQUITY		
Liabilities and reserves:		
Reserves for losses and loss expenses	\$ 1,909,688	\$ 1,782,703
Unearned premiums	589,384	514,213
Due to reinsurers	95,140	71,352
Deferred Federal income taxes	32,887	4,013
Other liabilities	402,177	274,625
	-----	-----
	3,029,276	2,646,906
	-----	-----
Long-term debt	390,415	390,104
Company-obligated mandatorily redeemable capital securities of a subsidiary trust holding solely 8.197% Junior Subordinated debentures of the corporation due December 15, 2045	207,944	207,901
Minority interest	24,357	12,330
Stockholders' equity:		
Preferred stock, par value \$.10 per share:		
Authorized 5,000,000 shares:		
7 3/8% Series A Cumulative Redeemable Preferred Stock 653,952 and 930,807 shares issued and outstanding	65	93
Common stock, par value \$.20 per share:		
Authorized 40,000,000 shares, issued and outstanding, net of treasury shares, 29,568,335 and 29,453,964 shares	7,281	7,281
Additional paid-in capital	428,760	469,065
Retained earnings	569,160	490,338
Net unrealized investment gains, net of taxes	58,206	31,075
Treasury stock, at cost, 6,835,510 and 6,950,103 shares	(116,180)	(118,120)
	-----	-----
	947,292	879,732
	-----	-----
	\$ 4,599,284	\$ 4,136,973
	=====	=====

See accompanying notes to consolidated financial statements.

W. R. BERKLEY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands, except per share data)

Years ended December 31, 1997, 1996 and 1995

	Total stockholders' equity	Preferred and common stock and additional paid-in capital	Retained earnings	Net unrealized investment gains (losses)	Treasury stock
Balance, December 31, 1994	\$ 597,601	\$ 340,924	\$ 382,859	\$ (33,973)	\$ (92,209)
Net income attributable to common stockholders	49,820	--	49,820	--	--
Issuance of common shares	146,484	145,144	--	--	1,340
Issuance of preferred stock	66,000	66,000	--	--	--
Net change in unrealized investment gains	82,423	--	--	82,423	--
Purchase of treasury stock	(4,095)	--	--	--	(4,095)
Dividends to common stockholders (\$.32 per share)	(8,418)	--	(8,418)	--	--
Balance, December 31, 1995	929,815	552,068	424,261	48,450	(94,964)
Net income attributable to common stockholders	76,354	--	76,354	--	--
Issuance of common shares	1,746	750	--	--	996
Net change in unrealized investment gains	(17,375)	--	--	(17,375)	--
Purchase of treasury stock	(24,152)	--	--	--	(24,152)
Repurchase of preferred stock	(77,572)	(77,572)	--	--	--
Accretion of Series B Preferred Stock	1,193	1,193	--	--	--
Dividends to common stockholders (\$.35 per share)	(10,277)	--	(10,277)	--	--
Balance, December 31, 1996	879,732	476,439	490,338	31,075	(118,120)
Net income attributable to common stockholders	91,219	--	91,219	--	--
Issuance of common shares	3,130	1,190	--	--	1,940
Net change in unrealized investment gains	27,131	--	--	27,131	--
Repurchase of preferred stock	(41,523)	(41,523)	--	--	--
Dividends to common stockholders (\$.42 per share)	(12,397)	--	(12,397)	--	--
Balance, December 31, 1997	\$ 947,292	\$ 436,106	\$ 569,160	\$ 58,206	\$ (116,180)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

Years ended December 31,	1997	1996	1995
	-----	-----	-----
Cash flows from operating activities:			
Net income before preferred dividends	\$ 99,047	\$ 90,263	\$ 60,882
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Increase in reserves for losses and loss expenses, net of due to/from reinsurers	137,312	126,006	106,333
Depreciation and amortization	11,852	8,590	14,286
Change in unearned premiums and prepaid reinsurance premiums	67,023	71,290	57,085
Change in premiums and fees receivable	(64,858)	(25,348)	(20,551)
Change in Federal income taxes	(1,408)	5,719	491
Change in deferred policy acquisition costs	(24,465)	(29,640)	(15,607)
Realized investment gains	(13,186)	(7,437)	(10,357)
Other, net	18,127	4,374	14,033
	-----	-----	-----
Net cash provided by operating activities before trading account sales (purchases)	229,444	243,817	206,595
Trading account sales (purchases), net	69,544	(79,906)	(47,314)
	-----	-----	-----
Net cash provided by operating activities	298,988	163,911	159,281
	-----	-----	-----
Cash flows used in investing activities:			
Proceeds from sales, excluding trading account:			
Fixed maturity securities available for sale	718,789	534,529	452,460
Equity securities	43,204	46,698	63,863
Proceeds from maturities and prepayments of fixed maturity securities	120,944	219,673	159,731
Cost of purchases, excluding trading account:			
Fixed maturity securities available for sale	(984,961)	(786,631)	(690,650)
Fixed maturity securities held to maturity	--	(105,675)	(30,568)
Equity securities	(28,028)	(26,988)	(64,187)
Cost of acquired companies, net of acquired cash and invested cash	585	(11,739)	(197,404)
Net additions to real estate, furniture and equipment	(17,898)	(46,983)	(14,472)
Other, net	(9,904)	(5,083)	(8,098)
	-----	-----	-----
Net cash used in investing activities	(157,269)	(182,199)	(329,325)
	-----	-----	-----
Cash flows from financing activities:			
Net proceeds from issuance of common stock	--	--	144,739
Net proceeds from issuance of preferred stock	--	--	66,000
Net proceeds from issuance of long-term debt	--	98,850	--
Net proceeds from issuance of Company-obligated mandatorily redeemable capital securities of a subsidiary trust holding solely 8.197% junior subordinated debentures	--	207,900	--
Cash dividends to common stockholders	(11,695)	(10,143)	(7,844)
Cash dividends to preferred stockholders	(8,717)	(12,824)	(11,062)
Repurchase of common treasury shares	--	(24,152)	(4,095)
Repurchase of preferred stock	(41,523)	(77,572)	--
Payment of subsidiary debt	--	(28,306)	(31,847)
Other, net	13,367	4,103	1,441
	-----	-----	-----
Net cash provided by (used in) financing activities	(48,568)	157,856	157,332
	-----	-----	-----
Net increase (decrease) in cash and invested cash	93,151	139,568	(12,712)
Cash and invested cash at beginning of year	346,485	206,917	219,629
	-----	-----	-----
Cash and invested cash at end of year	\$ 439,636	\$ 346,485	\$ 206,917
	=====	=====	=====
Supplemental disclosure of cash flow information:			
Interest paid on debt	\$ 45,950	\$ 28,296	\$ 32,839
	=====	=====	=====
Federal income taxes paid	\$ 32,258	\$ 19,171	\$ 17,064
	=====	=====	=====

See accompanying notes to consolidated financial statements.

W. R. BERKLEY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 1997, 1996, and 1995

(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 generally accepted accounting principles ("GAAP"). 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. Actual results could differ from those estimates. All significant intercompany transactions and balances have been eliminated. Reclassifications have been made in the 1996 and 1995 financial statements to conform them to the presentation of the 1997 financial statements.

(B) Revenue recognition

Insurance premiums written are recognized as earned generally on a pro-rata basis over the contract period. Management fees on insurance services contracts are recorded as earned primarily on a pro-rata basis over the policy period. Commission income is recognized as earned on the effective date of the applicable insurance policies.

(C) Investments

The Company has classified its investments into three categories. 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. Securities which the Company purchased with the intent to sell in the near term are classified as "trading" and are reported at estimated fair value, with unrealized gains and losses reflected in the statement of operations. The remaining securities are classified as "available for sale" and carried at estimated fair value, with unrealized gains and losses, net of applicable income taxes, excluded from earnings and reported as a separate component of stockholders' equity.

Short sales and short call options used in trading account activities, as part of a hedging strategy, are included in other liabilities. Short sales and short call options are reported at fair value, with unrealized gains and losses reflected in net investment income.

Realized gains or losses represent the difference between the cost of securities sold and the proceeds realized upon sale. The cost of securities is adjusted where appropriate to include a provision for significant decline in value which are considered to be other than temporary. The Company uses the specific identification method where possible and the first-in, first-out method in other instances, to determine the cost of securities sold. Realized gains or losses, including any provision for decline in value, are included in the statement of operations.

(D) Per Share Data

All share data have been retroactively adjusted to reflect a three-for-two stock split which was affected in 1997. The Company implemented Statement of Financial Accounting Standards Number 128 in 1997. All prior period amounts have been restated. Basic per share data is based upon the weighted average number of shares outstanding during the year. Diluted per share data reflects the potential dilution that would occur if employee stock based compensation plans were exercised. Shares issued in connection with loans from shareholders are not considered to be outstanding for the purposes of calculating per share amounts and, accordingly, have been excluded from stockholders' equity.

(E) Deferred policy acquisition costs

Acquisition costs (primarily commissions and premium taxes) incurred in writing insurance and reinsurance business are deferred and amortized ratably over the terms of the related contracts. Deferred policy acquisition costs are limited to the amounts estimated to be recoverable from the applicable unearned premiums and the related anticipated investment income by giving effect to anticipated losses, loss adjustment expenses and expenses necessary to maintain the contracts in force.

(F) 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; 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 results of operations in the period in which they are determined.

One subsidiary of the Company, Midwest Employers Casualty Company ("Midwest"), discounts its liabilities for excess workers' compensation ("EWC") losses and loss expenses using a "risk-free" rate. Midwest discounts its EWC liabilities because of the long period of time over which it pays losses. The Company believes that utilizing a "risk-free" rate to discount these reserves more closely reflects the economics associated with the

excess workers' compensation line of business (see Note 10 of notes to consolidated financial statements).

(G) Reinsurance ceded

Ceded unearned premiums are reported as prepaid reinsurance premiums and estimated amounts of reinsurance recoverable on unpaid losses are included in due from reinsurers. To the extent any reinsurer does not meet its obligations under reinsurance agreements, the liability must be discharged by the Company. Amounts due from reinsurers are reflected net of funds held where the right of offset is present. The Company has provided reserves for uncollectible reinsurance.

(H) Excess of cost over net assets acquired

Costs in excess of the net assets of subsidiaries acquired are being amortized on a straight-line basis over 25 to 40 years. The Company continually evaluates the amortization period of its intangible assets. Estimates of useful lives are revised when circumstances or events indicate that the original estimate is no longer appropriate. Amortization (including adjustments) of the excess of cost over net assets acquired was \$2,950,000, \$3,334,000 and \$2,465,000 for 1997, 1996 and 1995, respectively.

(I) Federal income taxes

The Company files a consolidated Federal income tax return. In 1995 and prior years, Signet Star Holdings, Inc. filed its own consolidated Federal income tax return.

The Company's method of accounting for income taxes is the asset and liability method. Under the asset and liability 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.

(J) Stock Options

The Company accounts for its stock options in accordance with Financial Accounting Standards Board ("FASB") Statement No. 123 "Accounting for Stock-Based Compensation" (FAS 123) which provides that stock based compensation may be disclosed in the footnotes to financial statements.

(K) Foreign currency

Revenues and expenses in foreign currencies 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 close of the period. Gains or losses (losses of \$1,711,000 in 1997) resulting from translating foreign currency financial statements are reported as a component of stockholders' equity. Gains or losses (gains of \$1,408,000 in 1997) resulting from foreign currency transactions (transactions denominated in a currency other than the entity's functional currency) are included in other income in the statement of operations.

(L) Real estate, furniture and equipment

Real estate, furniture and equipment are carried at cost less accumulated depreciation. Depreciation is calculated using the estimated useful lives of the respective assets. Included in the statement of operations is depreciation expense of \$12,799,000, \$12,234,000 and \$10,133,000 for 1997, 1996 and 1995, respectively.

(M) Segment Disclosure

In June 1997, the FASB issued SFAS 131 "Disclosures About Segments of an Enterprise and Related Information." SFAS 131 redefines how operating segments are determined and requires disclosure of certain financial and descriptive information about a company's operating segments. The Company adopted provisions of this statement in 1997 and all prior periods have been restated. This statement relates to presentation of information and had no impact on the Company's results of operations or financial condition.

(N) Recent accounting pronouncements

The American Institute of Certified Public Accountants issued Statement of Position 97-3 "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments," which will be effective for fiscal periods beginning in 1999. SOP 97-3 provides guidance on accounting and disclosure of insurance related assessments. The Company does not expect this statement to have a material impact on the Company's financial position or results of operation.

In June 1997, the FASB issued SFAS 130, "Reporting Comprehensive Income," which requires enterprises to disclose comprehensive income and its components in a prominent position on the face of the financial statements. The Company will implement this statement in 1998. This statement relates to presentation of information and will have no impact on the Company's results of operations or financial condition.

(2) REINSURANCE CEDED

The Company follows the customary industry practice of reinsuring a portion of its exposures principally to reduce net liability on individual risks and to protect against catastrophic losses. Due from reinsurer has been reduced by an offsetting funds held balance. The following amounts arising under reinsurance ceded contracts have been deducted in arriving at the amounts reflected in the statement of operations:

(Dollars in thousands)	1997	1996	1995
Premiums written	\$240,754	\$210,009	\$212,169
Premiums earned	\$239,233	\$216,127	\$207,375
Losses and loss expenses	\$129,405	\$120,784	\$134,120

(3) 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. During 1998, the maximum amount of dividends which can be paid without such approval is approximately \$98,713,000.

Combined net income and policyholders' surplus of the Company's consolidated insurance subsidiaries, as determined in accordance with statutory accounting practices, are as follows:

(Dollars in thousands)	1997	1996	1995
Net income	\$ 121,300	\$ 84,249	\$ 75,587
Policyholders' surplus	\$ 971,749	\$881,380	\$839,890

The significant variances between statutory accounting practices and GAAP are: For statutory purposes, bonds are carried at amortized cost, acquisition costs are charged to operations as incurred, deferred federal income taxes are not provided for temporary differences between book and tax assets and liabilities, EWC reserves are discounted at a 3.0% rate, loss reserves and unearned premiums are reflected net of applicable reinsurance and certain assets designated as "non admitted assets" are charged directly to surplus.

At December 31, 1997 and 1996, bonds with a fair value of \$160,369,000 and \$139,497,000 were on deposit with various state Insurance Departments as required by state laws.

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. RBC did not affect the operations of the Company's insurance subsidiaries since all of its subsidiaries have an RBC amount above the authorized control level RBC, as defined by the NAIC.

(4) ACQUISITIONS

During 1997 and 1996, several acquisitions were completed for an aggregate consideration of approximately \$7,238,000 and \$15,955,000, respectively. The acquisitions were accounted for as purchases and, accordingly, the results of operations of the acquired companies have been included from the respective dates of acquisition. Proforma results of operations have been omitted as such effects are not significant.

Net assets of the acquired companies for 1997 and 1996 were as follows:

Investments in fixed maturity and equity securities of \$2,192,000 and \$6,434,000; cash and invested cash of \$7,823,000 and \$4,216,000; excess of cost over net assets acquired of \$2,688,000 and \$7,138,000; and other liabilities, net of other assets of \$5,465,000 and \$1,833,000.

During 1995, the Company purchased majority interests in two property and casualty companies in Argentina for consideration of approximately \$9.2 million, which constituted a portion of the Company's initial contribution to Berkley International, LLC.

The proforma effect of these transactions on the Company's results of operations is not significant.

On November 8, 1995, the Company acquired 100% of the stock of MECC, Inc., the Parent of Midwest Employers Casualty Company, for \$141,908,000. In connection with this acquisition, the Company also retired approximately \$19,590,000 of MECC, Inc.'s debt. The purchase was funded by the issuance of 5,175,000 shares of Common Stock issued at \$29.17 per share. On December 31, 1995, the Company acquired General Re Corporation's ("General Re") 40% interest in Signet Star Holdings, Inc. ("Signet Star") by issuing to General Re 458,667 shares of Series B Cumulative Redeemable Preferred Stock of the Company having an aggregate liquidation preference of \$68,800,000. During 1996 the Company purchased all outstanding shares of the Series B Preferred Stock for \$66 million. The only significant effect on the Company's financial statements from this acquisition was an increase in preferred stock outstanding and the elimination of the related minority interest

because Signet Star's results of operations were previously consolidated.

All of the acquisitions were accounted for as purchases and, accordingly, the results of operations of the acquired companies have been included from the dates of acquisition.

The Company's consolidated Proforma results of operations assuming the acquisitions of MECC, Inc. and the remaining 40% interest in Signet Star occurred as of January 1, 1995 are as follows:

(Dollars in thousands, except per share data)	1995
Total revenues	\$1,100,195
Net income attributable to common shareholders	\$ 70,102
Earnings per common share:	
Basic	\$ 2.32
Diluted	\$ 2.31

The Proforma consolidated financial data do not purport to represent what the Company's results of operations actually would have been had the acquisitions and related financings occurred on the dates indicated, or to project the Company's results of operations for any future period. The above amounts primarily reflect the effects on results of operations of certain adjustments resulting from the revaluation of assets and liabilities of the purchased companies and from the financing of such acquisitions.

(5) FEDERAL INCOME TAXES

Federal income tax expense consists of:

(Dollars in thousands)	1997	1996	1995
Current expense	\$21,999	\$26,096	\$17,879
Deferred expense (benefit)	8,669	(994)	(325)
Total expense	\$30,668	\$25,102	\$17,554

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

(Dollars in thousands)	1997	1996	1995
Computed "expected" tax expense	\$45,234	\$40,267	\$28,961
Tax-exempt investment income	(15,432)	(15,471)	(12,938)
Other, net	866	306	1,531
Total expense	\$30,668	\$25,102	\$17,554

At December 31, 1997 and 1996, the tax effects of differences that give rise to significant portions of the deferred tax asset and deferred tax liability are as follows:

(Dollars in thousands)	1997	1996
DEFERRED TAX ASSET		
Loss reserve discounting	\$49,638	\$50,481
Other	3,912	5,122
Gross deferred tax asset	53,550	55,603
Less: valuation allowance	(7,000)	(7,000)
Deferred tax asset	46,550	48,603
DEFERRED TAX LIABILITY		
Amortization of intangibles	12,025	12,407
Expense recognition differences	17,044	13,434
Realized investment gains	6,163	5,676
Deferred taxes on unrealized investment gains	32,261	16,733
Depreciation	5,437	2,115
Unrealized gains on trading account activity	3,792	705

Other	2,715	1,546
	-----	-----
Deferred tax liability	79,437	52,616
	-----	-----
Net deferred tax liability	\$32,887	\$4,013
	=====	=====

Federal income tax expense applicable to realized investment gains was \$4,615,000, \$2,603,000 and \$3,664,000 in 1997, 1996 and 1995, respectively. The Company had a current tax receivable of \$5,869,000 at December 31, 1997 and a current income tax payable of \$6,224,000 at December 31, 1996. The Company's tax returns through December 31, 1991 have been examined by the Internal Revenue Service and additional income taxes have been paid.

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 current operations, management anticipates that it is more likely than not that future taxable income will be sufficient for the realization of this net asset.

W. R. BERKLEY CORPORATION AND SUBSIDIARIES 31

(6) LONG-TERM DEBT

Long-term debt consists of the following:

Description	Rate	Maturity	Face Value	Carrying Value
Senior Notes	8.95%	May 20, 1998	\$ 10,000,000	\$ 9,996,000
Senior Notes	6.31%	March 6, 2000	25,000,000	24,946,000
Senior Notes	6.71%	March 4, 2003	25,000,000	24,906,000
Senior Subordinated Notes	6.50%	July 1, 2003	35,793,000	35,793,000
Senior Notes	6.25%	January 15, 2006	100,000,000	99,015,000
Senior Notes	9.875%	May 15, 2008	100,000,000	96,894,000
Senior Debentures	8.70%	January 1, 2022	100,000,000	98,865,000
			\$395,793,000	\$390,415,000

The difference between the face value of long-term debt and the carrying value is unamortized discount. All outstanding long-term debt is not redeemable until maturity and ranks on parity with all other outstanding indebtedness of the Company.

The Company has on file two "shelf" registration statements with the Securities and Exchange Commission with a combined remaining balance of \$190 million in additional equity and/or debt securities. The securities may be offered from time-to-time as determined by funding requirements at market conditions. In addition, the Company has a \$50 million line-of-credit available.

(7) STOCK OPTION PLAN

The Company adopted the W. R. Berkley Corporation 1992 Stock Option Plan ("the Stock Option Plan") under which 2,625,000 shares of Common Stock were reserved for issuance. In May 1997, the Corporation restated the Stock Option Plan to increase the number of shares of Common Stock authorized for issuance under the Stock Option Plan from 2,625,000 to 7,125,000. Pursuant to the Plan, options may be granted at prices determined by the Board of Directors but not less than fair market value on the date of grant. To date, options have been granted with an exercise price equal to the average of the high and low market price on the date of grant.

The following table summarizes option information, including options granted under both the 1992 and prior plans:

	1997		1996		1995	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	2,491,222	\$26.03	1,521,339	\$23.62	1,529,732	\$22.82
Granted	1,154,354	34.68	1,100,813	29.02	151,501	28.34
Exercised	280,498	20.87	64,216	19.71	86,178	16.56
Canceled	146,316	27.42	66,714	26.65	73,716	24.85
Outstanding at end of year	3,218,762	\$29.52	2,491,222	\$26.03	1,521,339	\$23.61
Options exercisable at year end	558,210	\$22.66	527,832	\$20.31	395,827	\$18.81
Options available for future grant	3,892,439		401,208		935,672	

In accordance with FAS 123 the fair value of the options granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for 1997 and 1996, respectively: (a) dividend yield of 1%, (b) expected volatility of 20%, (c) risk free interest rate of 6.70% and 6.65%, and (d) expected life of 7.5 years. The weighted average fair value of options granted during the year were \$12.97 and \$10.77 for the year ended December 31, 1997 and 1996, respectively.

The following table summarizes information about stock options outstanding at December 31, 1997 and 1996:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Remaining Contractual Life	Weighted Average Price	Weighted Average Number Exercisable	Average Exercise Price
December 31, 1997					
\$14 to \$27	917,795	5.4	\$23.42	523,214	\$22.14
27 to 32	1,129,363	8.2	29.11	34,996	30.48
32 to 42	1,171,604	9.3	34.68	0	0
Total	3,218,762	7.8	\$29.52	558,210	\$22.66
December 31, 1996					
\$14 to \$27	1,250,720	6.2	\$22.91	508,581	\$19.93
27 to 32	1,223,252	9.2	29.09	19,251	30.35
32 to 42	17,250	9.9	35.08	0	0
Total	2,491,222	7.7	\$26.03	527,832	\$20.31

Had compensation costs for the Company's 1997 and 1996 grants been determined under the cost recognition alternative of FAS 123, the effect on the Company's net income and net income attributable to common shareholders would have been:

For the Year Ended December 31,	1997	1996
Net income attributable to Common Shareholders:		
As reported	\$91,219	\$76,354
Proforma	\$89,645	\$75,592
For the Year Ended December 31,	1997	1996
Basic earnings per share:		
As reported	\$ 3.09	\$ 2.56
Proforma	\$ 3.04	\$ 2.54
Diluted earnings per share:		
As reported	\$ 3.02	\$ 2.53
Proforma	\$ 2.97	\$ 2.51

(8) COMPANY-OBLIGATED MANDATORILY REDEEMABLE CAPITAL SECURITIES OF A SUBSIDIARY TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE CORPORATION DUE DECEMBER 15, 2045

The Company obligated mandatorily redeemable preferred securities of a subsidiary trust holding solely junior subordinated debentures ("Capital Trust Securities") were issued by the W.R. Berkley Capital Trust ("the Trust"). All of the common securities of the Trust are owned by the Company. The sole assets of the Trust are \$210,000,000 aggregate principal amount of 8.197% Junior Subordinated Debentures due December 15, 2045, issued by the Company (the "Junior Subordinated Debentures"). The Company's guarantee of payments of cash distributions and payments on liquidation of the Trust or redemption of the Capital Trust Securities, when taken together with the Company's obligations under the Trust Agreement under which the Capital Trust Securities were issued, the Junior Subordinated Debentures and the Indenture, under which the Junior Subordinated Debentures were issued, including its obligations to pay costs, expenses, debts and liabilities of the Trust (other than with respect to the Capital Trust Securities), provide a full and unconditional guarantee of the Trust's obligations under the Capital Trust Securities. The Company records the preferential cumulative cash dividends arising from the payments of interest on the Junior Subordinated Debentures as an expense in its consolidated statement of operations.

The Capital Trust Securities are subject to mandatory redemption in a like amount, (i) in whole but not in part, on the stated maturity date, upon repayment of the Junior Subordinated Debentures, (ii) in whole but not in part, at any time contemporaneously with the optional prepayment of the Junior Subordinated Debentures by the Company upon the occurrence and continuation of a certain event and (iii) in whole or in part, on or after, December 15, 2006, contemporaneously with the optional prepayment by the Company of Junior Subordinated Debentures.

(9) INVESTMENTS

At December 31, 1997 and 1996, there were no investments, other than investments in United States government securities, which exceeded 10% of stockholders' equity. At December 31, 1997 and 1996, investments were as follows:

(Dollars in thousands)

Type of investment	Cost (a)	Gross unrealized gains	Gross unrealized losses	Fair value	Amount at which shown in the balance sheet
December 31, 1997					
Fixed maturity securities held to maturity:					
State and municipal	\$ 78,879	\$ 5,735	\$ (48)	\$ 84,566	\$ 78,879
Corporate	13,831	476	--	14,307	13,831
Mortgage backed securities	89,462	6,584	--	96,046	89,462
Total fixed maturities held to maturity	182,172	12,795	(48)	194,919	182,172
Fixed maturity securities available for sale:					
United States Government(b)	413,722	10,224	(53)	423,893	423,893
State and municipal	957,329	43,891	(405)	1,000,815	1,000,815
Corporate	450,986	16,521	(601)	466,906	466,906
Mortgage backed securities	418,864	12,960	(467)	431,357	431,357
Total fixed maturities available for sale	2,240,901	83,596	(1,526)	2,322,971	2,322,971
Common stocks	16,512	8,524	(8)	25,028	25,028
Preferred stocks	59,622	1,639	(46)	61,215	61,215
Total equity securities available for sale	76,134	10,163	(54)	86,243	86,243
Trading account	301,136	15,922	(5,089)	311,969	311,969
Invested cash(c)	417,967	--	--	417,967	417,967
Total investments	\$3,218,310	\$ 122,476	\$ (6,717)	\$3,334,069	\$3,321,322
December 31, 1996					
Fixed maturity securities held to maturity:					
State and municipal	\$ 80,943	\$ 4,542	\$ (127)	\$ 85,358	\$ 80,943
Corporate	39,478	626	(649)	39,455	39,478
Mortgage backed securities	83,813	1,057	(1,451)	83,419	83,813
Total fixed maturities held to maturity	204,234	6,225	(2,227)	208,232	204,234
Fixed maturity securities available for sale:					
United States Government(b)	442,816	6,908	(6,326)	443,398	443,398
State and municipal	811,871	21,004	(2,334)	830,541	830,541
Corporate	359,928	9,007	(4,082)	364,853	364,853
Mortgage backed securities	451,712	10,363	(2,197)	459,878	459,878
Total fixed maturities available for sale	2,066,327	47,282	(14,939)	2,098,670	2,098,670
Common stocks	18,661	15,591	--	34,252	34,252
Preferred stocks	59,774	439	(565)	59,648	59,648
Total equity securities available for sale	78,435	16,030	(565)	93,900	93,900
Trading account	260,167	9,184	(1,742)	267,609	267,609
Invested cash(c)	327,193	--	--	327,193	327,193
Total investments	\$2,936,356	\$ 78,721	\$ (19,473)	\$2,995,604	\$2,991,606

(a) Adjusted as necessary for amortization of premium or discount.

(b) Includes United States government agencies and authorities.

(c) Short-term investments which mature within three months of the date of purchase.

The amortized cost and fair value of fixed maturity securities, at December 31, 1997, by contractual maturity, are shown on next page. Actual maturities may differ from contractual maturities because certain issuers may have the right to call or prepay obligations:

(Dollars in thousands)

1997

	Cost	Fair value
	-----	-----
Due in one year or less	\$ 109,268	\$9,9109,746
Due after one year through five years	643,696	664,668
Due after five years through ten years	462,608	481,413
Due after ten years	699,175	734,660
Mortgage-backed securities	508,326	527,403
	-----	-----
Total	\$2,423,073	\$2,517,890
	=====	=====

Realized gains (losses) and the change in difference between fair value and cost of investments, before applicable income taxes, are as follows:

(Dollars in thousands)	1997	1996	1995
	-----	-----	-----
Realized gains (losses):			
Fixed maturity securities sold(a)	\$ (3,308)	\$ 1,850	\$ 17,819
Equity securities sold	16,537	5,285	(976)
Net change in provision for decline in value(b):			
Fixed maturity securities	103	(152)	(352)
Equity securities	581	--	4,191
Other	(727)	454	(325)
	-----	-----	-----
	13,186	7,437	10,357
	-----	-----	-----
Change in difference between fair value and cost of investments:			
Fixed maturity securities	58,476	(36,232)	123,590
Equity securities	(5,356)	6,386	8,528
	-----	-----	-----
	53,120	(29,846)	132,118
	-----	-----	-----
Total	\$ 66,306	\$ (22,409)	\$ 142,475
	=====	=====	=====

(a) During 1997, 1996 and 1995, gross gains of \$7,988,000, \$5,904,000 and \$11,570,000, respectively, and gross losses of \$11,296,000, \$4,054,000 and \$3,751,000, respectively, were realized. Included in fixed maturity securities sold are losses arising from the Company's investments in a municipal security trading partnership. The primary focus of the partnership is municipal arbitrage. Municipal arbitrage is an investment strategy which attempts to capitalize on certain anomalies which tend to occur in the municipal bond market.

(b) The provision for decline in value of investments is \$2,800,000, \$3,485,000 and \$3,333,000 as of December 31, 1997, 1996 and 1995, respectively.

Investment income consists of the following:

(Dollars in thousands)	1997	1996	1995
	-----	-----	-----
Fixed maturity securities	\$ 159,199	\$ 146,431	\$ 115,668
Invested cash	10,829	6,698	13,000
Equity securities	5,139	4,039	4,418
Trading account(a)	28,831	12,331	9,030
Other	1,814	1,548	1,411
	-----	-----	-----
Gross investment income	205,812	171,047	143,527
Interest on funds held under reinsurance treaties	(6,224)	(6,557)	(6,195)
	-----	-----	-----
Net investment income	\$ 199,588	\$ 164,490	\$ 137,332
	=====	=====	=====

(a) The primary focus of the trading account is merger and municipal fixed income 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. 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). The Company believes that this makes merger arbitrage investments less vulnerable to changes in general financial market conditions. Potential changes in market conditions are also mitigated by the implementation of hedging strategies, including short sales.

The arbitrage positions are generally hedged against market declines by purchasing put options, selling call options or entering into swap contracts. Therefore, just as long portfolio positions may also incur losses during market declines, hedge positions may incur losses during market advances. As of December 31, 1997, the notional amount of option and swap contracts outstanding are \$32,524,000 and \$10,000,000, respectively.

Investment income earned from trading account activity includes unrealized trading gains of \$10,833,000, \$2,013,000, and \$352,000 for 1997, 1996 and 1995, respectively. Included in other liabilities at their fair value are short sales and short call options \$159,456,000 and \$87,080,000 as of December 31, 1997 and 1996, respectively. The corresponding proceeds of the short securities are \$162,360,000 and \$83,172,000 as of December 31, 1997 and 1996, respectively.

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(10) RESERVES FOR LOSSES AND LOSS EXPENSES

The table below provides a reconciliation of the beginning and ending reserve balances, on a gross of reinsurance basis:

(Dollars in thousands)	1997	1996	1995
Net reserves at beginning of year	\$ 1,333,122	\$ 1,209,250	\$ 895,440
Net reserves of companies acquired	4,984	--	191,963
Net provision for losses and loss expenses:			
Claims occurring during the current year	747,977	675,674	580,594
Decrease in estimates for claims occurring in prior years	(21,313)	(15,219)	(9,596)
Amortization of discount	7,760	8,705	--
	734,424	669,160	570,998
Net payments for claims			
Current year	315,370	280,565	228,100
Prior years	324,149	264,723	221,051
	639,519	545,288	449,151
Net reserves at end of year	1,433,011	1,333,122	1,209,250
Ceded reserves at the end of year	476,677	449,581	450,770
Gross reserves at the end of year	\$ 1,909,688	\$ 1,782,703	\$ 1,660,020

Due to the nature of Excess Workers Compensation ("EWC") business and the long period of time over which losses are paid in this line of business, the Company discounts the liability for losses and loss expenses established for the excess workers' compensation line of business. Discounting liabilities for losses and loss expenses gives recognition to the time value of money. Discounting is intended to appropriately match losses and loss expenses to income earned on investment securities supporting the liabilities. The expected losses and loss expense payout pattern subject to discounting was derived from the Company's loss payout experience and is supplemented with data compiled from insurance companies writing workers' compensation on an excess-of-loss basis. The expected payout pattern has a very long duration because it reflects the nature of losses generally which penetrate self-insured retention limits contained in excess workers' compensation policies. The Company has limited the estimated payout duration to 30 years in order to introduce an additional level of conservatism into the discounting process. The liabilities for losses and loss expenses have been discounted using "risk-free" discount rates determined by reference to the U.S. Treasury yield curve weighted for the EWC premium volume to reflect the seasonality of the anticipated duration of losses associated with such coverages. The average discount rate for accident years 1997, 1996 and 1995 and prior is 5.98%, 5.90% and 5.80%, respectively. The aggregate net discount, after reflecting the effects of ceded reinsurance, is \$189,600,000, \$172,415,000 and \$152,235,000 at December 31, 1997, 1996 and 1995, respectively. For Statutory purposes, the Company uses a discount rate of 3.0% as permitted by the Department of Insurance of the State of Ohio.

To date, known pollution and environmental claims at the insurance company subsidiaries have not had a material impact on the Company's operations. Environmental claims have not materially impacted the Company because our subsidiaries generally did not insure larger industrial companies which are subject to significant environmental exposures.

The Company's net reserves for losses and loss adjustment expenses relating to pollution and environmental claims were \$33.1 million and \$35.2 million at December 31, 1997 and 1996, respectively. The Company's gross reserves for losses and loss adjustment expenses relating to pollution and environmental claims were \$68.4 million and \$71.9 million at December 31, 1997 and 1996, respectively. Net incurred losses and loss expenses for reported pollution and environmental claims were approximately \$.1 million, \$6.9 million and \$8.0 million in 1997, 1996 and 1995, respectively. Net paid losses and loss expenses has averaged approximately \$3 million for each of the last three years. The estimation of these liabilities is subject to significantly

greater than normal variation and uncertainty because of the difficulty of making a reasonable 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 is highly uncertain.

(11) STOCKHOLDERS' EQUITY

The Company has calculated per share data in accordance with FAS 128. Treasury shares have been excluded from average outstanding shares from the date of acquisition. The number of shares used in the computation of basic earnings per share was 29,503,000, 29,792,000 and 26,121,000 for 1997, 1996 and 1995, respectively. The number of shares used in the computations of diluted earnings per share was 30,185,000, 30,130,000 and 26,262,000 for 1997, 1996 and 1995, respectively. The difference in calculating basic and diluted earnings per share is attributable entirely to the dilutive effect of stock based employee compensation plans.

Changes in shares of Common Stock outstanding, net of treasury shares, are as follows:

(in thousands)	1997	1996	1995
Balance, beginning of year	29,454	30,252	25,167
Shares issued	114	65	5,261
Shares repurchased	--	(863)	(176)
Balance, end of year	29,568	29,454	30,252

As of December 31, 1996, 930,807 shares of 7 3/8% Series A Cumulative Redeemable Preferred Stock were issued and outstanding. During January 1997, the Company purchased an additional 183,080 shares of Series A Preferred Stock for an aggregate cost of \$28,506,000. In the second and third quarters of 1997, 93,775 shares of the Series A Preferred Stock were purchased by subsidiaries of the Company. In addition, \$115,800,000 was placed in a trust which will be used to service and redeem the remaining outstanding shares of Series A Preferred Stock.

(12) SUPPLEMENTAL FINANCIAL STATEMENT DATA

Other operating costs and expenses consist of the following:

(Dollars in thousands)	1997	1996	1995
Amortization of deferred policy acquisition costs	\$337,871	\$283,642	\$228,610
Other operating costs and expenses of insurance operations	65,993	50,288	38,773
Other costs and expenses	83,912	75,064	72,606
Total	\$487,776	\$408,994	\$339,989

(13) COMMITMENTS, LITIGATION AND CONTINGENT LIABILITIES

At present, neither the Company nor any of its subsidiaries are engaged in any litigation known to the Company which management believes will have a material adverse effect upon the Company's business. As is common with other insurance companies, the Company's subsidiaries are regularly engaged in the defense of claims arising out of the conduct of the insurance business.

On September 11, 1995, the Company formed Berkley International, LLC ("Berkley International"), a limited liability company. The Company is obligated to contribute \$31.2 million to Berkley International over the next six years, as required.

(14) LEASE OBLIGATIONS

The Company and several of its subsidiaries use office space and equipment under leases expiring at various dates through September 1, 2004. 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. Rental expense was approximately; \$12,564,000, \$11,098,000 and \$9,437,000 for 1997, 1996 and 1995 respectively. Future minimum lease payments (without provision for sublease income) are: \$12,594,000 in 1998; \$11,237,000 in 1999; \$8,669,000 in 2000; \$5,603,000 in 2001; \$4,161,000 in 2002; and \$7,998,000 thereafter.

W. R. BERKLEY CORPORATION AND SUBSIDIARIES

(15) INDUSTRY SEGMENTS

The Company's operations are presently conducted through five basic segments:

regional property casualty insurance; reinsurance; specialty lines of insurance; alternative markets operations; and international. The regional property casualty insurance segment writes standard commercial and personal lines insurance for such risks as automobiles, homes and business. The Company's reinsurance segment specializes in underwriting property, casualty and surety reinsurance on both a treaty and facultative basis. The specialty lines of insurance consist primarily of excess and surplus lines, commercial transportation, professional liability, directors and officers liability and surety. The Company's alternative markets segment specializes in insuring, reinsuring, and administering self-insurance programs and other alternative risk transfer mechanisms for public entities, private employers and associations. Finally, the international operations represent the Company's joint venture with Northwestern Mutual Life, to write property and casualty, as well as life insurance, internationally.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Summary financial information about the Company's operating segments is presented in the following table. Income before income taxes by segment consists of revenues less expenses related to the respective segment's operations. These amounts include realized gains (losses) where applicable.

Intersegment revenues consist primarily of dividends, interest on intercompany debt and fees paid by subsidiaries for portfolio management and other services to the Company. Identifiable assets by segment are those assets used in the operation of each segment.

(Dollars in thousands)	Revenues				Income (Loss) before income taxes	Income Tax Expense (Benefits)
	Investment Income	Unaffiliated Customers	Inter- Segment	Total		
December 31, 1997:						
Regional	\$ 54,069	\$ 648,986	\$ 674	\$ 649,660	\$ 49,180	\$ 15,082
Reinsurance	45,520	241,204	882	242,086	42,193	10,641
Specialty	58,064	268,158	2,691	270,849	66,042	18,114
Alternative Markets	34,339	181,783	829	182,612	35,223	10,423
International	3,623	45,360	--	45,360	(3,566)	(181)
Corporate and other	10,565	14,819	48,351	63,170	(19,815)	30,849
Adjustments and eliminations	(6,592)	--	(53,427)	(53,427)	(40,016)	(54,260)
Consolidated	\$ 199,588	\$1,400,310	\$ --	\$ 1,400,310	\$ 129,241	\$ 30,668
December 31, 1996:						
Regional	\$ 45,554	\$ 543,290	\$ 1,110	\$ 544,400	\$ 37,745	\$ 10,679
Reinsurance	37,532	243,848	218	244,066	32,756	7,798
Specialty	47,715	231,334	1,586	232,920	49,274	12,743
Alternative Markets	29,118	171,099	218	171,317	32,541	11,516
International	1,426	26,435	--	26,435	(1,283)	--
Corporate and other	6,922	9,160	78,179	87,339	25,311	25,102
Adjustments and eliminations	(3,777)	--	(81,311)	(81,311)	(61,295)	(42,736)
Consolidated	\$ 164,490	\$1,225,166	\$ --	\$ 1,225,166	\$ 115,049	\$ 25,102
December 31, 1995:						
Regional	\$ 40,827	\$ 478,668	\$ (121)	\$ 478,547	\$ 40,486	\$ 9,827
Reinsurance	33,512	221,241	--	221,241	19,661	3,661
Specialty	46,792	200,788	158	200,946	35,325	7,705
Alternative Markets	6,978	103,656	--	103,656	10,254	4,933
International	377	7,313	--	7,313	(259)	--
Corporate and other	10,456	10,277	53,694	63,971	16,414	15,454
Adjustments and eliminations	(1,610)	--	(53,731)	(53,731)	(39,134)	(24,026)
Consolidated	\$ 137,332	\$1,021,943	\$ --	\$ 1,021,943	\$ 82,747	\$ 17,554

Interest expense for the reinsurance segment was \$2,327,000, \$2,602,000 and \$5,302,000 for the years ended December 31, 1997, 1996 and 1995, respectively. Additionally, corporate interest expense (net of intercompany amounts) was \$46,542,000, \$29,361,000 and \$22,907,000 for the corresponding periods. Identifiable assets by segment are as follows:

December 31,	1997	1996	1995
Regional	\$1,262,339	\$1,103,767	\$1,001,549
Reinsurance	864,282	713,127	667,652
Specialty	1,308,084	1,142,205	1,172,048
Alternative Markets	705,169	596,054	579,964
International	119,791	60,450	50,286
Corporate and other	299,619	521,370	147,185
Consolidated	\$4,559,284	\$4,136,973	\$3,618,684

(16) COMPENSATION PLAN

The Company and its subsidiaries have profit sharing retirement 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 Retirement Plans on the first day of the month following the first full three months in which they are employed. Profit sharing expense amounted to \$8,402,000, \$7,370,000 and \$6,344,000 for 1997, 1996 and 1995, respectively.

In May 1997, the common stockholders approved the Long-Term Incentive Compensation Plan ("LTIP"). The LTIP provides for incentive compensation to key executives, is based on long-term corporate performance, and is based upon criteria established by the Compensation Committee of the Board of Directors. Key employees are awarded participation units ("units") as determined by the Compensation and Stock Option Committee of the Board of Directors. The units vest and become exercisable over a maximum term of five years from the date of their award. The units are payable in cash or up to 50% in shares of Common Stock. In 1997, 266,250 units were awarded which amounted to an expense of \$1,705,000.

(17) 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, 1997 and 1996:

(Dollars in thousands)	1997		1996	
	Carrying Amount	Fair value	Carrying Amount	Fair value
Investments	\$3,321,322	\$3,334,069	\$2,991,606	\$2,995,604
Long-term debt	390,415	434,035	390,104	421,359
Capital Trust Securities	207,944	213,217	207,901	206,197

The estimated fair value of investments is based on quoted market prices as of the respective reporting dates. The fair value of the long-term debt is based on rates available for borrowings similar to the Company's outstanding debt as of the respective reporting dates.

W. R. BERKLEY CORPORATION AND SUBSIDIARIES

(18) QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following is a summary of quarterly financial data:

(Dollars in thousands except per share data)

	Three months ended							
	March 31,		June 30,		September 30,		December 31,	
	1997	1996	1997	1996	1997	1996	1997	1996
Revenues	\$ 329,822	\$ 287,925	\$ 335,926	\$ 301,293	\$ 355,650	\$ 311,534	\$ 378,912	\$ 324,414
Net income before preferred dividends	\$ 28,544	\$ 19,522	\$ 20,633	\$ 21,361	\$ 25,573	\$ 24,092	\$ 24,297	\$ 25,288
Net income attributable to common stockholders	\$ 26,427	\$ 15,684	\$ 18,625	\$ 17,981	\$ 23,721	\$ 20,712	\$ 22,446	\$ 21,977
Earnings per share:								
Basic	\$.90	\$.51	\$.63	\$.61	\$.80	\$.69	\$.76	\$.75
Diluted	\$.88	\$.50	\$.62	\$.61	\$.78	\$.69	\$.74	\$.73

Quarterly per share data has been restated to reflect the 3-for-2 stock split effected in 1997 and SFAS 128.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
W.R. Berkley Corporation

We have audited the consolidated balance sheets of W. R. Berkley Corporation and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1997. 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 generally accepted auditing standards. 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 at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

New York, New York KPMG PEAT MARWICK LLP February 25, 1998

ARTICLE 7

MULTIPLIER: 1,000

CURRENCY: US DOLLARS

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1998
PERIOD END	DEC 31 1997
EXCHANGE RATE	1
DEBT HELD FOR SALE	2,322,971
DEBT CARRYING VALUE	182,172
DEBT MARKET VALUE	194,919
EQUITIES	398,212
MORTGAGE	0
REAL ESTATE	0
TOTAL INVEST	3,321,322
CASH	21,669
RECOVER REINSURE	0
DEFERRED ACQUISITION	145,737
TOTAL ASSETS	4,599,284
POLICY LOSSES	1,909,688
UNEARNED PREMIUMS	589,384
POLICY OTHER	0
POLICY HOLDER FUNDS	0
NOTES PAYABLE	598,359
PREFERRED MANDATORY	0
PREFERRED	65
COMMON	7,281
OTHER SE	939,946
TOTAL LIABILITY AND EQUITY	4,599,284
PREMIUMS	1,111,747
INVESTMENT INCOME	199,588
INVESTMENT GAINS	13,186
OTHER INCOME	4,333
BENEFITS	734,424
UNDERWRITING AMORTIZATION	337,871
UNDERWRITING OTHER	149,905
INCOME PRETAX	129,241
INCOME TAX	30,668
INCOME CONTINUING	91,219
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	91,219
EPS PRIMARY	3.09
EPS DILUTED	3.02
RESERVE OPEN	1,333,122
PROVISION CURRENT	747,977
PROVISION PRIOR	(13,553)
PAYMENTS CURRENT	315,370
PAYMENTS PRIOR	324,149
RESERVE CLOSE	1,433,011
CUMULATIVE DEFICIENCY	13,553

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