

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 (I.R.S. Employer
incorporation or organization) 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 Emerging growth company
reporting 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.

<u>Class</u>	<u>Number of Shares Outstanding</u> <u>At May 1, 2018</u>
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.

Table of Contents
Form 10-Q

Page

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets at March 31, 2018 (unaudited) and December 31, 2017	1
---	---

Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months ended March 31, 2018 and 2017 (unaudited)	2
--	---

Consolidated Statements of Changes in Stockholder's Equity for the three months ended March 31, 2018 and 2017 (unaudited)	3
---	---

Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017 (unaudited)	4
--	---

Notes to Consolidated Interim Financial Statements (unaudited)	5
---	---

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation	31
--	----

Item 3. Quantitative and Qualitative Disclosures About Market Risk	43
--	----

Item 4. Controls and Procedures	43
---------------------------------	----

PART II

OTHER INFORMATION

Item 1. Legal Proceedings	43
------------------------------	----

Item 1A. Risk Factors	44
-----------------------	----

Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	44
Item 3.	Defaults Upon Senior Securities	44
Item 4.	Mine Safety Disclosures	44
Item 5.	Other Information	44
Item 6.	Exhibits	44

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)

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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.

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

(Dollars in thousands)	Three Months Ended March 31,	
	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.

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

(Dollars in thousands, except share amounts)	Three Months Ended March 31,	
	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

(Dollars in thousands)	Three Months Ended March 31,	
	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

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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.

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 reclassified 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 AND COMPREHENSIVE INCOME (LOSS):	Three Months Ended March 31, 2017		
	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 CHANGES IN STOCKHOLDER'S EQUITY	Three Months Ended March 31, 2017		
	As Previously Reported	Impact of Revisions	As Revised
(Dollars in thousands, except share amounts)			
RETAINED EARNINGS:			

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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

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:

(Dollars in thousands)	At March 31, 2018				OTTI in
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	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

(Dollars in thousands)	At December 31, 2017				OTTI in
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	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.

(Dollars in thousands)	At March 31, 2018		At December 31, 2017	
	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:

(Dollars in thousands)	Three Months Ended	
	March 31, 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.

10

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	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
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	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
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)

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
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	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
Fixed maturity securities						
Due in one year or less	\$102,939	\$ (498)	\$ 40,006	\$ (1,627)	\$ 142,945	\$ (2,125)

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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

12

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:

(Dollars in thousands)	Three Months Ended	
	March 31,	
	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:

(Dollars in thousands)	Three Months Ended	
	March 31,	
	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:

(Dollars in thousands)	Three Months Ended	
	March 31,	
	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.

15

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.

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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:

(Dollars in thousands)	March 31, 2018	Fair Value Measurement Using:		
		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:

(Dollars in thousands)	December 31, 2017	Fair Value Measurement Using:		
		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				

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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

18

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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:

(Dollars in thousands)	Total Fixed Maturities, Market Value					
	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	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.)

(Dollars in thousands)	Total Fixed Maturities, Fair Value			
	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	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.

19

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

(Dollars in thousands)	Three Months Ended	
	March 31, 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 contract.

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,	At December 31,
	2018	2017
The Prudential	\$ 144,516	\$ 144,618

Unaffiliated life insurance company 32,718 \$ 34,444

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:

(Dollars in thousands)	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	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:

AOCI component (Dollars in thousands)	Three Months Ended March 31,		Affected line item within the statements of operations and comprehensive income (loss)
	2018	2017	
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

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

(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,

22

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.

(Dollars in thousands)	Date Issued	Date Due	Principal Amounts	March 31, 2018		December 31, 2017	
				Consolidated Balance Sheet	Market Value	Consolidated Balance Sheet	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:

(Dollars in thousands)	Three Months Ended	
	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.

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

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

(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:

<u>U.S. Reinsurance</u> (Dollars in thousands)	Three Months Ended March 31,	
	2018	2017
Gross written premiums	\$644,222	\$578,958
Net written premiums	423,831	219,062
Premiums earned	\$441,385	\$208,314
Incurred losses and LAE	301,204	120,434
Commission and brokerage	127,320	40,373
Other underwriting expenses	16,886	14,251
Underwriting gain (loss)	\$(4,025)	\$33,256

<u>International</u> (Dollars in thousands)	Three Months Ended March 31,	
	2018	2017
Gross written premiums	\$367,024	\$278,575
Net written premiums	334,875	103,246
Premiums earned	\$328,939	\$118,151
Incurred losses and LAE	176,359	68,414
Commission and brokerage	78,394	23,535
Other underwriting expenses	10,086	8,889
Underwriting gain (loss)	\$64,100	\$17,313

<u>Insurance</u> (Dollars in thousands)	Three Months Ended March 31,	
	2018	2017
Gross written premiums	\$454,985	\$394,851
Net written premiums	348,321	126,528
Premiums earned	\$345,686	\$144,590
Incurred losses and LAE	235,692	100,874
Commission and brokerage	50,743	(11,400)
Other underwriting expenses	50,379	36,755
Underwriting gain (loss)	\$8,872	\$18,361

The following table reconciles the underwriting results for the operating segments to income (loss) before taxes as reported in the consolidated statements of operations and comprehensive income (loss) for the periods indicated:

Three Months Ended

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

(Dollars in thousands)	March 31,	
	2018	2017
Underwriting gain (loss)	\$68,947	\$68,930
Net investment income	69,909	60,849
Net realized capital gains (losses)	(60,201)	117,768
Corporate expense	(3,596)	(3,597)
Interest, fee and bond issue cost amortization expense	(7,313)	(8,859)
Other income (expense)	(74,877)	9,855
Income (loss) before taxes	\$(7,131)	\$244,947

(Some amounts may not reconcile due to rounding.)

The Company produces business in the U.S. and internationally. The net income deriving from assets residing in the individual foreign countries in which the Company writes business are not identifiable in the Company's financial records. Based on gross written premium, the table below presents the largest country, other than the U.S., in which the Company writes business, for the periods indicated:

(Dollars in thousands)	Three Months Ended March 31,	
	2018	2017
Canada gross written premiums	\$ 40,392	\$ 27,957

No other country represented more than 5% of the Company's revenues.

13. RELATED-PARTY TRANSACTIONS

Parent

Group entered into a \$250,000 thousand long term promissory note agreement with Holdings as of December 31, 2014. The note will mature on December 31, 2023 and has an interest rate of 1.72% that is payable annually. This transaction is presented as a Note Receivable – Affiliated in the Consolidated Balance Sheets of Holdings. Interest income in the amount of \$4,300 thousand was recorded by Holdings for the year ended December 31, 2017 and December 31, 2016, respectively.

Group's Board of Directors approved an amended share repurchase program authorizing Group and/or its subsidiary Holdings to purchase Group's common shares through open market transactions, privately negotiated transactions or both. The table below represents the amendments to the share repurchase program for the common shares approved for repurchase.

Amendment Date (Dollars in thousands)	Common Shares Authorized for Repurchase
09/21/2004	5,000,000
07/21/2008	5,000,000
02/24/2010	5,000,000
02/22/2012	5,000,000
05/15/2013	5,000,000
11/19/2014	5,000,000
	30,000,000

Holdings had purchased and held 9,719,971 Common Shares of Group, which were purchased in the open market between February 2007 and March 2011.

In December, 2015, Holdings transferred the 9,719,971 Common Shares of Group, which it held as other invested assets, at fair value, valued at \$1,773,214 thousand, to Preferred Holdings, an affiliated entity and subsidiary of

Group, in exchange for 1,773.214 preferred shares of Preferred Holdings with a \$1,000 thousand par value and 1.75% annual dividend rate. After the exchange, Holdings no longer holds any shares or has any ownership interest in Group.

Holdings reported both its Parent shares and preferred shares in Preferred Holdings, as other invested assets, fair value, in the consolidated balance sheets with changes in fair value re-measurement recorded in net realized capital gains (losses) in the consolidated statements of operations and comprehensive income (loss). The following table presents the dividends received on the preferred shares of Preferred Holdings and on the Parent shares that are reported as net investment income in the consolidated statements of operations and comprehensive income (loss) for the period indicated.

(Dollars in thousands)	Three Months Ended	
	March 31,	
	2018	2017
Dividends received on preferred stock of affiliate	\$ 7,758	\$ 7,758

Affiliated Companies

Everest Global Services, Inc. ("Global Services"), an affiliate of Holdings, provides centralized management and home office services, through a management agreement, to Holdings and other affiliated companies within Holdings' consolidated structure. Services provided by Everest Global include executive managerial services, legal services, actuarial services, accounting services, information technology services and others.

The following table presents the expenses incurred by Holdings from services provided by Everest Global for the periods indicated.

(Dollars in thousands)	Three Months Ended	
	March 31,	
	2018	2017
Expenses incurred	\$ 28,448	\$ 23,183

Affiliates

The table below represents affiliated quota share reinsurance agreements ("whole account quota share") for all new and renewal business for the indicated coverage period:

(Dollars in thousands)						
Coverage Period	Ceding Company	Percent Ceded	Assuming Company	Type of Business	Single Occurrence Limit	Aggregate Limit
01/01/2010-12/31/2010	Everest Re	44.0%	Bermuda Re	property / casualty business	150,000	325,000
01/01/2011-12/31/2011	Everest Re	50.0%	Bermuda Re	property / casualty business	150,000	300,000
01/01/2012-12/31/2014	Everest Re	50.0%	Bermuda Re	property / casualty business	100,000	200,000

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

01/01/2015-12/31/2016	Everest Re	50.0%	Bermuda Re	property / casualty business	162,500	325,000
01/01/2017-12/31/2017	Everest Re	60.0%	Bermuda Re	property / casualty business	219,000	438,000
01/01/2010-12/31/2010	Everest Re- Canadian Branch	60.0%	Bermuda Re	property business	350,000	(1) -
01/01/2011-12/31/2011	Everest Re- Canadian Branch	60.0%	Bermuda Re	property business	350,000	(1) -
01/01/2012-12/31/2012	Everest Re- Canadian Branch	75.0%	Bermuda Re	property / casualty business	206,250	(1) 412,500
01/01/2013-12/31/2013	Everest Re- Canadian Branch	75.0%	Bermuda Re	property / casualty business	150,000	(1) 412,500
01/01/2014-12/31/2017	Everest Re- Canadian Branch	75.0%	Bermuda Re	property / casualty business	262,500	(1) 412,500
01/01/2012-12/31/2017	Everest Canada	80.0%	Everest Re- Canadian Branch	property business	-	-

(1) Amounts shown are
Canadian dollars.

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

As of December 31, 2017, the Company decided not to renew its quota share reinsurance agreements between Everest Re and Bermuda Re, between Everest Re-Canadian branch and Bermuda Re and between Everest Canada and the Everest Re-Canadian branch due to economic implications of the enactment of TCJA on December 22, 2017.

Effective January 1, 2018, Everest Re entered into a twelve month whole account aggregate stop loss reinsurance contract ("stop loss agreement") with Bermuda Re. The stop loss agreement provides coverage for ultimate net losses on applicable net earned premiums above a retention level, subject to certain other coverage limits and conditions.

The table below represents loss portfolio transfer ("LPT") reinsurance agreements whereby net insurance exposures and reserves were transferred to an affiliate.

(Dollars in thousands)

Effective Date	Transferring Company	Assuming Company	% of Business or Amount of Transfer	Covered Period of Transfer
09/19/2000	Mt. McKinley	Bermuda Re	100 %	All years
10/01/2001	Everest Re (Belgium Branch)	Bermuda Re	100 %	All years
10/01/2008	Everest Re	Bermuda Re	\$ 747,022	01/01/2002-12/31/2007
12/31/2017	Everest Re	Bermuda Re	\$ 970,000	All years

On December 31, 2017, the Company entered into a LPT agreement with Bermuda Re. The LPT agreement covers subject loss reserves of \$3,138,716 thousand for accident years 2017 and prior. As a result of the LPT agreement, the Company transferred \$1,000,000 thousand of cash and fixed maturity securities and transferred \$970,000 thousand of loss reserves to Bermuda Re. As part of the LPT agreement, Bermuda Re will provide an additional \$500,000 thousand of adverse development coverage on the subject loss reserves.

The following tables summarize the premiums and losses ceded by the Company to Bermuda Re and Everest International, respectively, and premiums and losses assumed by the Company from Everest Canada and Lloyd's syndicate 2786 for the periods indicated:

<u>Bermuda Re</u> (Dollars in thousands)	Three Months Ended March 31,	
	2018	2017
Ceded written premiums	\$ 132,320	\$ 634,896
Ceded earned premiums	136,158	588,874
Ceded losses and LAE	193,551	340,131

<u>Everest International</u> (Dollars in thousands)	Three Months Ended March 31,	
	2018	2017
Ceded written premiums	\$ -	\$ (70)
Ceded earned premiums	-	(71)
Ceded losses and LAE	-	(443)

<u>Everest Canada</u> (Dollars in thousands)	Three Months Ended March 31,	
	2018	2017
Assumed written premiums	\$ -	\$ 12,848
Assumed earned premiums	-	12,853
Assumed losses and LAE	2,973	6,651

28

<u>Lloyd's Syndicate 2786</u> (Dollars in thousands)	Three Months Ended March 31,	
	2018	2017
Assumed written premiums	\$ (2,682)	\$ 7,849
Assumed earned premiums	4,886	6,927
Assumed losses and LAE	6,585	3,433

Everest Re sold net assets of its UK branch to Bermuda Re and provided Bermuda Re with a reserve indemnity agreement allowing for indemnity payments of up to 90% of 25.0 million of the excess of 2002 and prior reserves, provided that any recognition of profit from the reserves for 2002 and prior underwriting years is taken into account.

Effective February 27, 2013, Group established a new subsidiary, Mt. Logan Re, which is a Class 3 insurer based in Bermuda. Effective July 1, 2013, Mt. Logan Re established separate segregated accounts for its business activity, which will invest in a diversified set of catastrophe exposures.

The following table summarizes the premiums and losses that are ceded by the Company to Mt. Logan Re segregated accounts and assumed by the Company from Mt. Logan Re segregated accounts.

<u>Mt. Logan Re Segregated Accounts</u> (Dollars in thousands)	Three Months Ended March 31,	
	2018	2017
Ceded written premiums	\$ 60,817	\$ 39,179
Ceded earned premiums	50,090	33,957
Ceded losses and LAE	15,807	19,759
Assumed written premiums	\$ 3,043	\$ 2,732
Assumed earned premiums	3,043	2,732
Assumed losses and LAE	-	-

14. RETIREMENT BENEFITS

The Company maintains both qualified and non-qualified defined benefit pension plans and a retiree health plan for its U.S. employees employed prior to April 1, 2010.

Net periodic benefit cost for U.S. employees included the following components for the periods indicated:

<u>Pension Benefits</u> (Dollars in thousands)	Three Months Ended March 31,	
	2018	2017
Service cost	\$ 2,977	\$ 3,299
Interest cost	2,585	2,276
Expected return on plan assets	(3,670)	(3,155)
Amortization of net (income) loss	2,237	3,040
Net periodic benefit cost	\$ 4,128	\$ 5,460

<u>Other Benefits</u>	Three Months Ended	
	March 31,	
(Dollars in thousands)	2018	2017
Service cost	\$ 446	\$ 440
Interest cost	307	249
Amortization of prior service cost	(33)	(33)
Amortization of net (income) loss	94	76
Net periodic benefit cost	\$ 814	\$ 732

(Some amounts may not reconcile due to rounding.)

29

The service cost component of net periodic benefit costs is included within other underwriting expenses on the consolidated statement of operations and comprehensive income (loss). In accordance with ASU 2017-07, other staff compensation costs are also primarily recorded within this line item.

The Company did not make any contributions to the qualified pension benefit plan for the three months ended March 31, 2018 and 2017.

15. INCOME TAXES

The Company is domiciled in the United States and has subsidiaries domiciled within the United States with significant branches in Canada and Singapore. The Company's non-U.S. branches are subject to income taxation at varying rates in their respective domiciles. The Tax Cuts and Jobs Act ("TCJA") was passed on December 22, 2017. The primary changes from TCJA affecting the Company is a reduction of the corporate income tax rate from 35% to 21% beginning January 1, 2018 as well as the imposition of a new Base Erosion and Anti-abuse Tax ("BEAT") of 5% in 2018 and 10% from 2019 – 2025 and 12.5% thereafter on certain transactions with non-US affiliates of the Company.

The Company generally applies the estimated annual effective tax rate approach for calculating its tax provision for interim periods as prescribed by ASC 740-270, Interim Reporting. Under the estimated annual effective tax rate approach, the estimated annual effective tax rate is applied to the interim year-to-date pre-tax income/loss to determine the income tax expense or benefit for the year-to-date period. If the annual effective tax rate approach produces a year-to-date tax benefit which exceeds the amount which is estimated to be recoverable for the full year, then the tax benefit for the interim reporting period will be limited as prescribed under ASC 740-270 to the estimated recoverable based on the year-to-date result. The tax expense or benefit for the quarter represents the difference between the year-to-date tax expense or benefit for the current year-to-date period less such amount for the immediately preceding year-to-date period. Management considers the impact of all known events in its estimation of the Company's annual pre-tax income/loss and effective tax rate.

16. SUBSEQUENT EVENTS

On April 30, 2018, the Company entered into four collateralized reinsurance agreements with Kilimanjaro to provide the Company with annual aggregate catastrophe reinsurance coverage. Kilimanjaro has financed these coverages by issuing a total of \$525,000 thousand of catastrophe bonds to unrelated, external investors. See also Footnote 9, Collateralized Reinsurance and Trust Agreements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Industry Conditions.

The worldwide reinsurance and insurance businesses are highly competitive, as well as cyclical by product and market. As such, financial results tend to fluctuate with periods of constrained availability, higher rates and stronger profits followed by periods of abundant capacity, lower rates and constrained profitability. Competition in the types of reinsurance and insurance business that we underwrite is based on many factors, including the perceived overall financial strength of the reinsurer or insurer, ratings of the reinsurer or insurer by A.M. Best and/or Standard & Poor's, underwriting expertise, the jurisdictions where the reinsurer or insurer is licensed or otherwise authorized, capacity and coverages offered, premiums charged, other terms and conditions of the reinsurance and insurance business offered, services offered, speed of claims payment and reputation and experience in lines written. Furthermore, the market impact from these competitive factors related to reinsurance and insurance is generally not consistent across lines of business, domestic and international geographical areas and distribution channels.

We compete in the U.S. and international reinsurance and insurance markets with numerous global competitors. Our competitors include independent reinsurance and insurance companies, subsidiaries or affiliates of established worldwide insurance companies, reinsurance departments of certain insurance companies, domestic and international underwriting operations, including underwriting syndicates at Lloyd's of London and certain government sponsored risk transfer vehicles. Some of these competitors have greater financial resources than we do and have established long term and continuing business relationships, which can be a significant competitive advantage. In addition, the lack of strong barriers to entry into the reinsurance business and recently, the securitization of reinsurance and insurance risks through capital markets provide additional sources of potential reinsurance and insurance capacity and competition.

Worldwide insurance and reinsurance market conditions continued to be very competitive, particularly in the property catastrophe and casualty reinsurance lines of business. Generally, there was ample insurance and reinsurance capacity relative to demand, as well as, additional capital from the capital markets through insurance linked financial instruments. These financial instruments such as side cars, catastrophe bonds and collateralized reinsurance funds, provide capital markets with access to insurance and reinsurance risk exposure. The capital markets demand for these products is being primarily driven by the current low interest rate environment and the desire to achieve greater risk diversification and potentially higher returns on their investments. This increased competition is generally having a negative impact on rates, terms and conditions; however, the impact varies widely by market and coverage.

Rates tend to fluctuate by specific region and products, particularly areas recently impacted by large catastrophic events. There was an unprecedented series of catastrophes in the third quarter of 2017 with Hurricanes Harvey, Irma and Maria, as well as a significant earthquake in Mexico City. Additional catastrophe events occurred in the fourth quarter of 2017 with the wild fires in California and Hurricanes Nate and Ophelia. The total industry losses for all of these worldwide events have been estimated to exceed \$140 billion. This is the second consecutive year with higher than average catastrophe losses. During 2016, catastrophe losses included the Fort McMurray Canadian wildfire, Hurricane Matthew which affected a large area of the Caribbean and southeastern United States, storms and an earthquake in Ecuador. There are industry reports that the catastrophe losses for 2016 reached their highest level in four years and the United States experienced the most loss events since 1980 and the highest total losses since 2012. While the future impact on market conditions from these catastrophes cannot be determined at this time, there was some firming in the markets impacted by the 2016 catastrophes and as catastrophe losses increased in 2017, there is a growing industry consensus that there will be a general firming of the (re)insurance markets resulting in rate increases, not only for catastrophe exposures, but also potentially for most other lines of business.

Commencing in 2015, we initiated a strategic build out of our insurance platform through the investment in key leadership hires which in turn has brought significant underwriting talent and stronger direction in achieving our insurance program strategic goals of increased premium volume and improved underwriting results. Recent growth is

coming from highly diversified areas including newly launched lines of business, as well as, product and geographic expansion in existing lines of business. We are building a world-class

31

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

insurance platform capable of offering products across lines and geographies, complementing our leading global reinsurance franchise.

Overall, we believe that given our size, strong ratings, distribution system, reputation, expertise and capital market vehicle activity the current marketplace conditions provide profit opportunities. We continue to employ our strategy of targeting business that offers the greatest profit potential, while maintaining balance and diversification in our overall portfolio.

Financial Summary.

We monitor and evaluate our overall performance based upon financial results. The following table displays a summary of the consolidated net income (loss), ratios and stockholder's equity for the periods indicated:

(Dollars in millions)	Three Months Ended		Percentage	
	March 31, 2018	2017	Increase/ (Decrease)	
Gross written premiums	\$1,466.2	\$ 1,252.4	17.1	%
Net written premiums	1,107.0	448.8	146.6	%
REVENUES:				
Premiums earned	\$1,116.0	\$ 471.1	136.9	%
Net investment income	69.9	60.8	14.9	%
Net realized capital gains (losses)	(60.2)	117.8	-151.1	%
Other income (expense)	(74.9)	9.9	NM	
Total revenues	1,050.8	659.5	59.3	%
CLAIMS AND EXPENSES:				
Incurred losses and loss adjustment expenses	713.3	289.7	146.2	%
Commission, brokerage, taxes and fees	256.5	52.5	NM	
Other underwriting expenses	77.4	59.9	29.1	%
Corporate expense	3.6	3.6	0.0	%
Interest, fee and bond issue cost amortization expense	7.3	8.9	-17.5	%
Total claims and expenses	1,058.0	414.6	155.2	%
INCOME (LOSS) BEFORE TAXES	(7.1)	244.9	-102.9	%
Income tax expense (benefit)	5.0	75.8	-93.3	%
NET INCOME (LOSS)	\$(12.2)	\$ 169.2	-107.2	%
RATIOS:				
Loss ratio	63.9	% 61.5	% 2.4	Point Change
Commission and brokerage ratio	23.0	% 11.2	% 11.8	
Other underwriting expense ratio	6.9	% 12.7	% (5.8)	
Combined ratio	93.8	% 85.4	% 8.4	
Balance sheet data:				
	At March 31, 2018	At December 31, 2017	Percentage Increase/ (Decrease)	
Total investments and cash	\$9,004.2	\$ 8,911.5	1.0	%
Total assets	17,553.6	17,888.5	-1.9	%

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

Loss and loss adjustment expense reserves	9,145.8	9,343.0	-2.1	%
Total debt	633.4	633.4	0.0	%
Total liabilities	12,204.2	12,475.8	-2.2	%
Stockholder's equity	5,349.4	5,412.7	-1.2	%

(Some amounts may not reconcile due to rounding)

(NM, not meaningful)

Revenues.

Premiums. Gross written premiums increased by 17.1% to \$1,466.2 million for the three months ended March 31, 2018, compared to \$1,252.4 million or the three months ended March 31, 2017, reflecting a \$153.7 million, or 17.9%, increase in our reinsurance business and a \$60.1 million, or 15.2%, increase in our insurance business. The increase in reinsurance premiums was mainly due to the increases in treaty property business and Latin American business. The rise in insurance premiums was primarily due to increases in many lines of business, including property and accident and health. Net written premiums increased by 146.6% to \$1,107.0 million for the three months ended March 31, 2018, compared to \$448.8 million for the three months ended March 31, 2017. The difference between the change in gross written premiums compared to the change in net written premiums is primarily due to the impact of changes in affiliated reinsurance contracts, particularly the non-renewal of the quota share agreement between Everest Re and Bermuda Re as of December 31, 2017. Effective January 1, 2018, Everest Re entered into an aggregate stop loss agreement with Bermuda Re. Premiums ceded to Bermuda Re during the three months ended March 31, 2018 were \$132.3 million compared with \$634.9 million during the three months ended March 31, 2017. Premiums earned increased by 136.9% to \$1,116.0 million for the three months ended March 31, 2018, compared to \$471.1 million for the three months ended March 31, 2017. The change in premiums earned relative to net written premiums is due to timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

Net Investment Income. Net investment income increased 14.9% to \$69.9 million for the three months ended March 31, 2018, compared with net investment income of \$60.8 million for the three months ended March 31, 2017. Net pre-tax investment income as a percentage of average invested assets was 3.2% for the three months ended March 31, 2018, compared to 2.5% for the three months ended March 31, 2017. The increase in income and yield was primarily the result of higher income from our limited partnerships.

Net Realized Capital Gains (Losses). Net realized capital losses were \$60.2 million and net realized capital gains were \$117.8 million for the three months ended March 31, 2018 and 2017, respectively. The net realized capital losses of \$60.2 million for the three months ended March 31, 2018, were comprised of \$63.8 million of losses from fair value re-measurements on equity securities and other invested assets, partially offset by \$3.6 million of gains from sales on our fixed maturity and equity portfolio. The net realized capital gains of \$117.8 million for the three months ended March 31, 2017, were comprised of \$108.1 million of gains from fair value re-measurements on equity securities and other invested assets and \$10.8 million of gains from sales on our fixed maturity and equity securities, partially offset by \$1.1 million of other-than-temporary impairments.

Other Income (Expense). We recorded other expense of \$74.9 million and other income of \$9.9 million for the three months ended March 31, 2018 and 2017, respectively. The change was mainly due to the impact of development related to the Loss Portfolio Transfer agreement between Everest Re and Bermuda Re which was effective on December 31, 2017.

Claims and Expenses.

Incurred Losses and Loss Adjustment Expenses. The following table presents our incurred losses and loss adjustment expenses ("LAE") for the periods indicated.

(Dollars in millions)	Three Months Ended March 31,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
<u>2018</u>						
Attritional	\$712.9	63.9 %	\$0.3	0.0 %	\$ 713.3	63.9 %
Catastrophes	-	0.0 %	-	0.0 %	-	0.0 %
Total	\$712.9	63.9 %	\$0.3	0.0 %	\$ 713.3	63.9 %
<u>2017</u>						
Attritional	\$279.0	59.2 %	\$4.1	0.9 %	\$ 283.1	60.1 %
Catastrophes	7.2	1.5 %	(0.6)	-0.1 %	6.6	1.4 %
Total	\$286.2	60.7 %	\$3.5	0.8 %	\$ 289.7	61.5 %
<u>Variance 2018/2017</u>						
Attritional	\$433.9	4.7 pts	\$(3.8)	(0.9) pts	\$ 430.2	3.8 pts
Catastrophes	(7.2)	(1.5) pts	0.6	0.1 pts	(6.6)	(1.4) pts
Total	\$426.7	3.2 pts	\$(3.2)	(0.8) pts	\$ 423.6	2.4 pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE increased by 146.2% to \$713.3 million for the three months ended March 31, 2018 compared to \$289.7 million for the three months ended March 31, 2017, primarily due to an increase of \$433.9 million in current year attritional losses. The increase was mainly due to changes in affiliated reinsurance agreements, including the non-renewal of the quota share agreement with Bermuda Re as of December 31, 2017 and the implementation of an aggregate stop loss agreement with Bermuda Re as of January 1, 2018. There were no current year catastrophe losses for the three months ended March 31, 2018. The current year catastrophe losses of \$7.2 million for the three months ended March 31, 2017 related to Cyclone Debbie in Australia (\$7.2 million).

Commission, Brokerage, Taxes and Fees. Commission, brokerage, taxes and fees increased to \$256.5 million for the three months ended March 31, 2018 compared to \$52.5 million for the three months ended March 31, 2017. The increase was mainly due to changes in affiliated reinsurance agreements, including the non-renewal of the quota share agreement with Bermuda Re as of December 31, 2017, and changes in the mix of business toward additional pro rata business.

Other Underwriting Expenses. Other underwriting expenses increased by 29.1% to \$77.4 million for the three months ended March 31, 2018 compared to \$59.9 million for the three months ended March 31, 2017. The increase was mainly due to changes in affiliated reinsurance agreements, including the non-renewal of the quota share agreement with Bermuda Re as of December 31, 2017, and costs incurred to support the expansion of the insurance business.

Corporate Expenses. Corporate expenses, which are general operating expenses that are not allocated to segments, remained flat at \$3.6 million for the three months ended March 31, 2018 and 2017.

Interest, Fees and Bond Issue Cost Amortization Expense. Interest, fees and other bond amortization expense was \$7.3 million and \$8.9 million for the three months ended March 31, 2018 and 2017, respectively. The decrease in expense was primarily due to the conversion of the long term subordinated notes from a fixed rate of 6.6% to a floating rate, which is reset quarterly per the note agreement. The floating rate was 4.2% as of March 31, 2018.

Income Tax Expense (Benefit). We had an income tax expense of \$5.0 and \$75.8 million for the three months ended March 31, 2018 and 2017, respectively. Variations in taxes generally result from changes in the relative levels of pre-tax income, including the impact of catastrophe losses and net capital gains (losses) among jurisdictions with different tax rates. In addition, the enactment of the TCJA on December 22, 2017 reduced the U.S. corporate tax rate to 21% from 35%.

Net Income (Loss).

Our net loss was \$12.2 million and our net income was \$169.2 million for the three months ended March 31, 2018 and 2017, respectively. The changes were primarily driven by the financial component fluctuations explained above.

Ratios.

Our combined ratio increased by 8.4 points to 93.8% for the three months ended March 31, 2018, compared to 85.4% for the three months ended March 31, 2017. The loss ratio components increased 2.4 points for the three months ended March 31, 2018 over the same period last year. The commission and brokerage ratio components increased to 23.0% for the three months ended March 31, 2018 compared to 11.2% for the three months ended March 31, 2017. The other underwriting expense ratios decreased to 6.9% for the three months ended March 31, 2018 from 12.7% for the three months ended March 31, 2017. The changes in the combined ratio and its components were mainly due to the impact of changes in affiliated reinsurance contracts and changes in the mix of business.

Stockholder's Equity.

Stockholder's equity decreased by \$63.3 million to \$5,349.4 million at March 31, 2018 from \$5,412.7 million at December 31, 2017, principally as a result of \$51.7 million of net unrealized depreciation on investments, net of tax, \$12.2 million of net loss and \$1.3 million of net foreign currency translation adjustments, partially offset by \$1.8 million of net benefit plan obligation adjustments.

Consolidated Investment Results

Net Investment Income.

Net investment income increased by 14.9% to \$69.9 million for the three months ended March 31, 2018 compared to \$60.8 million for the three months ended March 31, 2017. The increase was primarily due to an increase in limited partnership income.

The following table shows the components of net investment income for the periods indicated:

(Dollars in millions)	Three Months Ended	
	March 31,	
	2018	2017
Fixed maturities	\$ 42.4	\$ 47.0
Equity securities	4.4	6.7
Short-term investments and cash	0.9	0.4
Other invested assets		
Limited partnerships	14.5	(0.2)
Dividends from preferred shares of affiliate	7.8	7.8
Other	3.2	1.3
Gross investment income before adjustments	73.2	62.9
Funds held interest income (expense)	2.9	1.9
Interest income from Parent	1.1	1.1
Gross investment income	77.1	65.9
Investment expenses	(7.2)	(5.1)

Net investment income	\$ 69.9	\$ 60.8
-----------------------	---------	---------

(Some amounts may not reconcile due to rounding.)

35

The following tables show a comparison of various investment yields for the periods indicated:

	At March 31, 2018	At December 31, 2017
Imbedded pre-tax yield of cash and invested assets at December 31	3.2%	3.4%
Imbedded after-tax yield of cash and invested assets at December 31	2.5%	2.7%

	Three Months Ended March 31, 2018 2017	
Annualized pre-tax yield on average cash and invested assets	3.2%	2.5%
Annualized after-tax yield on average cash and invested assets	2.6%	1.8%

Net Realized Capital Gains (Losses).

The following table presents the composition of our net realized capital gains (losses) for the periods indicated:

(Dollars in millions)	Three Months Ended March 31,		
	2018	2017	Variance
<u>Gains (losses) from sales:</u>			
Fixed maturity securities, market value			
Gains	\$ 6.9	\$ 8.0	\$ (1.1)
Losses	(0.8)	(1.5)	0.7
Total	6.1	6.5	(0.4)
Equity securities, fair value			
Gains	3.2	8.0	(4.8)
Losses	(5.7)	(3.7)	(2.0)
Total	(2.5)	4.3	(6.8)
Total net realized gains (losses) from sales			
Gains	10.1	16.0	(5.9)
Losses	(6.5)	(5.2)	(1.3)
Total	3.6	10.8	(7.2)
<u>Other than temporary impairments:</u>			
	-	(1.1)	1.1
<u>Gains (losses) from fair value adjustments:</u>			
Equity securities, fair value	(27.0)	37.4	(64.4)
Other invested assets, fair value	(36.8)	70.7	(107.5)
Total	(63.8)	108.1	(171.9)
Total net realized gains (losses)	\$ (60.2)	\$ 117.8	\$ (178.0)

(Some amounts may not reconcile due to rounding.)

Net realized capital losses were \$60.2 million and net realized capital gains were \$117.8 million for the three months ended March 31, 2018 and 2017, respectively. For the three months ended March 31, 2018, we recorded \$63.8 million of losses from fair value re-measurements on equity securities and other invested assets, partially offset by \$3.6 million of gains from sales on our fixed maturity and equity securities. For the three months ended March 31, 2017, we recorded \$108.1 million of net realized capital gains due to fair value re-measurements on equity securities and other invested assets and \$10.8 million of net realized capital gains from sales of fixed maturity and equity securities, partially offset by \$1.1 million of other-than-temporary impairments. The fixed maturity and equity sales related primarily to adjusting the portfolios for overall market changes and individual credit shifts.

36

Segment Results.

The U.S. Reinsurance operation writes property and casualty reinsurance and specialty lines of business, including Marine, Aviation, Surety and 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, 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.

Our loss and LAE reserves are management's best estimate of our ultimate liability for unpaid claims. We re-evaluate our estimates on an ongoing basis, including all prior period reserves, taking into consideration all available information and, in particular, recently reported loss claim experience and trends related to prior periods. Such re-evaluations are recorded in incurred losses in the period in which the re-evaluation is made.

The following discusses the underwriting results for each of our segments for the periods indicated:

U.S. Reinsurance.

The following table presents the underwriting results and ratios for the U.S. Reinsurance segment for the periods indicated.

(Dollars in millions)	Three Months Ended March 31,				
	2018	2017	Variance	% Change	
Gross written premiums	\$644.2	\$579.0	\$ 65.2	11.3	%
Net written premiums	423.8	219.1	204.8	93.5	%
Premiums earned	\$441.4	\$208.3	\$ 233.1	111.9	%
Incurred losses and LAE	301.2	120.4	180.8	150.1	%
Commission and brokerage	127.3	40.4	86.9	215.4	%
Other underwriting expenses	16.9	14.3	2.6	18.5	%
Underwriting gain (loss)	\$(4.0)	\$33.3	\$(37.3)	-112.1	%
				Point Chg	
Loss ratio	68.2 %	57.8 %		10.4	
Commission and brokerage ratio	28.8 %	19.4 %		9.4	
Other underwriting ratio	3.9 %	6.8 %		(2.9)	
Combined ratio	100.9%	84.0 %		16.9	

(Some amounts may not reconcile due to rounding.)

Premiums. Gross written premiums increased by 11.3% to \$644.2 million for the three months ended March 31, 2018 from \$579.0 million for the three months ended March 31, 2017, primarily due to an increase in treaty property business, an increase in structured products as well as marine and aviation business. Net written premiums increased by 93.5% to \$423.8 million for the three months ended March 31, 2018 compared to \$219.1 million for the three months ended March 31, 2017. The difference between the change in gross written premiums compared to the change in net written premiums is primarily due to the impact of changes in affiliated reinsurance contracts, including the non-renewal of the quota share agreement with Bermuda Re as of December 31, 2017 and the implementation of an aggregate stop loss agreement with Bermuda Re for 2018. Premiums earned increased 111.9% to \$441.4 million for the three

37

months ended March 31, 2018 compared to \$208.3 million for the three months ended March 31, 2017. The change in premiums earned relative to net written premiums is due to timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

Incurred Losses and LAE. The following table presents the incurred losses and LAE for the U.S. Reinsurance segment for the periods indicated.

(Dollars in millions)	Three Months Ended March 31,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
<u>2018</u>						
Attritional	\$301.2	68.2 %	\$-	0.0 %	\$ 301.2	68.2 %
Catastrophes	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	\$301.2	68.2 %	\$-	0.0 %	\$ 301.2	68.2 %
<u>2017</u>						
Attritional	\$ 120.6	57.8 %	\$(0.5)	-0.2 %	\$ 120.1	57.6 %
Catastrophes	0.4	0.2 %	(0.1)	0.0 %	0.3	0.2 %
Total segment	\$ 121.0	58.0 %	\$(0.6)	-0.2 %	\$ 120.4	57.8 %
<u>Variance 2018/2017</u>						
Attritional	\$ 180.6	10.4 pts	\$0.5	0.2 pts	\$ 181.1	10.6 pts
Catastrophes	(0.4)	(0.2) pts	0.1	-	pts (0.3)	(0.2) pts
Total segment	\$ 180.2	10.2 pts	\$0.6	0.2 pts	\$ 180.8	10.4 pts

(Some amounts may not reconcile due to rounding.)

Incurred losses increased by 150.1% to \$301.2 million for the three months ended March 31, 2018 compared to \$120.4 million for the three months ended March 31, 2017, primarily due to an increase of \$180.6 million in current year attritional losses. The increase was mainly due to changes in affiliated reinsurance agreements, including the non-renewal of the quota share agreement with Bermuda Re as of December 31, 2017 and the implementation of an aggregate stop loss agreement with Bermuda Re as of January 1, 2018. There were no current year catastrophe losses for the three months ended March 31, 2018. The current year catastrophe losses of \$0.4 million for the three months ended March 31, 2017 primarily related to Cyclone Debbie in Australia (\$0.4 million).

Segment Expenses. Commission and brokerage increased by 215.4% to \$127.3 million for the three months ended March 31, 2018 compared to \$40.4 million for the three months ended March 31, 2017. The increase was mainly due to changes in affiliated reinsurance agreements, including the non-renewal of the quota share agreement with Bermuda Re as of December 31, 2017. Segment other underwriting expenses increased to \$16.9 million for the three months ended March 31, 2018 from \$14.3 million for the three months ended March 31, 2017 mainly due to the impact of changes in affiliated reinsurance contracts.

International.

The following table presents the underwriting results and ratios for the International segment for the periods indicated.

(Dollars in millions)	Three Months Ended March 31,			
	2018	2017	Variance	Change %
Gross written premiums	\$367.0	\$278.6	\$ 88.4	31.8 %
Net written premiums	334.9	103.2	231.6	224.3 %
Premiums earned	\$328.9	\$118.2	\$ 210.8	178.4 %
Incurred losses and LAE	176.4	68.4	108.0	157.8 %
Commission and brokerage	78.4	23.5	54.9	233.1 %
Other underwriting expenses	10.1	8.9	1.2	13.5 %
Underwriting gain (loss)	\$64.1	\$17.3	\$ 46.8	NM
				Point Chg
Loss ratio	53.6 %	57.9 %		(4.3)
Commission and brokerage ratio	23.8 %	19.9 %		3.9
Other underwriting ratio	3.1 %	7.5 %		(4.4)
Combined ratio	80.5 %	85.3 %		(4.8)

(Some amounts may not reconcile due to rounding.)

(NM, not meaningful)

Premiums. Gross written premiums increased by 31.8% to \$367.0 million for the three months ended March 31, 2018 compared to \$278.6 million for the three months ended March 31, 2017, primarily due to increases in Latin American and Middle East/Africa business. Net written premiums increased by 224.3% to \$334.9 million for the three months ended March 31, 2018 compared to \$103.2 million for the three months ended March 31, 2017. The difference between the change in gross written premiums compared to the change in net written premiums is primarily due to the impact of changes in affiliated reinsurance contracts including the non-renewal of the quota share agreement with Bermuda Re as of December 31, 2017. Premiums earned increased 178.4% to \$328.9 million for the three months ended March 31, 2018 compared to \$118.2 million for the three months ended March 31, 2017. The change in premiums earned relative to net written premiums is due to timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

Incurred Losses and LAE. The following table presents the incurred losses and LAE for the International segment for the periods indicated.

(Dollars in millions)	Three Months Ended March 31,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
<u>2018</u>						
Attritional	\$176.4	53.6 %	\$-	0.0 %	\$ 176.4	53.6 %
Catastrophes	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	\$176.4	53.6 %	\$-	0.0 %	\$ 176.4	53.6 %

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

2017

Attritional	\$61.1	51.7%	\$0.8	0.7 %	\$ 61.9	52.4%
Catastrophes	6.8	5.8 %	(0.3)	-0.3%	6.5	5.5 %
Total segment	\$67.9	57.5%	\$0.5	0.4 %	\$ 68.4	57.9%

Variance 2018/2017

Attritional	\$115.3	1.9 pts	\$(0.8)	(0.7) pts	\$114.5	1.2 pts
Catastrophes	(6.8)	(5.8) pts	0.3	0.3 pts	(6.5)	(5.5) pts
Total segment	\$108.5	(3.9) pts	\$(0.5)	(0.4) pts	\$108.0	(4.3) pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE increased by 157.8% to \$176.4 million for the three months ended March 31, 2018 compared to \$68.4 million for the three months ended March 31, 2017, primarily due to an increase of \$115.3 million in current year attritional losses. The increase was mainly due to changes in affiliated reinsurance agreements, including the non-renewal of the quota share agreement with Bermuda Re as of December 31, 2017. There were no current year catastrophe losses for the three months ended March 31, 2018. The current year catastrophe losses of \$6.8 million for the three months ended March 31, 2017 primarily related to Cyclone Debbie in Australia (\$6.8 million).

Segment Expenses. Commission and brokerage increased 233.1% to \$78.4 million for the three months ended March 31, 2018 compared to \$23.5 million for the three months ended March 31, 2017. The increase was mainly due to changes in affiliated reinsurance agreements, including the non-renewal of the quota share agreement with Bermuda Re as of December 31, 2017, and the changes in the mix of business. Segment other underwriting expenses increased slightly to \$10.1 million for the three months ended March 31, 2018 compared to \$8.9 million for the three months ended March 31, 2017.

Insurance.

The following table presents the underwriting results and ratios for the Insurance segment for the periods indicated.

(Dollars in millions)	Three Months Ended March 31,			
	2018	2017	Variance	% Change
Gross written premiums	\$455.0	\$394.9	\$ 60.1	15.2 %
Net written premiums	348.3	126.5	221.8	175.3 %
Premiums earned	\$345.7	\$144.6	\$ 201.1	139.1 %
Incurred losses and LAE	235.7	100.9	134.8	133.7 %
Commission and brokerage	50.7	(11.4)	62.1	NM
Other underwriting expenses	50.4	36.8	13.6	37.1 %
Underwriting gain (loss)	\$8.9	\$18.4	\$(9.5)	NM
				Point Chg
Loss ratio	68.2 %	69.8 %		(1.6)
Commission and brokerage ratio	14.7 %	-7.9 %		22.6
Other underwriting ratio	14.5 %	25.4 %		(10.9)
Combined ratio	97.4 %	87.3 %		10.1

(Some amounts may not reconcile due to rounding.)

(NM, not meaningful)

Premiums. Gross written premiums increased by 15.2% to \$455.0 million for the three months ended March 31, 2018 compared to \$394.9 million for the three months ended March 31, 2017. This increase was primarily driven by expansion of various insurance lines of business including property and accident and health. Net written premiums increased by 175.3% to \$348.3 million for the three months ended March 31, 2018 compared to \$126.5 million for the three months ended March 31, 2017. The difference between the change in gross written premiums compared to the change in net written premiums is primarily due to the impact of affiliated reinsurance agreements, including the impact of the non-renewal of the quota share agreement between Everest Re and Bermuda Re. Premiums earned increased by 139.1% to \$345.7 million for the three months ended March 31, 2018 compared to \$144.6 million for the three months ended March 31, 2017. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period, as well as changes in the mix of business.

Incurred Losses and LAE. The following table presents the incurred losses and LAE for the Insurance segment for the periods indicated.

(Dollars in millions)	Three Months Ended March 31,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
<u>2018</u>						
Attritional	\$235.3	68.1 %	\$0.4	0.1 %	\$ 235.7	68.2 %
Catastrophes	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	\$235.3	68.1 %	\$0.4	0.1 %	\$ 235.7	68.2 %
<u>2017</u>						
Attritional	\$97.3	67.3 %	\$3.7	2.6 %	\$ 101.0	69.9 %
Catastrophes	-	0.0 %	(0.1)	-0.1 %	(0.1)	-0.1 %
Total segment	\$97.3	67.3 %	\$3.6	2.5 %	\$ 100.9	69.8 %
<u>Variance 2018/2017</u>						
Attritional	\$138.0	0.8	pts	\$(3.3)	(2.5) pts	\$ 134.7 (1.7) pts
Catastrophes	-	-	pts	0.1	0.1 pts	0.1 0.1 pts
Total segment	\$138.0	0.8	pts	\$(3.2)	(2.4) pts	\$ 134.8 (1.6) pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE increased by 133.7% to \$235.7 million for the three months ended March 31, 2018 compared to \$100.9 million for the three months ended March 31, 2017, mainly due to an increase of \$138.0 million in current year attritional losses. The increase was mainly due to changes in affiliated reinsurance agreements, including the non-renewal of the quota share agreement with Bermuda Re as of December 31, 2017. There were no current year catastrophe losses for the three months ended March 31, 2018 and 2017.

Segment Expenses. Commission and brokerage increased to \$50.7 million for the three months ended March 31, 2018 compared to (\$11.4) million for the three months ended March 31, 2017. The increase was mainly due to changes in affiliated reinsurance agreements, including the non-renewal of the quota share agreement with Bermuda Re as of December 31, 2017, and changes in the mix of business. Segment other underwriting expenses increased to \$50.4 million for the three months ended March 31, 2018 compared to \$36.8 million for the three months ended March 31, 2017. The increase was mainly due to increased expenses related to the continued build out of the insurance business and the non-renewal of the quota share agreement.

Market Sensitive Instruments.

The SEC's Financial Reporting Release #48 requires registrants to clarify and expand upon the existing financial statement disclosure requirements for derivative financial instruments, derivative commodity instruments and other financial instruments (collectively, "market sensitive instruments"). We do not generally enter into market sensitive instruments for trading purposes.

Our current investment strategy seeks to maximize after-tax income through a high quality, diversified, taxable and tax-preferenced fixed maturity portfolio, while maintaining an adequate level of liquidity. Our mix of taxable and tax-preferenced investments is adjusted periodically, consistent with our current and projected operating results, market conditions and our tax position. The fixed maturity securities in the investment portfolio are comprised of non-trading available for sale securities. Additionally, we have invested in equity securities.

The overall investment strategy considers the scope of present and anticipated Company operations. In particular, estimates of the financial impact resulting from non-investment asset and liability transactions, together with our capital structure and other factors, are used to develop a net liability analysis. This analysis includes estimated payout characteristics for which our investments provide liquidity. This analysis is considered in the development of specific investment strategies for asset allocation, duration and credit quality. The change in overall market sensitive risk exposure principally reflects the asset changes that took place during the period.

41

Interest Rate Risk. Our \$9.0 billion investment portfolio, at March 31, 2018, is principally comprised of fixed maturity securities, which are generally subject to interest rate risk and some foreign currency exchange rate risk, and some equity securities, which are subject to price fluctuations and some foreign exchange rate risk. The overall economic impact of the foreign exchange risks on the investment portfolio is partially mitigated by changes in the dollar value of foreign currency denominated liabilities and their associated income statement impact.

Interest rate risk is the potential change in value of the fixed maturity securities portfolio, including short-term investments, from a change in market interest rates. In a declining interest rate environment, it includes prepayment risk on the \$187.8 million of mortgage-backed securities in the \$4,909.6 million fixed maturity portfolio. Prepayment risk results from potential accelerated principal payments that shorten the average life and thus the expected yield of the security.

The table below displays the potential impact of market value fluctuations and after-tax unrealized appreciation on our fixed maturity portfolio (including \$186.6 million of short-term investments) for the period indicated based on upward and downward parallel and immediate 100 and 200 basis point shifts in interest rates. For legal entities with a U.S. dollar functional currency, this modeling was performed on each security individually. To generate appropriate price estimate on mortgage-backed securities, changes in prepayment expectations under different interest rate environments were taken into account. For legal entities with non-U.S. dollar functional currency, the effective duration of the involved portfolio of securities was used as a proxy for the market value change under the various interest rate change scenarios.

(Dollars in millions)	Impact of Interest Rate Shift in Basis Points									
	At March 31, 2018									
	-200		-100		0		100		200	
Total Market/Fair Value	\$5,405.7		\$5,250.1		\$5,096.2		\$4,943.4		\$4,791.4	
Market/Fair Value Change from Base (%)	6.1	%	3.0	%	0.0	%	-3.0	%	-6.0	%
Change in Unrealized Appreciation										
After-tax from Base (\$)	\$244.5		\$121.6		\$-		\$(120.7)		\$(240.8)	

We had \$9,145.8 million and \$9,343.0 million of gross reserves for losses and LAE as of March 31, 2018 and December 31, 2017, respectively. These amounts are recorded at their nominal value, as opposed to present value, which would reflect a discount adjustment to reflect the time value of money. Since losses are paid out over a period of time, the present value of the reserves is less than the nominal value. As interest rates rise, the present value of the reserves decreases and, conversely, as interest rates decline, the present value increases. These movements are the opposite of the interest rate impacts on the fair value of investments. While the difference between present value and nominal value is not reflected in our financial statements, our financial results will include investment income over time from the investment portfolio until the claims are paid. Our loss and loss reserve obligations have an expected duration that is reasonably consistent with our fixed income portfolio.

Equity Risk. Equity risk is the potential change in fair and/or market value of the common stock, preferred stock and mutual fund portfolios arising from changing prices. Our equity investments consist of a diversified portfolio of individual securities. The primary objective of the equity portfolio is to obtain greater total return relative to our core bonds over time through market appreciation and income.

The table below displays the impact on fair/market value and after-tax change in fair/market value of a 10% and 20% change in equity prices up and down for the periods indicated.

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

Impact of Percentage Change in Equity Fair/Market Values
At March 31, 2018

(Dollars in millions)	-20%	-10%	0%	10%	20%
Fair/Market Value of the Equity Portfolio	\$ 709.9	\$ 798.7	\$ 887.4	\$ 976.2	\$ 1,064.9
After-tax Change in Fair/Market Value	(140.2)	(70.1)	-	70.1	140.2

Foreign Currency Risk. Foreign currency risk is the potential change in value, income and cash flow arising from adverse changes in foreign currency exchange rates. Each of our non-U.S. ("foreign") operations

42

maintains capital in the currency of the country of its geographic location consistent with local regulatory guidelines. Each foreign operation may conduct business in its local currency, as well as the currency of other countries in which it operates. The primary foreign currency exposures for these foreign operations are the Singapore and Canadian Dollars. We mitigate foreign exchange exposure by generally matching the currency and duration of our assets to our corresponding operating liabilities. In accordance with FASB guidance, the impact on the market value of available for sale fixed maturities due to changes in foreign currency exchange rates, in relation to functional currency, is reflected as part of other comprehensive income. Conversely, the impact of changes in foreign currency exchange rates, in relation to functional currency, on other assets and liabilities is reflected through net income as a component of other income (expense). In addition, we translate the assets, liabilities and income of non-U.S. dollar functional currency legal entities to the U.S. dollar. This translation amount is reported as a component of other comprehensive income.

SAFE HARBOR DISCLOSURE

This report contains forward-looking statements within the meaning of the U.S. federal securities laws. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the federal securities laws. In some cases, these statements can be identified by the use of forward-looking words such as "may", "will", "should", "could", "anticipate", "estimate", "expect", "plan", "believe", "predict", "potential" and "intend". Forward-looking statements contained in this report include information regarding our reserves for losses and LAE, the impact of the TCJA, the adequacy of our provision for uncollectible balances, estimates of our catastrophe exposure, the effects of catastrophic events on our financial statements and the ability of our subsidiaries to pay dividends. Forward-looking statements only reflect our expectations and are not guarantees of performance. These statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from our expectations. Important factors that could cause our actual events or results to be materially different from our expectations include those discussed under the caption ITEM 1A, "Risk Factors" in the Company's most recent 10-K filing. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Instruments. See "Market Sensitive Instruments" in PART I – ITEM 2.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, our management carried out an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

43

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.

ITEM 1A. RISK FACTORS

No material changes.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Index:

<u>Exhibit No.</u>	<u>Description</u>
--------------------	--------------------

31.1	Section 302 Certification of Dominic J. Adesso
31.2	Section 302 Certification of Craig Howie
32.1	Section 906 Certification of Dominic J. Adesso and Craig Howie
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Labels Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

44

Everest Reinsurance Holdings, Inc.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Everest Reinsurance Holdings, Inc.
(Registrant)

/S/ CRAIG HOWIE
Craig Howie
Executive Vice President and
Chief Financial Officer

(Duly Authorized Officer and
Principal Financial Officer)

Dated: May 15, 2018