EVEREST REINSURANCE HOLDINGS INC
Form 10-Q
May 15, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED:	Commission file number:
March 31, 2018	1-14527

EVEREST REINSURANCE HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	22-3263609
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

477 Martinsville Road
Post Office Box 830
Liberty Corner, New Jersey 07938-0830
(908) 604-3000

(Address, including zip code, and telephone number, including area code,
of registrant's principal executive office)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES X NO

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	X	Smaller reporting company
(Do not check if smaller reporting company)		Emerging growth company

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

YES NOX

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NOX

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Number of Shares Outstanding At May 1, 2018
Common Shares, $0.01 par value	1,000

The Registrant meets the conditions set forth in General Instruction H (1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format permitted by General Instruction H of Form 10-Q.

EVEREST REINSURANCE HOLDINGS, INC.

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EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value per share)	March 31, 2018 (unaudited)	December 31, 2017
ASSETS:		
Fixed maturities - available for sale, at market value (amortized cost: 2018, $4,928,909; 2017, $4,927,622)	$4,907,818	$4,971,921
Fixed maturities - available for sale, at fair value	1,821	-
Equity securities - available for sale, at fair value	887,435	822,375
Short-term investments	186,605	241,506
Other invested assets (cost: 2018, $865,412; 2017, $835,597)	865,412	838,694
Other invested assets, at fair value	1,770,684	1,807,473
Cash	384,410	229,552
Total investments and cash	9,004,185	8,911,521
Note receivable - affiliated	250,000	250,000
Accrued investment income	38,458	35,376
Premiums receivable	1,283,896	1,301,827
Reinsurance receivables - unaffiliated	1,141,448	1,180,648
Reinsurance receivables - affiliated	4,796,997	4,940,039
Income taxes	48,917	87,110
Funds held by reinsureds	76,255	210,939
Deferred acquisition costs	307,161	307,741
Prepaid reinsurance premiums	312,780	346,708
Other assets	293,533	316,603
TOTAL ASSETS	$17,553,630	$17,888,512
LIABILITIES:		
Reserve for losses and loss adjustment expenses	$9,145,821	$9,343,028
Unearned premium reserve	1,611,403	1,607,622
Funds held under reinsurance treaties	42,105	40,536
Commission reserves	13,757	21,464
Other net payable to reinsurers	352,198	491,299
4.868% Senior notes due 6/1/2044	396,864	396,834
6.6% Long term notes due 5/1/2067	236,585	236,561
Accrued interest on debt and borrowings	7,668	2,727
Unsettled securities payable	32,263	25,338
Other liabilities	365,551	310,380
Total liabilities	12,204,215	12,475,789
Commitments and Contingencies (Note 7)		
STOCKHOLDER'S EQUITY:		
Common stock, par value: $0.01; 3,000 shares authorized; 1,000 shares issued and outstanding (2018 and 2017)	-	-
Additional paid-in capital	387,889	387,841
Accumulated other comprehensive income (loss), net of deferred income tax expense (benefit) of ($14,553) at 2018 and ($299) at 2017	(54,573)	(942)

Retained earnings	5,016,099	5,025,824
Total stockholder's equity	5,349,415	5,412,723
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 17,553,630	$ 17,888,512

The accompanying notes are an integral part of the consolidated financial statements.

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EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
	(unaudited)	
REVENUES:		
Premiums earned	$1,116,010	$471,055
Net investment income	69,909	60,849
Net realized capital gains (losses):		
Other-than-temporary impairments on fixed maturity securities	(35)	(1,132)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-
Realized gain(loss) on sale of subsidiary	-	-
Other net realized capital gains (losses)	(60,166)	118,900
Total net realized capital gains (losses)	(60,201)	117,768
Other income (expense)	(74,877)	9,855
Total revenues	1,050,841	659,527
CLAIMS AND EXPENSES:		
Incurred losses and loss adjustment expenses	713,255	289,722
Commission, brokerage, taxes and fees	256,457	52,507
Other underwriting expenses	77,351	59,895
Corporate expenses	3,596	3,597
Interest, fee and bond issue cost amortization expense	7,313	8,859
Total claims and expenses	1,057,972	414,580
INCOME (LOSS) BEFORE TAXES	(7,131)	244,947
Income tax expense (benefit)	5,041	75,769
NET INCOME (LOSS)	$(12,172)	$169,178
Other comprehensive income (loss), net of tax:		
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	(46,822)	9,439
Less: reclassification adjustment for realized losses (gains) included in net income (loss)	(4,835)	(3,467)
Total URA(D) on securities arising during the period	(51,657)	5,972
Foreign currency translation adjustments	(1,342)	3,567
Reclassification adjustment for amortization of net (gain) loss included in net income (loss)	1,815	2,004
Total benefit plan net gain (loss) for the period	1,815	2,004
Total other comprehensive income (loss), net of tax	(51,184)	11,543
COMPREHENSIVE INCOME (LOSS)	$(63,356)	$180,721

The accompanying notes are an integral part of the consolidated financial statements.

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EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF
CHANGES IN STOCKHOLDER'S EQUITY

	Three Months Ended March 31,	
(Dollars in thousands, except share amounts)	2018	2017
	(unaudited)	
COMMON STOCK (shares outstanding):		
Balance, beginning of period	1,000	1,000
Balance, end of period	1,000	1,000
ADDITIONAL PAID-IN CAPITAL:		
Balance, beginning of period	$387,841	$387,567
Share-based compensation plans	48	70
Balance, end of period	387,889	387,637
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES:		
Balance, beginning of period	(942)	(36,315)
Net increase (decrease) during the period	(51,184)	11,543
Cumulative change due to adoption of Accounting Standards Update 2016-01	(2,447)	-
Balance, end of period	(54,573)	(24,772)
RETAINED EARNINGS:		
Balance, beginning of period	5,025,824	4,947,301
Net income (loss)	(12,172)	169,178
Cumulative change due to adoption of Accounting Standards Update 2016-01	2,447	-
Balance, end of period	5,016,099	5,116,479
TOTAL STOCKHOLDER'S EQUITY, END OF PERIOD	$5,349,415	$5,479,344

The accompanying notes are an integral part of the consolidated financial statements.

EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(12,172)	$169,178
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease (increase) in premiums receivable	18,258	(127,985)
Decrease (increase) in funds held by reinsureds, net	136,342	5,307
Decrease (increase) in reinsurance receivables	177,774	(33,666)
Decrease (increase) in income taxes	52,369	74,132
Decrease (increase) in prepaid reinsurance premiums	33,663	(61,392)
Increase (decrease) in reserve for losses and loss adjustment expenses	(193,513)	34,016
Increase (decrease) in unearned premiums	3,844	39,180
Increase (decrease) in other net payable to reinsurers	(138,603)	(27,178)
Increase (decrease) in losses in course of payment	(20,616)	99,506
Change in equity adjustments in limited partnerships	(15,687)	225
Distribution of limited partnership income	10,214	3,727
Change in other assets and liabilities, net	51,822	17,896
Non-cash compensation expense	2,913	2,629
Amortization of bond premium (accrual of bond discount)	2,105	4,494
Net realized capital (gains) losses	60,201	(117,768)
Net cash provided by (used in) operating activities	168,914	82,301
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from fixed maturities matured/called - available for sale, at market value	217,085	274,356
Proceeds from fixed maturities sold - available for sale, at market value	154,981	292,994
Proceeds from equity securities sold - available for sale, at fair value	128,479	134,051
Distributions from other invested assets	371,583	448,121
Cost of fixed maturities acquired - available for sale, at market value	(369,980)	(785,984)
Cost of fixed maturities acquired - available for sale, at fair value	(1,836)	-
Cost of equity securities acquired - available for sale, at fair value	(223,034)	(56,724)
Cost of other invested assets acquired	(395,769)	(497,077)
Net change in short-term investments	54,594	(29,794)
Net change in unsettled securities transactions	41,432	72,275
Net cash provided by (used in) investing activities	(22,465)	(147,782)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Tax benefit from share-based compensation, net of expense	(419)	(2,560)
Net cash provided by (used in) financing activities	(419)	(2,560)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	8,828	5,833
Net increase (decrease) in cash	154,858	(62,208)
Cash, beginning of period	229,552	297,794

Cash, end of period	$384,410	$235,586
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid (recovered)	$(50,447)	$1,581
Interest paid	2,317	-

The accompanying notes are an integral part of the consolidated financial statements.

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2018 and 2017

1. GENERAL

As used in this document, "Holdings" means Everest Reinsurance Holdings, Inc., a Delaware company and direct subsidiary of Everest Underwriting Group (Ireland) Limited ("Holdings Ireland"); "Group" means Everest Re Group, Ltd. (Holdings Ireland's parent); "Bermuda Re" means Everest Reinsurance (Bermuda), Ltd., a subsidiary of Group; "Everest Re" means Everest Reinsurance Company and its subsidiaries, a subsidiary of Holdings (unless the context otherwise requires) and the "Company" means Holdings and its subsidiaries.

During the third quarter of 2016, the Company established domestic subsidiaries, Everest Premier Insurance Company ("Everest Premier") and Everest Denali Insurance Company ("Everest Denali"), which will be used in the continued expansion of the Insurance operations.

2. BASIS OF PRESENTATION

The unaudited consolidated financial statements of the Company for the three months ended March 31. 2018 and 2017 include all adjustments, consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair statement of the results on an interim basis. Certain financial information, which is normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), has been omitted since it is not required for interim reporting purposes. The December 31, 2017 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The results for the three months ended March 31. 2018 and 2017 are not necessarily indicative of the results for a full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2017, 2016 and 2015 included in the Company's most recent Form 10-K filing.

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 disclosure of contingent assets and liabilities) at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate actual results could differ, possibly materially, from those estimates.

All intercompany accounts and transactions have been eliminated.

Certain reclassifications and format changes have been made to prior years' amounts to conform to the 2018 presentation.

Application of Recently Issued Accounting Standard Changes.

Accounting for Deferred Taxes in Accumulated Other Comprehensive Income (AOCI). In February 2018, FASB issued ASU 2018-02 which outlines guidance on the treatment of trapped deferred taxes contained within AOCI on the consolidated balance sheets. The new guidance allows the amount of trapped deferred taxes in AOCI, resulting from the change in the U.S. tax rate from 35% to 21% upon enactment of the Tax Cuts and Jobs Act ("TCJA"), to be reclassed as part of retained earnings in the consolidated balance sheets. The guidance is effective for annual and interim reporting periods beginning after December 15, 2018, but early adoption is allowed. The Company has decided to early adopt the guidance as of December 31, 2017. The adoption has resulted in a reclass of $325 thousand between AOCI and retained earnings.

Accounting for Impact on Income Taxes due to Tax Reform. In December 2017, the SEC issued Staff Accounting Bulletin ("SAB") 118 which provides guidance on the application of FASB Accounting Standards Codification ("ASC") Topic 740, Income Taxes, due to the enactment of TCJA. SAB 118 became effective upon release. The Company has adopted the provisions of SAB 118 with respect to measuring the tax effects for the modifications to the determination of tax basis loss reserves. Because of uncertainty in how the Internal Revenue Service ("IRS") intends to implement the modifications and the necessary transition calculation, the Company has determined that a reasonable estimate cannot be determined and has followed the provisions of the tax laws that were in effect prior to the modifications. In 2018, the Company expects to record adjustments to the amount of tax expense it recorded in 2017 with respect to the TCJA as estimated amounts are finalized. Further adjustments are not expected to have a material impact on the Company's financial statements.

Amortization of Bond Premium. In March 2017, FASB issued ASU 2017-08 which outlines guidance on the amortization period for premium on callable debt securities. The new guidance requires that the premium on callable debt securities be amortized through the earliest call date rather than through the maturity date of the callable security. The guidance is effective for annual and interim reporting periods beginning after December 15, 2019. The Company does not expect the adoption of ASU 2017-08 to have a material impact on its financial statements.

Presentation and Disclosure of Net Periodic Benefit Costs. In March 2017, FASB issued ASU 2017-07 which outlines guidance on the presentation of net periodic costs of benefit plans. The new guidance requires that the service cost component of net periodic benefit costs be reported within the same line item of the statements of operations as other compensation costs are reported. Other components of net periodic benefit costs should be reported separately. Footnote disclosure is required to state within which line items of the statements of operations the components are reported. The guidance is effective for annual and interim reporting periods beginning after December 15, 2017. The Company adopted the guidance effective January 1, 2018. The adoption of ASU 2017-07 did not have a material impact on the Company's financial statements.

Disclosure of Restricted Cash. In November 2016, FASB issued ASU 2016-18 and in August 2016, FASB issued ASU 2016-15 which outlines guidance on the presentation in the statements of cash flows of changes in restricted cash. The new guidance requires that the statements of cash flows should reflect all changes in cash, cash equivalents and restricted cash in total and not segregated individually. The guidance is effective for annual and interim reporting periods beginning after December 15, 2017. The Company adopted the guidance effective January 1, 2018. The adoption of ASU 2016-18 and ASU 2016-15 did not have a material impact on the Company's financial statements.

Intra-Entity Asset Transfers. In October 2016, FASB issued ASU 2016-16 which outlines guidance on the tax accounting for intra-entity asset sales and transfers, other than inventory. The new guidance requires that reporting entities recognize tax expense from the intra-entity transfer of an asset in the seller's tax jurisdiction at the time of transfer and recognize any deferred tax asset in the buyer's tax jurisdiction at the time of transfer. The guidance is effective for annual and interim reporting periods beginning after December 15, 2017. The Company adopted the guidance effective January 1, 2018. The adoption of ASU 2016-16 did not have a material impact on the Company's financial statements.

Valuation of Financial Instruments. In June 2016, FASB issued ASU 2016-13 which outline guidance on the valuation of and accounting for assets measured at amortized cost and available for sale debt securities. The carrying value of assets measured at amortized cost will now be presented as the amount expected to be collected on the financial asset (amortized cost less an allowance for credit losses valuation account). Available for sale debt securities will now record credit losses through an allowance for credit losses, which will be limited to the amount by which fair value is below amortized cost. The guidance is effective for annual and interim reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact of the adoption of ASU 2016-13 on its financial statements.

Leases. In February 2016, FASB issued ASU 2016-02 which outlines new guidance on the accounting for leases. The new guidance requires the recognition of lease assets and lease liabilities on the balance sheets for most leases that were previously deemed operating leases and required only lease expense presentation in the statements of operations. The guidance is effective for annual and interim reporting periods beginning after December 15, 2018. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its financial statements.

Recognition and Measurement of Financial Instruments. In January 2016, the FASB issued ASU 2016-01 which outlines revised guidance on the accounting for equity investments. The new guidance states that all equity investments in unconsolidated entities will be measured at fair value, with the change in value being recorded through the income statement rather than being recorded within other comprehensive income. The updated guidance is effective for annual and interim reporting periods beginning after December 15, 2017. The Company adopted the guidance effective January 1, 2018. The adoption of ASU 2016-01 resulted in a cumulative change adjustment of $2,447 thousand between AOCI and retained earnings, which is disclosed separately within the consolidated statement of changes in shareholders equity.

Disclosures about Short-Duration Contracts. In May 2015, the FASB issued ASU 2015-09, authoritative guidance regarding required disclosures associated with short duration insurance contracts. The new disclosure requirements focus on information about initial claim estimates and subsequent claim estimate adjustment, methodologies in estimating claims and the timing, frequency and severity of claims related to short duration insurance contracts. This guidance is effective for annual reporting periods beginning after December 15, 2015 and interim reporting periods beginning after December 15, 2016. The Company implemented this guidance effective in the fourth quarter of 2016.

Revenue Recognition. In May 2014, the FASB issued ASU 2014-09 and in August 2015, FASB issued ASU 2015-14 which outline revised guidance on the recognition of revenue arising from contracts with customers. The new guidance states that reporting entities should apply certain steps to determine when revenue should be recognized, based upon fulfillment of performance obligations to complete contracts. The updated guidance is effective for annual and interim reporting periods beginning after December 15, 2017. The Company adopted the guidance effective January 1, 2018. The adoption of ASU 2014-09 and ASU 2015-14 did not have a material impact on the Company's financial statements.

Any issued guidance and pronouncements, other than those directly referenced above, are deemed by the Company to be either not applicable or immaterial to its financial statements.

3. REVISIONS TO FINANCIAL STATEMENTS

In preparing its second quarter of 2017 financial statements, the Company altered its processing of ceding certain commissions and deferred acquisition costs under an affiliated quota share agreement. In previous reporting periods, these expenses were ceded based upon a quarter lag. In the second quarter of 2017, the quarter lag was eliminated and these expenses are now recorded on a current quarter basis. Although management determined that the impact of the ceding lag was not material to prior period financial statements, the impact of eliminating the ceding lag would have significantly impacted results within the second quarter of 2017. As a result, prior period balances have been revised in the applicable financial statements and corresponding footnotes to eliminate the impact of the previous recording lag.

Management assessed the materiality of this change within prior period financial statements based upon SEC Staff Accounting Bulletin Number 99, Materiality, which is since codified in Accounting Standards Codification ("ASC") 250, Accounting Changes and Error Corrections. In accordance with ASC 250, the prior period comparative financial statements that are presented herein have been revised.

The following tables present line items for prior period financial statements that have been affected by the revision. For these line items, the tables detail the amounts as previously reported, the impact upon those line items due to the revision, and the amounts as currently revised within the financial statements.

CONSOLIDATED BALANCE SHEETS	March 31, 2017		
	As Previously Reported	Impact of Revisions	As Revised
(Dollars in thousands, except par value per share)			
ASSETS:			
Deferred acquisition costs	$62,308	$(4,994)	$57,314
TOTAL ASSETS	$17,587,840	$(4,994)	$17,582,846
LIABILITIES:			
Other net payable to reinsurers	$832,307	$(41,746)	$790,561
Income taxes	223,629	5,625	229,254
Total liabilities	12,139,623	(36,121)	12,103,502
STOCKHOLDERS EQUITY:			
Retained earnings	5,085,352	31,127	5,116,479
Total stockholder's equity	5,448,217	31,127	5,479,344
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$17,587,840	$(4,994)	$17,582,846

CONSOLIDATED STATEMENTS OF OPERATIONS	Three Months Ended March 31, 2017		
AND COMPREHENSIVE INCOME (LOSS):	As Previously Reported	Impact of Revisions	As Revised
(Dollars in thousands)			
CLAIMS AND EXPENSES:			
Commission, brokerage, taxes and fees	$ 49,470	$ 3,037	$ 52,507
Total claims and expenses	411,543	3,037	414,580
INCOME (LOSS) BEFORE TAXES	247,984	(3,037)	244,947
Income tax expense (benefit)	76,940	(1,171)	75,769
NET INCOME (LOSS)	$ 171,044	$ (1,866)	$ 169,178
COMPREHENSIVE INCOME (LOSS)	$ 182,587	$ (1,866)	$ 180,721

CONSOLIDATED STATEMENTS OF	Three Months Ended March 31, 2017		
CHANGES IN STOCKHOLDER'S EQUITY	As Previously Reported	Impact of Revisions	As Revised
(Dollars in thousands, except share amounts)			
RETAINED EARNINGS:			

Balance, beginning of period	$ 4,914,308	$ 32,993	$ 4,947,301
Net income (loss)	171,044	(1,866)	169,178
Balance, end of period	5,085,352	31,127	5,116,479
TOTAL STOCKHOLDER'S EQUITY, END OF PERIOD	$ 5,448,217	$ 31,127	$ 5,479,344

CONSOLIDATED STATEMENTS OF CASH FLOWS	Three Months Ended March 31, 2017		
	As Previously Reported	Impact of Revisions	As Revised
(Dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 171,044	$ (1,866)	$ 169,178
Decrease (increase) in income taxes	75,304	(1,172)	74,132
Increase (decrease) in other net payable to reinsurers	(30,525)	3,347	(27,178)
Change in other assets and liabilities, net	18,204	(309)	17,895

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4. INVESTMENTS

The amortized cost, market value and gross unrealized appreciation and depreciation of available for sale, fixed maturity, investments, carried at market value and other-than-temporary impairments ("OTTI") in accumulated other comprehensive income ("AOCI") are as follows for the periods indicated:

	At March 31, 2018				
(Dollars in thousands)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	OTTI in AOCI (a)
Fixed maturity securities					
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$705,124	$ 324	$ (14,037)	$691,411	$ -
Obligations of U.S. states and political subdivisions	523,611	14,630	(1,694)	536,547	165
Corporate securities	1,991,600	17,038	(32,936)	1,975,702	133
Asset-backed securities	132,109	75	(1,295)	130,889	-
Mortgage-backed securities					
Commercial	51,247	-	(738)	50,509	-
Agency residential	139,703	548	(2,961)	137,290	-
Non-agency residential	45	5	-	50	-
Foreign government securities	513,864	14,888	(8,891)	519,861	-
Foreign corporate securities	871,606	14,225	(20,272)	865,559	307
Total fixed maturity securities	$4,928,909	$ 61,733	$ (82,824)	$4,907,818	$ 605

	At December 31, 2017				
(Dollars in thousands)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	OTTI in AOCI (a)
Fixed maturity securities					
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$671,449	$ 658	$ (7,594)	$664,513	$ -
Obligations of U.S. states and political subdivisions	563,789	22,124	(444)	585,469	-
Corporate securities	2,009,665	28,003	(13,459)	2,024,209	129
Asset-backed securities	138,203	207	(386)	138,024	-
Mortgage-backed securities					
Commercial	52,121	115	(485)	51,751	-
Agency residential	114,435	511	(1,658)	113,288	-
Non-agency residential	51	7	-	58	-
Foreign government securities	514,048	17,065	(7,493)	523,620	-
Foreign corporate securities	863,861	20,121	(12,993)	870,989	377
Total fixed maturity securities	$4,927,622	$ 88,811	$ (44,512)	$4,971,921	$ 506

[a] Represents the amount of OTTI recognized in AOCI. Amount includes unrealized gains and losses on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

The amortized cost and market value of fixed maturity securities are shown in the following tables by contractual maturity. Mortgage-backed securities are generally more likely to be prepaid than other fixed maturity securities. As the stated maturity of such securities may not be indicative of actual maturities, the totals for mortgage-backed and asset-backed securities are shown separately.

	At March 31, 2018		At December 31, 2017	
(Dollars in thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value
Fixed maturity securities – available for sale				
Due in one year or less	$341,749	$341,018	$319,858	$320,746
Due after one year through five years	2,591,948	2,555,916	2,601,898	2,595,237
Due after five years through ten years	1,041,331	1,044,539	1,051,431	1,069,617
Due after ten years	630,777	647,607	649,625	683,200
Asset-backed securities	132,109	130,889	138,203	138,024
Mortgage-backed securities				
Commercial	51,247	50,509	52,121	51,751
Agency residential	139,703	137,290	114,435	113,288
Non-agency residential	45	50	51	58
Total fixed maturity securities	$4,928,909	$4,907,818	$4,927,622	$4,971,921

The changes in net unrealized appreciation (depreciation) for the Company's investments are derived from the following sources for the periods as indicated:

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
Increase (decrease) during the period between the market value and cost of investments carried at market value, and deferred taxes thereon:		
Fixed maturity securities	$(65,488)	$12,242
Fixed maturity securities, other-than-temporary impairment	99	(3,499)
Other invested assets	-	444
Change in unrealized appreciation (depreciation), pre-tax	(65,389)	9,187
Deferred tax benefit (expense)	13,753	(4,440)
Deferred tax benefit (expense), other-than-temporary impairment	(21)	1,225
Change in unrealized appreciation (depreciation), net of deferred taxes, included in stockholder's equity	$(51,657)	$5,972

The Company frequently reviews all of its fixed maturity, available for sale securities for declines in market value and focuses its attention on securities whose fair value has fallen below 80% of their amortized cost at the time of review. The Company then assesses whether the decline in value is temporary or other-than-temporary. In making its assessment, the Company evaluates the current market and interest rate environment as well as specific issuer information. Generally, a change in a security's value caused by a change in the market, interest rate or foreign exchange environment does not constitute an other-than-temporary impairment, but rather a temporary decline in market value. Temporary declines in market value are recorded as unrealized losses in accumulated other comprehensive income (loss). If the Company determines that the decline is other-than-temporary and the Company does not have the intent to sell the security; and it is more likely than not that the Company will not have to sell the security before recovery of its cost basis, the carrying value of the investment is written down to fair value. The fair value adjustment that is credit or foreign exchange related is recorded in net realized capital gains (losses) in the Company's consolidated statements of operations and comprehensive income (loss). The fair value adjustment that is non-credit related is recorded as a component of other comprehensive income (loss), net of tax, and is included in accumulated other comprehensive income (loss) in the Company's consolidated balance sheets. The Company's assessments are based on the issuers' current and expected future financial position, timeliness with respect to interest and/or principal payments, speed of repayments and any applicable credit enhancements or breakeven constant default rates on mortgage-backed and asset-backed securities, as well as relevant information provided by rating agencies, investment advisors and analysts.

Retrospective adjustments are employed to recalculate the values of asset-backed securities. All of the Company's asset-backed and mortgage-backed securities have a pass-through structure. Each acquisition lot is reviewed to recalculate the effective yield. The recalculated effective yield is used to derive a book value as if the new yield were applied at the time of acquisition. Outstanding principal factors from the time of acquisition to the adjustment date are used to calculate the prepayment history for all applicable securities. Conditional prepayment rates, computed with life to date factor histories and weighted average maturities, are used in the calculation of projected prepayments for pass-through security types.

The tables below display the aggregate market value and gross unrealized depreciation of fixed maturity securities, by security type and contractual maturity, in each case subdivided according to length of time that individual securities had been in a continuous unrealized loss position for the periods indicated:

	Duration of Unrealized Loss at March 31, 2018 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$463,799	$ (7,505)	$ 197,045	$ (6,532)	$660,844	$ (14,037)
Obligations of U.S. states and political subdivisions	48,612	(383)	36,392	(1,311)	85,004	(1,694)
Corporate securities	932,829	(22,060)	197,475	(10,876)	1,130,304	(32,936)
Asset-backed securities	88,378	(1,187)	9,763	(108)	98,141	(1,295)
Mortgage-backed securities						
Commercial	44,673	(534)	5,835	(204)	50,508	(738)
Agency residential	49,143	(934)	58,282	(2,027)	107,425	(2,961)
Foreign government securities	166,552	(2,568)	112,686	(6,323)	279,238	(8,891)
Foreign corporate securities	373,653	(10,292)	116,799	(9,980)	490,452	(20,272)
Total fixed maturity securities	$2,167,639	$ (45,463)	$ 734,277	$ (37,361)	$2,901,916	$ (82,824)

	Duration of Unrealized Loss at March 31, 2018 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities						
Due in one year or less	$127,462	$ (1,146)	$ 34,295	$ (2,361)	$161,757	$ (3,507)
Due in one year through five years	1,343,096	(26,724)	472,954	(23,235)	1,816,050	(49,959)
Due in five years through ten years	357,163	(10,110)	116,756	(8,115)	473,919	(18,225)
Due after ten years	157,724	(4,828)	36,392	(1,311)	194,116	(6,139)

Asset-backed securities	88,378	(1,187)	9,763	(108)	98,141	(1,295)
Mortgage-backed securities	93,816	(1,468)	64,117	(2,231)	157,933	(3,699)
Total fixed maturity securities	$2,167,639	$ (45,463)	$734,277	$ (37,361)	$2,901,916	$ (82,824)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at March 31, 2018 were $2,901,916 thousand and $82,824 thousand, respectively. The market value of securities for the single issuer (the United States government) whose securities comprised the largest unrealized loss position at March 31, 2018, did not exceed 13.5% of the overall market value of the Company's fixed maturity securities. The market value of securities for the issuer with the second largest unrealized loss comprised less than 0.8% of the company's fixed maturity securities. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The $45,463 thousand of unrealized losses related to fixed maturity securities that have been in an unrealized loss position for less than one year were generally comprised of domestic and foreign corporate securities, U.S. government agencies and corporations and foreign government securities. Of these unrealized losses, $38,298 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating agency. The $37,361 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily due to foreign and domestic corporate securities, foreign government securities, U.S. government agencies and corporations and agency residential mortgage-backed securities. Of these unrealized losses $35,930 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating agency. There was no gross unrealized depreciation for mortgage-backed securities related to sub-prime and alt-A loans. In all instances, there were no projected cash flow shortfalls to recover the full book value of the investments and the related interest obligations. The mortgage-backed securities still have excess credit coverage and are current on interest and principal payments.

The Company, given the size of its investment portfolio and capital position, does not have the intent to sell these securities; and it is more likely than not that the Company will not have to sell the security before recovery of its cost basis. In addition, all securities currently in an unrealized loss position are current with respect to principal and interest payments.

The tables below display the aggregate market value and gross unrealized depreciation of fixed maturity securities, by security type and contractual maturity, in each case subdivided according to length of time that individual securities had been in a continuous unrealized loss position for the periods indicated:

	Duration of Unrealized Loss at December 31, 2017 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of						
U.S. government agencies and corporations	$446,963	$ (2,921)	$ 198,684	$ (4,673)	$645,647	$ (7,594)
Obligations of U.S. states and political subdivisions	4,400	(27)	37,886	(417)	42,286	(444)
Corporate securities	455,431	(6,674)	216,715	(6,785)	672,146	(13,459)
Asset-backed securities	75,196	(328)	7,991	(58)	83,187	(386)
Mortgage-backed securities						
Commercial	26,650	(264)	5,972	(221)	32,622	(485)
Agency residential	46,234	(322)	58,135	(1,336)	104,369	(1,658)
Foreign government securities	159,852	(1,567)	121,018	(5,926)	280,870	(7,493)
Foreign corporate securities	263,547	(4,590)	109,727	(8,403)	373,274	(12,993)
Total fixed maturity securities	$1,478,273	$ (16,693)	$ 756,128	$ (27,819)	$2,234,401	$ (44,512)

	Duration of Unrealized Loss at December 31, 2017 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities						
Due in one year or less	$102,939	$ (498)	$ 40,006	$ (1,627)	$142,945	$ (2,125)

Due in one year through five years	973,217	(10,291)	488,945	(18,917)	1,462,162	(29,208)
Due in five years through ten years	189,103	(3,713)	116,136	(5,216)	305,239	(8,929)
Due after ten years	64,934	(1,277)	38,943	(444)	103,877	(1,721)
Asset-backed securities	75,196	(328)	7,991	(58)	83,187	(386)
Mortgage-backed securities	72,884	(586)	64,107	(1,557)	136,991	(2,143)
Total fixed maturity securities	$1,478,273	$ (16,693)	$ 756,128	$ (27,819)	$2,234,401	$ (44,512)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at December 31, 2017 were $2,234,401 thousand and $44,512 thousand, respectively. The market value of securities for the single issuer (the United States government) whose securities comprised the largest unrealized loss position at December 31, 2017, did not exceed 13.0% of the overall market value of the Company's fixed maturity securities. The market value of securities for the issuer with the second largest unrealized loss comprised less than 0.9% of the company's fixed maturity securities. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The $16,693 thousand of unrealized losses related to fixed maturity securities that have been in an unrealized loss position for less than one year were generally comprised of domestic and foreign corporate securities, U.S. government agencies and corporations and foreign government securities. Of these unrealized losses, $13,043 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating agency. The $27,819 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily due to foreign and domestic corporate securities, foreign government securities, U.S. government agencies and corporations and agency residential mortgage-backed securities. Of these unrealized losses $26,463 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating agency. There was no gross unrealized depreciation for mortgage-backed securities related to sub-prime and alt-A loans. In all instances, there were no projected cash flow shortfalls to recover the full book value of the investments and the related interest obligations. The mortgage-backed securities still have excess credit coverage and are current on interest and principal payments.

The components of net investment income are presented in the tables below for the periods indicated:

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
Fixed maturities	$ 42,419	$ 46,980
Equity securities	4,403	6,748
Short-term investments and cash	928	390
Other invested assets		
Limited partnerships	14,472	(224)
Dividends from preferred shares of affiliate	7,758	7,758
Other	3,195	1,252
Gross investment income before adjustments	73,175	62,904
Funds held interest income (expense)	2,868	1,939
Interest income from Parent	1,075	1,075
Gross investment income	77,118	65,918
Investment expenses	(7,209)	(5,069)
Net investment income	$ 69,909	$ 60,849

(Some amounts may not reconcile due to rounding.)

The Company records results from limited partnership investments on the equity method of accounting with changes in value reported through net investment income. Due to the timing of receiving financial information from these partnerships, the results are generally reported on a one month or quarter lag. If the Company determines there has been a significant decline in value of a limited partnership during this lag period, a loss will be recorded in the period in which the Company identifies the decline.

The Company had contractual commitments to invest up to an additional $386,414 thousand in limited partnerships at March 31, 2018. These commitments will be funded when called in accordance with the partnership agreements, which have investment periods that expire, unless extended, through 2023.

The Company's other invested assets at March 31, 2018 and December 31, 2017 included $115,446 thousand and $131,998 thousand, respectively, related to a private placement liquidity sweep facility. The primary purpose of the facility is to enhance the Company's return on its short-term investments and cash positions. The facility invests in high quality, short-duration securities and permits daily liquidity.

Other invested assets, at fair value, as of March 31, 2018 and December 31, 2017, were comprised of preferred shares held in Preferred Holdings, an affiliated company.

The components of net realized capital gains (losses) are presented in the table below for the periods indicated:

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
Fixed maturity securities, market value:		
Other-than-temporary impairments	$(35)	$(1,132)
Gains (losses) from sales	6,130	6,465
Fixed maturity securities, fair value:		
Gains (losses) from sales	(14)	-
Equity securities, fair value:		
Gains (losses) from sales	(2,481)	4,340
Gains (losses) from fair value adjustments	(27,014)	37,418
Other invested assets	3	1
Other invested assets, fair value:		
Gains (losses) from fair value adjustments	(36,789)	70,675
Short-term investment gains (losses)	(1)	1
Total net realized capital gains (losses)	$(60,201)	$117,768

The Company recorded as net realized capital gains (losses) in the consolidated statements of operations and comprehensive income (loss) both fair value re-measurements and write-downs in the value of securities deemed to be impaired on an other-than-temporary basis as displayed in the table above. The Company had no other-than-temporary impaired securities where the impairment had both a credit and non-credit component.

The proceeds and split between gross gains and losses, from sales of fixed maturity and equity securities, are presented in the table below for the periods indicated:

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
Proceeds from sales of fixed maturity securities	$154,981	$292,994
Gross gains from sales	6,927	7,995
Gross losses from sales	(811)	(1,530)
Proceeds from sales of equity securities	$128,479	$134,051
Gross gains from sales	3,228	8,013
Gross losses from sales	(5,709)	(3,673)

5. RESERVES FOR LOSSES AND LAE

Activity in the reserve for losses and LAE is summarized for the periods indicated:

(Dollars in thousands)	Three Months Ended March 31, 2018	Twelve Months Ended December 31, 2017
Gross reserves at January 1	$ 9,343,028	$ 8,331,288
Less reinsurance recoverables	(5,727,268)	(4,199,791)
Net reserves at January 1	3,615,760	4,131,497
Incurred related to:		
Current year	712,937	2,157,498
Prior years	318	(117,747)
Total incurred losses and LAE	713,255	2,039,751
Paid related to:		
Current year	119,982	1,607,601
Prior years	496,649	957,933
Total paid losses and LAE	616,631	2,565,534
Foreign exchange/translation adjustment	4,384	10,046
Net reserves at December 31	3,716,768	3,615,760
Plus reinsurance recoverables	5,429,053	5,727,268
Gross reserves at December 31	$ 9,145,821	$ 9,343,028

Incurred prior years' reserves increased by $318 thousand for the three months ended March 31, 2018 and decreased by $117,747 thousand for the year ended December 31, 2017. The increase for the three months ended March 31, 2018, related primarily to unfavorable development on insurance business. The decrease for 2017 was attributable to favorable development in the reinsurance segments of $84,809 thousand related primarily to property and short-tail business in the U.S., as well as favorable development on prior year catastrophe losses, partially offset by $25,194 thousand of adverse development on A&E reserves. The insurance segment also experienced favorable development on prior year reserves of $32,938 thousand mainly on its workers compensation business, which is largely written in California.

6. FAIR VALUE

GAAP guidance regarding fair value measurements address how companies should measure fair value when they are required to use fair value measures for recognition or disclosure purposes under GAAP and provides a common definition of fair value to be used throughout GAAP. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. In addition, it establishes a three-level valuation hierarchy for the disclosure of fair value measurements. The valuation hierarchy is based on the transparency of inputs to the valuation of an asset or liability. The level in the hierarchy within which a given fair value measurement falls is determined based on the lowest level input that is significant to the measurement, with Level 1 being the highest priority and Level 3 being the lowest priority.

The levels in the hierarchy are defined as follows:

Level 1: Inputs to the valuation methodology are observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in an active market;

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument;

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company's fixed maturity and equity securities are primarily managed by third party investment asset managers. The investment asset managers obtain prices from nationally recognized pricing services. These services seek to utilize market data and observations in their evaluation process. They use pricing applications that vary by asset class and incorporate available market information and when fixed maturity securities do not trade on a daily basis the services will apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. In addition, they use model processes, such as the Option Adjusted Spread model to develop prepayment and interest rate scenarios for securities that have prepayment features.

In limited instances where prices are not provided by pricing services or in rare instances when a manager may not agree with the pricing service, price quotes on a non-binding basis are obtained from investment brokers. The investment asset managers do not make any changes to prices received from either the pricing services or the investment brokers. In addition, the investment asset managers have procedures in place to review the reasonableness of the prices from the service providers and may request verification of the prices. In addition, the Company continually performs analytical reviews of price changes and tests the prices on a random basis to an independent pricing source. No material variances were noted during these price validation procedures. In limited situations, where financial markets are inactive or illiquid, the Company may use its own assumptions about future cash flows and risk-adjusted discount rates to determine fair value. Due to the unavailability of prices for seventy-four private placement securities at March 31, 2018, an investment manager's valuation committee valued seventy-three of these private placement securities at $164,818 thousand. A majority of the fair values determined by the valuation committee are substantiated by valuations from independent third parties. In addition, the Company valued one private placement security at $16,962 thousand, representing par value. Due to the unavailability of prices for sixty-five private placement securities at December 31, 2017, an investment manager's valuation committee valued the sixty-five securities at $165,173 thousand.

The Company internally manages a public equity portfolio which had a fair value at March 31, 2018 and December 31, 2017 of $349,344 thousand and $245,043 thousand, respectively, and all prices were obtained from publicly published sources.

Equity securities denominated in U.S. currency with quoted prices in active markets for identical assets are categorized as level 1 since the quoted prices are directly observable. Equity securities traded on foreign exchanges are categorized as level 2 due to the added input of a foreign exchange conversion rate to determine fair or market value. The Company uses foreign currency exchange rates published by nationally recognized sources.

All categories of fixed maturity securities listed in the tables below are generally categorized as level 2, since a particular security may not have traded but the pricing services are able to use valuation models with observable market inputs such as interest rate yield curves and prices for similar fixed maturity securities in terms of issuer, maturity and seniority. For foreign government securities and foreign corporate securities, the fair values provided by the third party pricing services in local currencies, and where applicable, are converted to U.S. dollars using currency exchange rates from nationally recognized sources.

The fixed maturities with fair values categorized as level 3 result when prices are not available from the nationally recognized pricing services. The asset managers will then obtain non-binding price quotes for the securities from brokers. The single broker quotes are provided by market makers or broker-dealers who are recognized as market participants in the markets in which they are providing the quotes. The prices received from brokers are reviewed for reasonableness by the third party asset managers and the Company. If the broker quotes are for foreign denominated securities, the quotes are converted to U.S. dollars using currency exchange rates from nationally recognized sources. In limited circumstances when broker prices are not available for private placements, the Company will value the securities using comparable market information or receive fair values from investment managers.

The composition and valuation inputs for the presented fixed maturities categories are as follows:

- U.S. Treasury securities and obligations of U.S. government agencies and corporations are primarily comprised of U.S. Treasury bonds and the fair value is based on observable market inputs such as quoted prices, reported trades, quoted prices for similar issuances or benchmark yields;

- Obligations of U.S. states and political subdivisions are comprised of state and municipal bond issuances and the fair values are based on observable market inputs such as quoted market prices, quoted prices for similar securities, benchmark yields and credit spreads;

- Corporate securities are primarily comprised of U.S. corporate and public utility bond issuances and the fair values are based on observable market inputs such as quoted market prices, quoted prices for similar securities, benchmark yields and credit spreads;

- Asset-backed and mortgage-backed securities fair values are based on observable inputs such as quoted prices, reported trades, quoted prices for similar issuances or benchmark yields and cash flow models using observable inputs such as prepayment speeds, collateral performance and default spreads;

- Foreign government securities are comprised of global non-U.S. sovereign bond issuances and the fair values are based on observable market inputs such as quoted market prices, quoted prices for similar securities and models with observable inputs such as benchmark yields and credit spreads and then, where applicable, converted to U.S. dollars using an exchange rate from a nationally recognized source;

- Foreign corporate securities are comprised of global non-U.S. corporate bond issuances and the fair values are based on observable market inputs such as quoted market prices, quoted prices for similar securities and models with observable inputs such as benchmark yields and credit spreads and then, where applicable, converted to U.S. dollars using an exchange rate from a nationally recognized source.

Other invested assets, at fair value, was categorized as Level 3 at March 31, 2018 and December 31, 2017, since it represented a privately placed convertible preferred stock issued by an affiliate. The stock was received in exchange for shares of the Company's parent. The 25 year redeemable, convertible preferred stock with a 1.75% coupon is valued using a pricing model. The pricing model includes observable inputs such as the U.S. Treasury yield curve rate T note constant maturity 20 year and the swap rate on the Company's June 1, 2044, 4.868% senior notes, with adjustments to reflect the Company's own assumptions about the inputs that market participants would use in pricing the asset.

The following table presents the fair value measurement levels for all assets, which the Company has recorded at fair value (fair and market value) as of the period indicated:

		Fair Value Measurement Using:		
(Dollars in thousands)	March 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$ 691,411	$ -	$ 691,411	$ -
Obligations of U.S. States and political subdivisions	536,547	-	536,547	-
Corporate securities	1,975,702	-	1,807,112	168,590
Asset-backed securities	130,889	-	130,889	-
Mortgage-backed securities				
Commercial	50,509	-	50,509	-
Agency residential	137,290	-	137,290	-
Non-agency residential	50	-	50	-
Foreign government securities	519,861	-	519,861	-
Foreign corporate securities	865,559	-	854,191	11,368
Total fixed maturities, market value	4,907,818	-	4,727,860	179,958
Fixed maturities, fair value	1,821	-	-	1,821
Equity securities, fair value	887,435	858,992	28,443	-
Other invested assets, fair value	1,770,684	-	-	1,770,684

There were no transfers between Level 1 and Level 2 for the three months ended March 31, 2018.

The following table presents the fair value measurement levels for all assets, which the Company has recorded at fair value (fair and market value) as of the period indicated:

		Fair Value Measurement Using:		
(Dollars in thousands)	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fixed maturities, market value				

U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	$ 664,513	$ -	$ 664,513	$ -
Obligations of U.S. States and political subdivisions	585,469	-	585,469	-
Corporate securities	2,024,209	-	1,865,988	158,221
Asset-backed securities	138,024	-	138,024	-
Mortgage-backed securities				
Commercial	51,751	-	51,751	-
Agency residential	113,288	-	113,288	-
Non-agency residential	58	-	58	-
Foreign government securities	523,620	-	523,620	-
Foreign corporate securities	870,989	-	864,037	6,952
Total fixed maturities, market value	4,971,921	-	4,806,748	165,173
Equity securities, fair value	822,375	800,542	21,833	-
Other invested assets, fair value	1,807,473	-	-	1,807,473

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In addition $82,902 thousand and $79,505 thousand of investments within other invested assets on the consolidated balance sheets as of March 31, 2018 and December 31, 2017, respectively, are not included within the fair value hierarchy tables as the assets are valued using the NAV practical expedient guidance within ASU 2015-07.

The following table presents the activity under Level 3, fair value measurements using significant unobservable inputs by asset type, for the periods indicated:

	Total Fixed Maturities, Market Value					
	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
(Dollars in thousands)	Corporate Securities	Foreign Corporate	Total	Corporate Securities	Foreign Corporate	Total
Beginning balance	$ 158,221	$ 6,952	$ 165,173	$ 65,197	$ 2,538	$ 67,735
Total gains or (losses) (realized/unrealized)						
Included in earnings	722	94	816	214	(24)	190
Included in other comprehensive income (loss)	235	-	235	(29)	-	(29)
Purchases, issuances and settlements	9,412	4,322	13,734	18,940	288	19,228
Transfers in and/or (out) of Level 3	-	-	-	-	-	-
Ending balance	$ 168,590	$ 11,368	$ 179,958	$ 84,322	$ 2,802	$ 87,124
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ -	$ -	$ -	$ -	$ -	$ -

(Some amounts may not reconcile due to rounding.)

	Total Fixed Maturities, Fair Value			
	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
(Dollars in thousands)	Foreign Corporate	Total	Foreign Corporate	Total
Beginning balance fixed maturities at fair value	$ -	$ -	$ -	$ -
Total gains or (losses) (realized/unrealized)				
Included in earnings	(14)	(14)	-	-
Included in other comprehensive income (loss)	-	-	-	-
Purchases, issuances and settlements	1,835	1,835	-	-
Transfers in and/or (out) of Level 3	-	-	-	-
Ending balance	$ 1,821	$ 1,821	$ -	$ -

The amount of total gains or losses for the period
included in earnings (or changes in net assets)

attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ -	$ -	$ -	$ -

(Some amounts may not reconcile due to rounding.)

There were no net transfers to/(from) level 3, during the three months ended March 31, 2018 and 2017, respectively.
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The following table presents the activity under Level 3, fair value measurements using significant unobservable inputs by other invested assets, for the periods indicated:

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
Other invested assets, fair value:		
Beginning balance	$1,807,473	$1,766,626
Total gains or (losses) (realized/unrealized)		
Included in earnings	(36,789)	70,675
Included in other comprehensive income (loss)	-	-
Purchases, issuances and settlements	-	-
Transfers in and/or (out) of Level 3	-	-
Ending balance	$1,770,684	$1,837,302
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$-	$-

(Some amounts may not reconcile due to rounding.)

7. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Company is involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which will determine the Company's rights and obligations under insurance and reinsurance agreements. In some disputes, the Company seeks to enforce its rights under an agreement or to collect funds owing to it. In other matters, the Company is resisting attempts by others to collect funds or enforce alleged rights. These disputes arise from time to time and are ultimately resolved through both informal and formal means, including negotiated resolution, arbitration and litigation. In all such matters, the Company believes that its positions are legally and commercially reasonable. The Company considers the statuses of these proceedings when determining its reserves for unpaid loss and loss adjustment expenses.

Aside from litigation and arbitrations related to these insurance and reinsurance agreements, the Company is not a party to any other material litigation or arbitration.

The Company has entered into separate annuity agreements with The Prudential Insurance Company of America ("The Prudential") and an additional unaffiliated life insurance company in which the Company has either purchased annuity contracts or become the assignee of annuity proceeds that are meant to settle claim payment obligations in the future. In both instances, the Company would become contingently liable if either The Prudential or the unaffiliated life insurance company were unable to make payments related to the respective annuity contact.

The table below presents the estimated cost to replace all such annuities for which the Company was contingently liable for the periods indicated:

(Dollars in thousands)	At March 31, 2018	At December 31, 2017
The Prudential	$ 144,516	$ 144,618

Unaffiliated life insurance company	32,718	$ 34,444

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8. COMPREHENSIVE INCOME (LOSS)

The following table presents the components of comprehensive income (loss) in the consolidated statements of operations and comprehensive income (loss) for the periods indicated:

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
(Dollars in thousands)	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Unrealized appreciation (depreciation) ("URA(D)") on securities - temporary	$ (59,390)	$ 12,490	$ (46,900)	$ 18,020	$ (6,307)	$ 11,713
URA(D) on securities - OTTI	99	(21)	78	(3,499)	1,225	(2,274)
Reclassification of net realized losses (gains) included in net income (loss)	(6,098)	1,263	(4,835)	(5,334)	1,867	(3,467)
Foreign currency translation adjustments	(1,696)	354	(1,342)	5,487	(1,920)	3,567
Reclassification of amortization of net gain (loss) included in net income (loss)	2,298	(483)	1,815	3,083	(1,079)	2,004
Total other comprehensive income (loss)	$ (64,787)	$ 13,603	$ (51,184)	$ 17,757	$ (6,214)	$ 11,543

(Some amounts may not reconcile due to rounding)

The following table presents details of the amounts reclassified from AOCI for the periods indicated:

	Three Months Ended March 31,		
AOCI component	2018	2017	Affected line item within the statements of operations and comprehensive income (loss)
(Dollars in thousands)			
URA(D) on securities	$ (6,098)	$ (5,334)	Other net realized capital gains (losses)
	1,263	1,867	Income tax expense (benefit)
	$ (4,835)	$ (3,467)	Net income (loss)
Benefit plan net gain (loss)	$ 2,298	$ 3,083	Other underwriting expenses
	(483)	(1,079)	Income tax expense (benefit)
	$ 1,815	$ 2,004	Net income (loss)

(Some amounts may not reconcile due to rounding)

The following table presents the components of accumulated other comprehensive income (loss), net of tax, in the consolidated balance sheets for the periods indicated:

	Three Months Ended	Twelve Months Ended

(Dollars in thousands)	March 31, 2018	December 31, 2017
Beginning balance of URA (D) on securities	$ 37,442	$ 39,041
Current period change in URA (D) of investments - temporary	(51,735)	(5,284)
Current period change in URA (D) of investments - non-credit OTTI	78	(2,949)
Reclass due to early adoption of ASU 2018-02	-	6,634
Cumulative change due to ASU 2016-01	(2,447)	-
Ending balance of URA (D) on securities	(16,662)	37,442
Beginning balance of foreign currency translation adjustments	33,545	(9,852)
Current period change in foreign currency translation adjustments	(1,342)	37,427
Reclass due to early adoption of ASU 2018-02	-	5,970
Ending balance of foreign currency translation adjustments	32,203	33,545
Beginning balance of benefit plan net gain (loss)	(71,929)	(65,504)
Current period change in benefit plan net gain (loss)	1,815	6,504
Reclass due to early adoption of ASU 2018-02	-	(12,929)
Ending balance of benefit plan net gain (loss)	(70,114)	(71,929)
Ending balance of accumulated other comprehensive income (loss)	$ (54,573)	$ (942)

9. COLLATERALIZED REINSURANCE AND TRUST AGREEMENTS

A subsidiary of the Company, Everest Re, has established a trust agreement, which effectively uses Everest Re's investments as collateral, as security for assumed losses payable to non-affiliated ceding companies. At March 31, 2018, the total amount on deposit in the trust account was $698,649 thousand.

On April 24, 2014, the Company entered into two collateralized reinsurance agreements with Kilimanjaro Re Limited ("Kilimanjaro"), a Bermuda based special purpose reinsurer, to provide the Company with catastrophe reinsurance coverage. These agreements are multi-year reinsurance contracts which cover specified named storm and earthquake events. The first agreement provides up to $250,000 thousand of reinsurance coverage from named storms in specified states of the Southeastern United States. The second agreement provides up to $200,000 thousand of reinsurance coverage from named storms in specified states of the Southeast, Mid-Atlantic and Northeast regions of the United States and Puerto Rico as well as reinsurance coverage from earthquakes in specified states of the Southeast, Mid-Atlantic, Northeast and West regions of the United States, Puerto Rico and British Columbia. These reinsurance agreements expired in April, 2018.

On November 18, 2014, the Company entered into a collateralized reinsurance agreement with Kilimanjaro to provide the Company with catastrophe reinsurance coverage. This agreement is a multi-year reinsurance contract which covers specified earthquake events. The agreement provides up to $500,000 thousand of reinsurance coverage from earthquakes in the United States, Puerto Rico and Canada.

On December 1, 2015 the Company entered into two collateralized reinsurance agreements with Kilimanjaro to provide the Company with catastrophe reinsurance coverage. These agreements are multi-year reinsurance contracts which cover named storm and earthquake events. The first agreement provides up to $300,000 thousand of reinsurance coverage from named storms and earthquakes in the United States, Puerto Rico and Canada. The second agreement provides up to $325,000 thousand of reinsurance coverage from named storms and earthquakes in the United States, Puerto Rico and Canada.

On April 13, 2017 the Company entered into six collateralized reinsurance agreements with Kilimanjaro to provide the Company with annual aggregate catastrophe reinsurance coverage. The initial three agreements are four year reinsurance contracts which cover named storm and earthquake events. These agreements provide up to $225,000 thousand, $400,000 thousand and $325,000 thousand, respectively, of annual aggregate reinsurance coverage from named storms and earthquakes in the United States, Puerto Rico and Canada. The subsequent three agreements are five year reinsurance contracts which cover named storm and earthquake events. These agreements provide up to $50,000 thousand, $75,000 thousand and $175,000 thousand, respectively, of annual aggregate reinsurance coverage from named storms and earthquakes in the United States, Puerto Rico and Canada.

On April 30, 2018 the Company entered into four collateralized reinsurance agreements with Kilimanjaro Re to provide the Company with catastrophe reinsurance coverage. These agreements are multi-year reinsurance contracts which cover named storm and earthquake events. The first two agreements are four year reinsurance contracts which provide up to $62,500 thousand and $200,000 thousand, respectively, of annual aggregate reinsurance coverage from named storms and earthquakes in the United States, Puerto Rico, the U.S. Virgin Islands and Canada. The remaining two agreements are five year reinsurance contracts which provide up to $62,500 thousand and $200,000 thousand, respectively, of annual aggregate reinsurance coverage from named storms and earthquakes in the United States, Puerto Rico, the U.S. Virgin Islands and Canada.

Recoveries under these collateralized reinsurance agreements with Kilimanjaro are primarily dependent on estimated industry level insured losses from covered events, as well as, the geographic location of the events. The estimated industry level of insured losses is obtained from published estimates by an independent recognized authority on insured property losses. As of December 31, 2017, none of the published insured loss estimates for the 2017 catastrophe events have exceeded the single event retentions under the terms of the agreements that would result in a recovery. In addition, the aggregation of the to date published insured loss estimates for the 2017 covered events have not exceeded the aggregated retentions for recovery. However, if the published estimates for insured losses for the covered 2017 events increase, the aggregate losses may exceed the aggregate event retentions under the agreements, resulting in a recovery.

Kilimanjaro has financed the various property catastrophe reinsurance coverages by issuing catastrophe bonds to unrelated, external investors. On April 24, 2014, Kilimanjaro issued $450,000 thousand of notes ("Series 2014-1 Notes"). The $450,000 thousand of Series 2014-1 Notes were fully redeemed on April 30, 2018 and are no longer outstanding. On November 18, 2014, Kilimanjaro issued $500,000 thousand of notes ("Series 2014-2 Notes"). On December 1, 2015, Kilimanjaro issued $625,000 thousand of notes ("Series 2015-1 Notes). On April 13, 2017, Kilimanjaro issued $950,000 thousand of notes ("Series 2017-1 Notes) and $300,000 thousand of notes ("Series 2017-2 Notes). On April 30, 2018, Kilimanjaro issued $262,500 thousand of notes ("Series 2018-1 Notes") and $262,500 thousand of notes ("Series 2018-2 Notes"). The proceeds from the issuance of the Notes listed above are held in reinsurance trust throughout the duration of the applicable reinsurance agreements and invested solely in US government money market funds with a rating of at least "AAAm" by Standard & Poor's.

10. SENIOR NOTES

The table below displays Holdings' outstanding senior notes. Market value is based on quoted market prices, but due to limited trading activity, these senior notes are considered Level 2 in the fair value hierarchy.

				March 31, 2018		December 31, 2017	
(Dollars in thousands)	Date Issued	Date Due	Principal Amounts	Consolidated Balance Sheet Amount	Market Value	Consolidated Balance Sheet Amount	Market Value
4.868% Senior notes	06/05/2014	06/01/2044	400,000	$ 396,864	$ 399,080	$ 396,834	$ 420,340

On June 5, 2014, Holdings issued $400,000 thousand of 30 year senior notes at 4.868%, which will mature on June 1, 2044. Interest will be paid semi-annually on June 1 and December 1 of each year.

Interest expense incurred in connection with these senior notes is as follows for the periods indicated:

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
Interest expense incurred	$ 4,868	$ 4,868

11. LONG TERM SUBORDINATED NOTES

The table below displays Holdings' outstanding fixed to floating rate long term subordinated notes. Market value is based on quoted market prices, but due to limited trading activity, these subordinated notes are considered Level 2 in the fair value hierarchy.

	Maturity Date	March 31, 2018	December 31, 2017
Original		Consolidated Balance	Consolidated Balance

(Dollars in thousands)	Date Issued	Principal Amount	Scheduled	Final	Sheet Amount	Market Value	Sheet Amount	Market Value
6.6% Long term subordinated notes	04/26/2007	$ 400,000	05/15/2037	05/01/2067	$ 236,585	$ 238,421	$ 236,561	$ 233,072

During the fixed rate interest period from May 3, 2007 through May 14, 2017, interest was at the annual rate of 6.6%, payable semi-annually in arrears on November 15 and May 15 of each year, commencing on November 15, 2007. During the floating rate interest period from May 15, 2017 through maturity, interest will be based on the 3 month LIBOR plus 238.5 basis points, reset quarterly, payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year, subject to Holdings' right to defer interest on one or more occasions for up to ten consecutive years. Deferred interest will accumulate interest at the applicable rate compounded quarterly for periods from and including August 15, 2017. The reset quarterly interest rate for February 15, 2018 to May 14, 2018 is 4.2%.

Holdings may redeem the long term subordinated notes on or after May 15, 2017, in whole or in part at 100% of the principal amount plus accrued and unpaid interest; however, redemption on or after the scheduled maturity date and prior to May 1, 2047 is subject to a replacement capital covenant. This covenant is for the benefit of certain senior note holders and it mandates that Holdings receive proceeds from the sale of another subordinated debt issue, of at least similar size, before it may redeem the subordinated notes. Effective upon the maturity of the Company's 5.40% senior notes on October 15, 2014, the Company's 4.868% senior notes, due on June 1, 2044, have become the Company's long term indebtedness that ranks senior to the long term subordinated notes.

On March 19, 2009, Group announced the commencement of a cash tender offer for any and all of the 6.60% fixed to floating rate long term subordinated notes. Upon expiration of the tender offer, the Company had reduced its outstanding debt by $161,441 thousand.

Interest expense incurred in connection with these long term subordinated notes is as follows for the periods indicated:

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
Interest expense incurred	$ 2,391	$ 3,937

12. SEGMENT REPORTING

The U.S. Reinsurance operation writes property and casualty reinsurance and specialty lines of business, including Marine, Aviation, Surety and Accident and Health ("A&H") business, on both a treaty and facultative basis, through reinsurance brokers, as well as directly with ceding companies primarily within the U.S. The International operation writes non-U.S. property and casualty reinsurance through Everest Re's branches in Canada, Singapore and through offices in Brazil, Miami and New Jersey. The Insurance operation writes property and casualty insurance directly and through brokers, surplus lines brokers and general agents mainly within the U.S.

These segments are managed independently, but conform with corporate guidelines with respect to pricing, risk management, control of aggregate catastrophe exposures, capital, investments and support operations. Management generally monitors and evaluates the financial performance of these operating segments based upon their underwriting results.

Underwriting results include earned premium less losses and LAE incurred, commission and brokerage expenses and other underwriting expenses. We measure our underwriting results using ratios, in particular loss, commission and brokerage and other underwriting expense ratios, which, respectively, divide incurred losses, commissions and brokerage and other underwriting expenses by premiums earned.

The Company does not maintain separate balance sheet data for its operating segments. Accordingly, the Company does not review and evaluate the financial results of its operating segments based upon balance sheet data.

The following tables present the underwriting results for the operating segments for the periods indicated:

	Three Months Ended	
U.S. Reinsurance	March 31,	
(Dollars in thousands)	2018	2017
Gross written premiums	$644,222	$578,958
Net written premiums		