EVEREST REINSURANCE HOLDINGS INC
Form 10-Q
August 14, 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: June 30, 2018	Commission file number: 1-14527

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

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

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

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

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

YES X NO

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

YES X NO

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

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

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

YES NOX

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

YES NOX

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

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

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

EVEREST REINSURANCE HOLDINGS, INC.

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EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value per share)	June 30, 2018 (unaudited)	December 31, 2017
ASSETS:		
Fixed maturities - available for sale, at market value (amortized cost: 2018, $5,075,029; 2017, $4,927,622)	$ 5,031,141	$ 4,971,921
Fixed maturities - available for sale, at fair value	3,192	-
Equity securities - available for sale, at fair value	942,900	822,375
Short-term investments	192,287	241,506
Other invested assets (cost: 2018, $866,782; 2017, $835,597)	866,782	838,694
Other invested assets, at fair value	1,705,037	1,807,473
Cash	364,850	229,552
Total investments and cash	9,106,189	8,911,521
Note receivable - affiliated	250,000	250,000
Accrued investment income	38,638	35,376
Premiums receivable	1,332,313	1,301,827
Reinsurance receivables - unaffiliated	1,247,968	1,180,648
Reinsurance receivables - affiliated	4,232,094	4,940,039
Income taxes	106,310	87,110
Funds held by reinsureds	227,546	210,939
Deferred acquisition costs	308,615	307,741
Prepaid reinsurance premiums	352,842	346,708
Other assets	324,322	316,603
TOTAL ASSETS	$ 17,526,837	$ 17,888,512
LIABILITIES:		
Reserve for losses and loss adjustment expenses	$ 9,287,561	$ 9,343,028
Unearned premium reserve	1,660,783	1,607,622
Funds held under reinsurance treaties	43,939	40,536
Other net payable to reinsurers	414,007	491,299
4.868% Senior notes due 6/1/2044	396,894	396,834
6.6% Long term notes due 5/1/2067	236,610	236,561
Accrued interest on debt and borrowings	3,010	2,727
Unsettled securities payable	49,274	25,338
Other liabilities	387,713	331,844
Total liabilities	12,479,791	12,475,789
Commitments and Contingencies (Note 6)		
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	387,936	387,841
Accumulated other comprehensive income (loss), net of deferred income tax expense (benefit) of ($24,408) at 2018 and ($299) at 2017	(91,581)	(942)
Retained earnings	4,750,691	5,025,824

Total stockholder's equity	5,047,046	5,412,723
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 17,526,837	$ 17,888,512

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2018	2017	2018	2017
	(unaudited)		(unaudited)	
REVENUES:				
Premiums earned	$1,179,836	$468,197	$2,295,846	$939,252
Net investment income	72,070	71,900	141,979	132,749
Net realized capital gains (losses):				
Other-than-temporary impairments on fixed maturity securities	(872)	(1,574)	(907)	(2,706)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-	-	-
Other net realized capital gains (losses)	(41,399)	(90,717)	(101,565)	28,183
Total net realized capital gains (losses)	(42,271)	(92,291)	(102,472)	25,477
Other income (expense)	77,682	10,655	2,805	20,510
Total revenues	1,287,317	458,461	2,338,158	1,117,988
CLAIMS AND EXPENSES:				
Incurred losses and loss adjustment expenses	1,228,760	297,228	1,942,015	586,950
Commission, brokerage, taxes and fees	288,002	60,513	544,459	113,020
Other underwriting expenses	74,226	64,197	151,577	124,092
Corporate expenses	1,513	1,512	5,109	5,109
Interest, fee and bond issue cost amortization expense	7,623	7,954	14,936	16,813
Total claims and expenses	1,600,124	431,404	2,658,096	845,984
INCOME (LOSS) BEFORE TAXES	(312,807)	27,057	(319,938)	272,004
Income tax expense (benefit)	(47,399)	(8,601)	(42,358)	67,168
NET INCOME (LOSS)	$(265,408)	$35,658	$(277,580)	$204,836
Other comprehensive income (loss), net of tax:				
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	(18,165)	3,825	(64,987)	13,264
Less: reclassification adjustment for realized losses (gains) included in net income (loss)	154	(3,477)	(4,681)	(6,944)
Total URA(D) on securities arising during the period	(18,011)	348	(69,668)	6,320
Foreign currency translation adjustments	(20,812)	5,372	(22,154)	8,939
Reclassification adjustment for amortization of net (gain) loss included in net income (loss)	1,815	2,004	3,630	4,008
Total benefit plan net gain (loss) for the period	1,815	2,004	3,630	4,008
Total other comprehensive income (loss), net of tax	(37,008)	7,724	(88,192)	19,267
COMPREHENSIVE INCOME (LOSS)	$(302,416)	$43,382	$(365,772)	$224,103

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 June 30, 2018 (unaudited)	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018 (unaudited)	Six Months Ended June 30, 2017
COMMON STOCK (shares outstanding):				
Balance, beginning of period	1,000	1,000	1,000	1,000
Balance, end of period	1,000	1,000	1,000	1,000
ADDITIONAL PAID-IN CAPITAL:				
Balance, beginning of period	$387,889	$387,637	$387,841	$387,567
Share-based compensation plans	47	68	95	138
Balance, end of period	387,936	387,705	387,936	387,705
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES:				
Balance, beginning of period	(54,573)	(24,772)	(942)	(36,315)
Net increase (decrease) during the period	(37,008)	7,724	(88,192)	19,267
Cumulative change due to adoption of Accounting Standards Update 2016-01	-	-	(2,447)	-
Balance, end of period	(91,581)	(17,048)	(91,581)	(17,048)
RETAINED EARNINGS:				
Balance, beginning of period	5,016,099	5,116,479	5,025,824	4,947,301
Net income (loss)	(265,408)	35,658	(277,580)	204,836
Cumulative change due to adoption of Accounting Standards Update 2016-01	-	-	2,447	-
Balance, end of period	4,750,691	5,152,137	4,750,691	5,152,137
TOTAL STOCKHOLDER'S EQUITY, END OF PERIOD	$5,047,046	$5,522,794	$5,047,046	$5,522,794

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

EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
(Dollars in thousands)	2018	2017
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(277,580)	$204,836
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease (increase) in premiums receivable	(31,486)	(213,530)
Decrease (increase) in funds held by reinsureds, net	(13,233)	2,353
Decrease (increase) in reinsurance receivables	627,965	(115,273)
Decrease (increase) in income taxes	4,652	14,411
Decrease (increase) in prepaid reinsurance premiums	(6,626)	(184,385)
Increase (decrease) in reserve for losses and loss adjustment expenses	(34,332)	(55,590)
Increase (decrease) in unearned premiums	54,516	111,848
Increase (decrease) in other net payable to reinsurers	(76,825)	89,702
Increase (decrease) in losses in course of payment	78,740	250,153
Change in equity adjustments in limited partnerships	(29,160)	(8,728)
Distribution of limited partnership income	28,278	12,483
Change in other assets and liabilities, net	14,713	(10,029)
Non-cash compensation expense	5,903	5,186
Amortization of bond premium (accrual of bond discount)	3,478	9,107
Net realized capital (gains) losses	102,472	(25,477)
Net cash provided by (used in) operating activities	451,475	87,067
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from fixed maturities matured/called - available for sale, at market value	416,065	555,649
Proceeds from fixed maturities sold - available for sale, at market value	368,858	652,490
Proceeds from fixed maturities sold - available for sale, at fair value	1,065	-
Proceeds from equity securities sold - available for sale, at fair value	429,927	249,653
Distributions from other invested assets	941,415	1,018,997
Cost of fixed maturities acquired - available for sale, at market value	(971,395)	(1,348,415)
Cost of fixed maturities acquired - available for sale, at fair value	(4,381)	-
Cost of equity securities acquired - available for sale, at fair value	(555,998)	(237,894)
Cost of other invested assets acquired	(964,209)	(1,182,157)
Net change in short-term investments	47,613	130,362
Net change in unsettled securities transactions	(16,558)	6,648
Net cash provided by (used in) investing activities	(307,598)	(154,667)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Tax benefit from share-based compensation, net of expense	(3,362)	(5,048)
Net cash provided by (used in) financing activities	(3,362)	(5,048)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(5,217)	17,419
Net increase (decrease) in cash	135,298	(55,229)

Cash, beginning of period	229,552	297,794
Cash, end of period	$364,850	$242,565
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid (recovered)	$(46,386)	$52,641
Interest paid	14,544	17,608

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

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the Three and Six Months Ended June 30, 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 and six months ended June 30, 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 and six months ended June 30, 2018 and 2017 are not necessarily indicative of the results for a full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2017, 2016 and 2015 included in the Company's most recent Form 10-K filing.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and disclosure of contingent assets and liabilities) at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate actual results could differ, possibly materially, from those estimates.

All intercompany accounts and transactions have been eliminated.

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

Application of Recently Issued Accounting Standard Changes.

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

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. INVESTMENTS

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

	At June 30, 2018				
(Dollars in thousands)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	OTTI in AOCI (a)
Fixed maturity securities					
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$728,275	$ 1,066	$ (16,216)	$713,125	$ -
Obligations of U.S. states and political subdivisions	525,088	14,730	(1,934)	537,884	420
Corporate securities	2,130,519	14,265	(41,705)	2,103,079	175
Asset-backed securities	127,848	44	(1,435)	126,457	-
Mortgage-backed securities					
Commercial	50,092	-	(873)	49,219	-
Agency residential	129,801	477	(3,458)	126,820	-
Non-agency residential	23	4	-	27	-
Foreign government securities	501,389	13,697	(10,788)	504,298	-
Foreign corporate securities	881,994	13,383	(25,145)	870,232	276
Total fixed maturity securities	$5,075,029	$ 57,666	$ (101,554)	$5,031,141	$ 871

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

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

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

	At June 30, 2018		At December 31, 2017	
(Dollars in thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value
Fixed maturity securities – available for sale				
Due in one year or less	$409,551	$408,261	$319,858	$320,746
Due after one year through five years	2,642,246	2,599,253	2,601,898	2,595,237
Due after five years through ten years	1,123,408	1,120,995	1,051,431	1,069,617
Due after ten years	592,060	600,110	649,625	683,200
Asset-backed securities	127,848	126,457	138,203	138,024
Mortgage-backed securities				
Commercial	50,092	49,219	52,121	51,751
Agency residential	129,801	126,819	114,435	113,288
Non-agency residential	23	27	51	58
Total fixed maturity securities	$5,075,029	$5,031,141	$4,927,622	$4,971,921

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2018	2017	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	$ (23,064)	$ 32	$(88,552)	$12,274
Fixed maturity securities, other-than-temporary impairment	266	(317)	365	(3,816)
Other invested assets	-	821	-	1,265
Change in unrealized appreciation (depreciation), pre-tax	(22,798)	536	(88,187)	9,723
Deferred tax benefit (expense)	4,843	(299)	18,596	(4,739)
Deferred tax benefit (expense), other-than-temporary impairment	(56)	111	(77)	1,336
Change in unrealized appreciation (depreciation), net of deferred taxes, included in stockholder's equity	$ (18,011)	$ 348	$(69,668)	$6,320

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

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

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

	Duration of Unrealized Loss at June 30, 2018 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$440,894	$ (8,405)	$220,276	$ (7,811)	$661,170	$ (16,216)
Obligations of U.S. states and political subdivisions	45,254	(651)	36,939	(1,283)	82,193	(1,934)
Corporate securities	1,196,780	(29,005)	210,326	(12,700)	1,407,106	(41,705)
Asset-backed securities	80,247	(1,286)	12,959	(149)	93,206	(1,435)
Mortgage-backed securities						
Commercial	38,395	(497)	10,825	(376)	49,220	(873)
Agency residential	40,493	(935)	59,936	(2,523)	100,429	(3,458)
Foreign government securities	172,660	(2,290)	144,064	(8,498)	316,724	(10,788)
Foreign corporate securities	389,435	(11,683)	162,554	(13,462)	551,989	(25,145)
Total fixed maturity securities	$2,404,158	$ (54,752)	$857,879	$ (46,802)	$3,262,037	$ (101,554)

	Duration of Unrealized Loss at June 30, 2018 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities						
Due in one year or less	$163,878	$ (1,028)	$36,644	$ (3,527)	$200,522	$ (4,555)
Due in one year through five years	1,386,748	(27,598)	575,246	(29,483)	1,961,994	(57,081)
Due in five years through ten years	519,971	(12,892)	125,330	(9,461)	645,301	(22,353)

Due after ten years	174,426	(10,516)	36,939	(1,283)	211,365	(11,799)
Asset-backed securities	80,247	(1,286)	12,959	(149)	93,206	(1,435)
Mortgage-backed securities	78,888	(1,432)	70,761	(2,899)	149,649	(4,331)
Total fixed maturity securities	$2,404,158	$ (54,752)	$ 857,879	$ (46,802)	$3,262,037	$ (101,554)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at June 30, 2018 were $3,262,037 thousand and $101,554 thousand, respectively. The market value of securities for the single issuer (the United States government) whose securities comprised the largest unrealized loss position at June 30, 2018, did not exceed 13.2% 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 1.0% 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 $54,752 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, $39,887 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating agency. The $46,802 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 $45,389 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating agency. There was no gross unrealized depreciation for mortgage-backed securities related to sub-prime and alt-A loans. In all instances, there were no projected cash flow shortfalls to recover the full book value of the investments and the related interest obligations. The mortgage-backed securities still have excess credit coverage and are current on interest and principal payments.

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

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

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

	Duration of Unrealized Loss at December 31, 2017 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities						
Due in one year or less	$ 102,939	$ (498)	$ 40,006	$ (1,627)	$ 142,945	$ (2,125)
Due in one year through five years	973,217	(10,291)	488,945	(18,917)	1,462,162	(29,208)
	189,103	(3,713)	116,136	(5,216)	305,239	(8,929)

Due in five years through ten years						
Due after ten years	64,934	(1,277)	38,943	(444)	103,877	(1,721)
Asset-backed securities	75,196	(328)	7,991	(58)	83,187	(386)
Mortgage-backed securities	72,884	(586)	64,107	(1,557)	136,991	(2,143)
Total fixed maturity securities	$ 1,478,273	$ (16,693)	$ 756,128	$ (27,819)	$ 2,234,401	$ (44,512)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at December 31, 2017 were $2,234,401 thousand and $44,512 thousand, respectively. The market value of securities for the single issuer (the United States government) whose securities comprised the largest unrealized loss position at December 31, 2017, did not exceed 13.0% of the overall market value of the Company's fixed maturity securities. The market value of securities for the issuer with the second largest unrealized loss comprised less than 0.9% of the company's fixed maturity securities. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The $16,693 thousand of unrealized losses related to fixed maturity securities that have been in an unrealized loss position for less than one year were generally comprised of domestic and foreign corporate securities, U.S. government agencies and corporations and foreign government securities. Of these unrealized losses, $13,043 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating agency. The $27,819 thousand of unrealized losses

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related to fixed maturity securities in an unrealized loss position for more than one year related primarily due to foreign and domestic corporate securities, foreign government securities, U.S. government agencies and corporations and agency residential mortgage-backed securities. Of these unrealized losses $26,463 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating agency. There was no gross unrealized depreciation for mortgage-backed securities related to sub-prime and alt-A loans. In all instances, there were no projected cash flow shortfalls to recover the full book value of the investments and the related interest obligations. The mortgage-backed securities still have excess credit coverage and are current on interest and principal payments.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2018	2017	2018	2017
Fixed maturities	$ 48,523	$ 49,601	$ 90,942	$ 96,581
Equity securities	3,627	6,370	8,030	13,118
Short-term investments and cash	1,302	590	2,230	980
Other invested assets				
Limited partnerships	14,168	8,978	28,640	8,754
Dividends from preferred shares of affiliate	7,758	7,758	15,516	15,516
Other	1,460	1,496	4,655	2,748
Gross investment income before adjustments	76,838	74,793	150,013	137,697
Funds held interest income (expense)	731	978	3,599	2,917
Interest income from Parent	1,075	1,075	2,150	2,150
Gross investment income	78,644	76,846	155,762	142,764
Investment expenses	(6,574)	(4,946)	(13,783)	(10,015)
Net investment income	$ 72,070	$ 71,900	$ 141,979	$ 132,749

(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 $363,824 thousand in limited partnerships at June 30, 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 June 30, 2018 and December 31, 2017 included $85,910 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 June 30, 2018 and December 31, 2017, were comprised of preferred shares held in Preferred Holdings, an affiliated company.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2018	2017	2018	2017
Fixed maturity securities, market value:				
Other-than-temporary impairments	$(872)	$(1,574)	$(907)	$(2,706)
Gains (losses) from sales	(172)	6,507	5,958	12,972
Fixed maturity securities, fair value:				
Gains (losses) from sales	(1,068)	-	(1,082)	-
Gains (losses) from fair value adjustments	958	-	958	-
Equity securities, fair value:				
Gains (losses) from sales	(1,601)	604	(4,082)	4,944
Gains (losses) from fair value adjustments	25,550	14,943	(1,464)	52,361
Other invested assets	581	(2)	584	(1)
Other invested assets, fair value:				
Gains (losses) from fair value adjustments	(65,647)	(112,769)	(102,436)	(42,094)
Short-term investment gains (losses)	-	-	(1)	1
Total net realized capital gains (losses)	$(42,271)	$(92,291)	$(102,472)	$25,477

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2018	2017	2018	2017
Proceeds from sales of fixed maturity securities	$214,942	$359,496	$369,923	$652,490
Gross gains from sales	2,066	7,748	8,993	15,743
Gross losses from sales	(3,306)	(1,241)	(4,117)	(2,771)
Proceeds from sales of equity securities	$301,448	$115,602	$429,927	$249,653
Gross gains from sales	4,678	3,562	7,906	11,575
Gross losses from sales	(6,279)	(2,958)	(11,988)	(6,631)

4. RESERVES FOR LOSSES AND LAE

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

(Dollars in thousands)	Six Months Ended June 30, 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	1,451,011	2,157,498
Prior years	491,004	(117,747)
Total incurred losses and LAE	1,942,015	2,039,751
Paid related to:		
Current year	378,985	1,607,601
Prior years	912,199	957,933
Total paid losses and LAE	1,291,184	2,565,534
Foreign exchange/translation adjustment	(16,509)	10,046
Net reserves at December 31	4,250,082	3,615,760
Plus reinsurance recoverables	5,037,479	5,727,268
Gross reserves at December 31	$ 9,287,561	$ 9,343,028

Incurred prior years' reserves increased by $491,004 thousand for the six months ended June 30, 2018 and decreased by $117,747 thousand for the year ended December 31, 2017. The increase for the six months ended June 30, 2018, resulted from unfavorable development on prior years catastrophe losses related to Hurricanes Harvey, Irma and Maria, as well as the 2017 California wildfires. The increase in loss estimates for Hurricanes Harvey, Irma and Maria was mostly driven by re-opened claims reported in the second quarter of 2018 and loss inflation from higher than expected loss adjustment expenses and in particular, their impact on aggregate covers. 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.

5. FAIR VALUE

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

The levels in the hierarchy are defined as follows:

Level 1:	Inputs to the valuation methodology are observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in an active market;
Level 2:	Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument;

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

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

In limited instances where prices are not provided by pricing services or in rare instances when a manager may not agree with the pricing service, price quotes on a non-binding basis are obtained from investment brokers. The investment asset managers do not make any changes to prices received from either the pricing services or the investment brokers. In addition, the investment asset managers have procedures in place to review the reasonableness of the prices from the service providers and may request verification of the prices. In addition, the Company continually performs analytical reviews of price changes and tests the prices on a random basis to an independent pricing source. No material variances were noted during these price validation procedures. In limited situations, where financial markets are inactive or illiquid, the Company may use its own assumptions about future cash flows and risk-adjusted discount rates to determine fair value. Due to the unavailability of prices for ninety private placement securities at June 30, 2018, an investment manager's valuation committee valued eighty-five of these private placement securities at $247,863 thousand. A majority of the fair values determined by the valuation committee are substantiated by valuations from independent third parties. Four of the private placement securities totaling $95,444 thousand are valued by the investment manager at amortized cost. In addition, the Company valued one private placement security at $1,750 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 June 30, 2018 and December 31, 2017 of $365,986 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 June 30, 2018 and December 31, 2017, since it represented a privately placed convertible preferred stock issued by an affiliate. The stock was received in exchange for shares of the Company's parent. The 25 year redeemable, convertible preferred stock with a 1.75% coupon is valued using a pricing model. The pricing model includes observable inputs such as the U.S. Treasury yield curve rate T note constant maturity 20 year and the swap rate on the Company's June 1, 2044, 4.868% senior notes, with adjustments to reflect the Company's own assumptions about the inputs that market participants would use in pricing the asset.

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

		Fair Value Measurement Using:		
(Dollars in thousands)	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	$ 713,125	$-	$713,125	$ -
Obligations of U.S. States and political subdivisions	537,884	-	537,884	-
Corporate securities	2,103,079	-	1,773,830	329,249
Asset-backed securities	126,457	-	126,457	-
Mortgage-backed securities				
Commercial	49,219	-	49,219	-
Agency residential	126,820	-	126,820	-
Non-agency residential	27	-	27	-
Foreign government securities	504,298	-	504,298	-
Foreign corporate securities	870,232	-	857,617	12,615
Total fixed maturities, market value	5,031,141	-	4,689,277	341,864
Fixed maturities, fair value	3,192	-	-	3,192
Equity securities, fair value	942,900	919,566	23,334	-
Other invested assets, fair value	1,705,037	-	-	1,705,037

There were no transfers between Level 1 and Level 2 for the six months ended June 30, 2018.

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

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

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

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In addition $96,162 thousand and $79,505 thousand of investments within other invested assets on the consolidated balance sheets as of June 30, 2018 and December 31, 2017, respectively, are not included within the fair value hierarchy tables as the assets are measured at NAV as a practical expedient to determine fair value.

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

	Total Fixed Maturities, Market Value Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
(Dollars in thousands)	Corporate Securities	Foreign Corporate	Total	Corporate Securities	Foreign Corporate	Total
Beginning balance	$168,590	$ 11,368	$179,958	$158,221	$ 6,952	$165,173
Total gains or (losses) (realized/unrealized)						
Included in earnings	623	(504)	119	1,345	(410)	935
Included in other comprehensive income (loss)	190	-	190	425	-	425
Purchases, issuances and settlements	159,846	1	159,847	169,258	4,323	173,581
Transfers in and/or (out) of Level 3	-	1,750	1,750	-	1,750	1,750
Ending balance	$329,249	$ 12,615	$341,864	$329,249	$ 12,615	$341,864
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$-	$ -	$-	$-	$ -	$-

(Some amounts may not reconcile due to rounding.)

	Total Fixed Maturities, Market Value Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
(Dollars in thousands)	Corporate Securities	Foreign Corporate	Total	Corporate Securities	Foreign Corporate	Total
Beginning balance	$84,322	$ 2,802	$87,124	$ 65,197	$ 2,538	$ 67,735
Total gains or (losses) (realized/unrealized)						
Included in earnings	711	128	839	925	104	1,029