EVEREST REINSURANCE HOLDINGS INC
Form 10-K
April 01, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

_X_ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2018

___ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 1-14527

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

Delaware (State or other jurisdiction of incorporation or organization)	22-3263609 (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)

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

Title of Each Class	Name of Each Exchange on Which Registered
4.868% Senior Notes Due 2044	NYSE
6.60% Long Term Notes Due 2067	NYSE

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

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

YesX No

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

Yes   NoX

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.

YesX No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

YesX No

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

YesX 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
		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

The aggregate market value on June 30, 2018, the last business day of the registrant's most recently completed second quarter, of the voting stock held by non-affiliates of the registrant was zero.

At March 15, 2019, the number of shares outstanding of the registrant common shares was 1,000, all of which are owned by Everest Underwriting Group (Ireland) Limited, a wholly-owned direct subsidiary of Everest Re Group, Ltd.

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

EVEREST REINSURANCE HOLDINGS, INC.

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PART I

Unless otherwise indicated, all financial data in this document have been prepared using accounting principles generally accepted in the United States of America ("GAAP"). 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", "we", "us", and "our" means Holdings and its subsidiaries (unless the context otherwise requires).

ITEM 1. BUSINESS

The Company.

Holdings, a Delaware corporation, is a wholly-owned subsidiary of Holdings Ireland. On December 30, 2008, Group contributed Holdings to its recently established Irish holding company, Holdings Ireland. Holdings Ireland is a direct subsidiary of Group and serves as a holding company for the U.S. reinsurance and insurance subsidiaries. Group is a Bermuda holding company whose common shares are publicly traded in the U.S. on the New York Stock Exchange under the symbol "RE". Group files an annual report on Form 10-K with the Securities and Exchange Commission (the "SEC") with respect to its consolidated operations, including Holdings.

The Company's principal business, conducted through its operating segments, is the underwriting of reinsurance and insurance in the U.S. and international markets. The Company had gross written premiums, in 2018, of $6.6 billion, with approximately 70% representing reinsurance and 30% representing insurance. Stockholder's equity at December 31, 2018 was $5.0 billion. The Company underwrites reinsurance both through brokers and directly with ceding companies, giving it the flexibility to pursue business based on the ceding company's preferred reinsurance purchasing method. The Company underwrites insurance through brokers, surplus lines brokers and general agent relationships. Holdings' active operating subsidiaries are each rated A+ ("Superior") by A.M. Best Company ("A.M. Best"), a leading provider of insurer ratings that assigns financial strength ratings to insurance companies based on their ability to meet their obligations to policyholders.

Following is a summary of the Company's operating subsidiaries:

- Everest Re, a Delaware insurance company and a direct subsidiary of Holdings, is a licensed property and casualty insurer and/or reinsurer in all states, the District of Columbia, Puerto Rico and Guam and is authorized to conduct reinsurance business in Canada, Singapore and Brazil. Everest Re underwrites property and casualty reinsurance for insurance and reinsurance companies in the U.S. and international markets. Everest Re has engaged in reinsurance transactions with Bermuda Re, Everest International Reinsurance, Ltd. ("Everest International"), Mt. Logan Re, Ltd. ("Mt. Logan Re") and Everest Insurance Company of Canada ("Everest Canada"), which are affiliated companies, primarily driven by enterprise risk and capital management considerations under which business is transacted at market rates and terms. At December 31, 2018, Everest Re had statutory surplus of $3.7 billion.

- Everest National Insurance Company ("Everest National"), a Delaware insurance company and a direct subsidiary of Everest Re, is licensed in 50 states, the District of Columbia and Puerto Rico and is authorized to write property and casualty insurance on an admitted basis in the jurisdictions in which it is licensed. The majority of Everest National's business is reinsured by its parent, Everest Re.

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- Everest Indemnity Insurance Company ("Everest Indemnity"), a Delaware insurance company and a direct subsidiary of Everest Re, writes excess and surplus lines insurance business in the U.S. on a non-admitted basis. Excess and surplus lines insurance is specialty property and liability coverage that an insurer not licensed to write insurance in a particular jurisdiction is permitted to provide to insureds when the specific specialty coverage is unavailable from admitted insurers. Everest Indemnity is licensed in Delaware and is eligible to write business on a non-admitted basis in all other states, the District of Columbia and Puerto Rico. The majority of Everest Indemnity's business is reinsured by its parent, Everest Re.

- Everest Security Insurance Company ("Everest Security"), a Georgia insurance company and a direct subsidiary of Everest Re, writes property and casualty insurance on an admitted basis in Georgia and Alabama and is approved as an eligible surplus lines insurer in Delaware. The majority of Everest Security's business is reinsured by its parent, Everest Re.

- Everest Denali Insurance Company ("Everest Denali"), a Delaware insurance company and a direct subsidiary of Everest Re, is licensed to write property and casualty insurance in 49 states and the District of Columbia.

- Everest Premier Insurance Company ("Everest Premier"), a Delaware insurance company and a direct subsidiary of Everest Re, is licensed to write property and casualty insurance in 49 states and the District of Columbia.

- Everest International Assurance, Ltd. ("Everest Assurance"), a Bermuda company and a direct subsidiary of Holdings is registered in Bermuda as a Class 3A general business insurer and as a Class C long-term insurer. Everest Assurance has made a one-time election under section 953(d) of the U.S. Internal Revenue Code to be a U.S. income tax paying "Controlled Foreign Corporation." By making this election, Everest Assurance will be authorized to write life reinsurance and casualty reinsurance in both Bermuda and the U.S.

- Heartland Crop Insurance Company ("Heartland"), a Kansas based managing general agent and a direct subsidiary of Holdings, was acquired on January 2, 2011. Heartland specializes in crop insurance, which is written mainly through Everest National. Effective August 24, 2016, the Company sold Heartland to CGB Diversified Services, Inc. ("CGB"). The operating results of Heartland for the period owned are included within the Company's financial statements.

Reinsurance Industry Overview.
Reinsurance is an arrangement in which an insurance company, the reinsurer, agrees to indemnify another insurance or reinsurance company, the ceding company, against all or a portion of the insurance risks underwritten by the ceding company under one or more insurance contracts. Reinsurance can provide a ceding company with several benefits, including a reduction in its net liability on individual risks or classes of risks, catastrophe protection from large and/or multiple losses and/or a reduction in operating leverage as measured by the ratio of net premiums and reserves to capital. Reinsurance also provides a ceding company with additional underwriting capacity by permitting it to accept larger risks and write more business than would be acceptable relative to the ceding company's financial resources. Reinsurance does not discharge the ceding company from its liability to policyholders; rather, it reimburses the ceding company for covered losses.

There are two basic types of reinsurance arrangements: treaty and facultative. Treaty reinsurance obligates the ceding company to cede and the reinsurer to assume a specified portion of a type or category of risks insured by the ceding company. Treaty reinsurers do not separately evaluate each of the individual risks assumed under their treaties, instead, the reinsurer relies upon the pricing and underwriting decisions made by the ceding company. In facultative reinsurance, the ceding company cedes and the reinsurer assumes all or part of the risk under a single insurance contract. Facultative reinsurance is negotiated separately for each insurance contract that is reinsured. Facultative reinsurance, when purchased by ceding companies, usually is intended to cover individual risks not covered by their reinsurance treaties because of the dollar limits involved or because the risk is unusual.

Both treaty and facultative reinsurance can be written on either a pro rata basis or an excess of loss basis. Under pro rata reinsurance, the ceding company and the reinsurer share the premiums as well as the losses and expenses in an agreed proportion. Under excess of loss reinsurance, the reinsurer indemnifies the ceding company against all or a specified portion of losses and expenses in excess of a specified dollar amount, known as the ceding company's retention or reinsurer's attachment point, generally subject to a negotiated reinsurance contract limit.

In pro rata reinsurance, the reinsurer generally pays the ceding company a ceding commission. The ceding commission generally is based on the ceding company’s cost of acquiring the business being reinsured (commissions, premium taxes, assessments and miscellaneous administrative expense and may contain profit sharing provisions, whereby the ceding commission is adjusted based on loss experience). Premiums paid by the ceding company to a reinsurer for excess of loss reinsurance are not directly proportional to the premiums that the ceding company receives because the reinsurer does not assume a proportionate risk. There is usually no ceding commission on excess of loss reinsurance.

Reinsurers may purchase reinsurance to cover their own risk exposure. Reinsurance of a reinsurer's business is called a retrocession. Reinsurance companies cede risks under retrocessional agreements to other reinsurers, known as retrocessionaires, for reasons similar to those that cause insurers to purchase reinsurance: to reduce net liability on individual or classes of risks, protect against catastrophic losses, stabilize financial ratios and obtain additional underwriting capacity.

Reinsurance can be written through intermediaries, generally professional reinsurance brokers, or directly with ceding companies. From a ceding company's perspective, the broker and the direct distribution channels have advantages and disadvantages. A ceding company's decision to select one distribution channel over the other will be influenced by its perception of such advantages and disadvantages relative to the reinsurance coverage being placed.

Business Strategy.
The Company’s business strategy is to sustain its leadership position within targeted reinsurance and insurance markets, provide effective management throughout the property and casualty underwriting cycle and thereby achieve an attractive return for its stockholder. The Company’s underwriting strategies seek to capitalize on its i) financial strength and capacity, ii) global franchise, iii) stable and experienced management team, iv) diversified product and distribution offerings, v) underwriting expertise and disciplined approach, vi) efficient and low-cost operating structure and vii) effective enterprise risk management practices.

The Company offers treaty and facultative reinsurance and admitted and non-admitted insurance. The Company’s products include the full range of property and casualty reinsurance and insurance coverages, including marine, aviation, surety, errors and omissions liability (“E&O”), directors’ and officers’ liability (“D&O”), medical malpractice, other specialty lines, accident and health (“A&H”) and workers’ compensation.

The Company’s underwriting strategies emphasizes underwriting profitability over premium volume. Key elements of this strategy include careful risk selection, appropriate pricing through strict underwriting discipline and adjustment of the Company’s business mix in response to changing market conditions. The Company focuses on reinsuring companies that effectively manage the underwriting cycle through proper analysis and pricing of underlying risks and whose underwriting guidelines and performance are compatible with its objectives.

The Company’s underwriting strategies emphasize flexibility and responsiveness to changing market conditions. The Company believes that its existing strengths, including its broad underwriting expertise, global presence, strong financial ratings and substantial capital, facilitate adjustments to its mix of business geographically, by line of business and by type of coverage, allowing it to participate in those market opportunities that provide the greatest potential for underwriting profitability. The Company’s insurance operations complement these strategies by accessing business that is not available on a reinsurance basis. The Company carefully monitors its mix of business

across all operations to avoid unacceptable geographic or other risk concentrations.

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Commencing 2015, the Company initiated a strategic build out of its insurance platform through the investment in key leadership hires which in turn has brought significant underwriting talent and stronger direction in achieving its 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. The Company is building a world-class insurance platform capable of offering products across lines and geographies, complementing its leading global reinsurance franchise.

Capital Transactions.
The Company's business operations are in part dependent on its financial strength and financial strength ratings, and the market's perception of its financial strength. The Company stockholder's equity was $5,044.7 million and $5,412.7 million at December 31, 2018 and 2017, respectively. The Company possesses significant financial flexibility with access to the debt markets and, through its ultimate parent, equity markets, as a result of its perceived financial strength, as evidenced by the financial strength ratings as assigned by independent rating agencies. The Company's capital position remains strong, commensurate with its financial ratings and the Company has ample liquidity to meet its financial obligations for the foreseeable future.

Financial Strength Ratings.
The following table shows the current financial strength ratings of the Company's operating subsidiaries as reported by A.M. Best, Standard & Poor's Financial Services, LLC ("Standard & Poor's") and Moody's Investors Services, Inc. ("Moody's"). These ratings are based upon factors of concern to policyholders and should not be considered an indication of the degree or lack of risk involved in a direct or indirect equity investment in an insurance or reinsurance company.

All of the below-mentioned ratings are continually monitored and revised, if necessary, by each of the rating agencies. The ratings presented in the following table were in effect as of January 29, 2019.

The Company believes that its ratings are important as they provide the Company's customers and its investors with an independent assessment of the Company's financial strength using a rating scale that provides for relative comparisons. Strong financial ratings are particularly important for reinsurance companies. Ceding companies must rely on their reinsurers to pay covered losses well into the future. As a result, a highly rated reinsurer is generally preferred.

Operating Subsidiary:	A.M. Best	Standard & Poor's	Moody's
Everest Re	A+ (Superior)	A+ (Strong)	A1 (upper-medium)
Everest National	A+ (Superior)	A+ (Strong)	Not Rated
Everest Indemnity	A+ (Superior)	A+ (Strong)	Not Rated
Everest Security	A+ (Superior)	Not Rated	Not Rated
Everest International Assurance, Ltd.	A+ (Superior)	A (Strong)	Not Rated
Everest Denali	A+ (Superior)	Not Rated	Not Rated
Everest Premier	A+ (Superior)	Not Rated	Not Rated

A.M. Best states that the "A+" ("Superior") rating is assigned to those companies which, in its opinion, have a superior ability to meet their ongoing insurance policy and contract obligations based on A.M. Best's comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile. A.M. Best affirmed these ratings on March 16, 2018. Standard & Poor's states that the "A+"/"A" ratings are assigned to those insurance companies which, in its opinion, have strong financial security characteristics with respect to their ability to pay under its insurance policies and contracts in accordance with their terms. Standard & Poor's

affirmed these ratings on July 28, 2018. Moody's states that an "A1" rating is assigned to companies that, in their opinion, offer upper-medium grade security and are subject to low credit risk. Moody's affirmed these ratings on September 26, 2018.

Subsidiaries other than Everest Re may not be rated by some or any rating agencies because such ratings are not considered essential by the individual subsidiary's customers or because of the limited nature of the subsidiary's operations or because the subsidiaries are newly established and have not yet been rated by the agencies.

Debt Ratings.
The following table shows the debt ratings by A.M. Best, Standard & Poor’s and Moody’s of the Holdings’ senior notes due June 1, 2044 and long term notes due May 1, 2067 both of which are considered investment grade. Debt ratings are the rating agencies’ current assessment of the credit worthiness of an obligor with respect to a specific obligation.

	A.M. Best		Standard & Poor's		Moody's	
Senior Notes	a-	(Strong)	A-	(Strong)	Baa1	(Medium Grade)
Long Term Notes	bbb	(Adequate)	BBB	(Adequate)	Baa2	(Medium Grade)

Competition.
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.

The Company competes in the U.S. and international reinsurance and insurance markets with numerous global competitors. The Company’s 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 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 were numerous natural catastrophes in 2018, with total industry losses estimated to be $90 billion. The costliest event was the Camp Wildfire in California, the deadliest and most destructive California fire on record. These 2018 catastrophe losses followed another record year of catastrophes in 2017 where total industry losses for the worldwide events were estimated at $140 billion. These catastrophe losses included 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 wildfires in California

and Hurricanes Nate and Ophelia. 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. 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 some firming of (re)insurance rates for the areas impacted by the catastrophes.

Commencing in 2015, the Company initiated a strategic build out of its insurance platform through the investment in key leadership hires which in turn has brought significant underwriting talent and stronger direction in achieving its 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. The Company is building a world-class insurance platform capable of offering products across lines and geographies, complementing its leading global reinsurance franchise.

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

Employees.

As of February 1, 2019, the Company employed 1,237 persons. Management believes that employee relations are good. None of the Company's employees are subject to collective bargaining agreements, and the Company is not aware of any current efforts to implement such agreements.

Available Information.

The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports are available free of charge through the Company's internet website at http://www.everestregroup.com as soon as reasonably practicable after such reports are electronically filed with the SEC.

ITEM 1A. RISK FACTORS

In addition to the other information provided in this report, the following risk factors should be considered when evaluating an investment in our securities. If the circumstances contemplated by the individual risk factors materialize, our business, financial condition and results of operations could be materially and adversely affected and our ability to service our debt, our debt ratings and our ability to issue new debt could decline significantly.

RISKS RELATING TO OUR BUSINESS

Fluctuations in the financial markets could result in investment losses.

Prolonged and severe disruptions in the overall public debt and equity markets, such as occurred during 2008, could result in significant realized and unrealized losses in our investment portfolio. Although financial markets have significantly improved since 2008, they could deteriorate in the future. There could also be disruption in individual market sectors, such as occurred in the energy sector in recent years. Such declines in the financial markets could result in significant realized and unrealized losses on investments and could have a material adverse impact on our results of operations, equity, business and insurer financial strength and debt ratings.

Our results could be adversely affected by catastrophic events.

We are exposed to unpredictable catastrophic events, including weather-related and other natural catastrophes, as well as acts of terrorism. Any material reduction in our operating results caused by the occurrence of one or more catastrophes could inhibit our ability to pay dividends or to meet our interest and principal payment obligations. By way of illustration, during the past five calendar years, pre-tax catastrophe losses, net of reinsurance, were as follows:

Calendar year:	Pre-tax catastrophe losses
(Dollars in millions)	
2018	$ 1,712.6
2017	941.4
2016	109.2
2015	31.9
2014	18.2

Our losses from future catastrophic events could exceed our projections.

We use projections of possible losses from future catastrophic events of varying types and magnitudes as a strategic underwriting tool. We use these loss projections to estimate our potential catastrophe losses in certain geographic areas and decide on the placement of retrocessional coverage or other actions to limit the extent of potential losses in a given geographic area. These loss projections are approximations, reliant on a mix of quantitative and qualitative processes, and actual losses may exceed the projections by a material amount, resulting in a material adverse effect on our financial condition and results of operations.

If our loss reserves are inadequate to meet our actual losses, our net income would be reduced or we could incur a loss.

We are required to maintain reserves to cover our estimated ultimate liability of losses and loss adjustment expenses (“LAE”) for both reported and unreported claims incurred. These reserves are only estimates of what we believe the settlement and administration of claims will cost based on facts and circumstances known to us. In setting reserves for our reinsurance liabilities, we rely on claim data supplied by our ceding companies and brokers and we employ actuarial and statistical projections. The information received from our ceding companies is not always timely or accurate, which can contribute to inaccuracies in our loss projections. Because of the uncertainties that surround our estimates of loss and LAE reserves, we cannot be certain that ultimate losses and LAE payments will not exceed our estimates. If our reserves are deficient, we would be required to increase loss reserves in the period in which such deficiencies are identified which would cause a charge to our earnings and a reduction of capital. By way of illustration, during the past five calendar years, the reserve re-estimation process resulted in a decrease to our pre-tax net income in 2018, an increase for the years 2017 through 2015 and a decrease in 2014:

Calendar year:	Effect on pre-tax net income	
(Dollars in millions)		
2018	$ 558.8	decrease
2017	117.7	increase
2016	91.7	increase
2015	6.5	increase
2014	39.2	decrease

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The difficulty in estimating our reserves is significantly more challenging as it relates to reserving for potential asbestos and environmental ("A&E") liabilities. At December 31, 2018, 3.4% of our gross reserves were comprised of A&E reserves. A&E liabilities are especially hard to estimate for many reasons, including the long delays between exposure and manifestation of any bodily injury or property damage, difficulty in identifying the source of the asbestos or environmental contamination, long reporting delays and difficulty in properly allocating liability for the asbestos or environmental damage. Legal tactics and judicial and legislative developments affecting the scope of insurers' liability, which can be difficult to predict, also contribute to uncertainties in estimating reserves for A&E liabilities.

The failure to accurately assess underwriting risk and establish adequate premium rates could reduce our net income or result in a net loss.

Our success depends on our ability to accurately assess the risks associated with the businesses on which the risk is retained. If we fail to accurately assess the risks we retain, we may fail to establish adequate premium rates to cover our losses and LAE. This could reduce our net income and even result in a net loss.

In addition, losses may arise from events or exposures that are not anticipated when the coverage is priced. In addition to unanticipated events, we also face the unanticipated expansion of our exposures, particularly in long-tail liability lines. An example of this is the expansion over time of the scope of insurers' legal liability within the mass tort arena, particularly for A&E exposures discussed above.

Decreases in pricing for property and casualty reinsurance and insurance could reduce our net income.

The worldwide reinsurance and insurance businesses are highly competitive, as well as cyclical by product and market. These cycles, as well as other factors that influence aggregate supply and demand for property and casualty insurance and reinsurance products, are outside of our control. The supply of (re)insurance is driven by prevailing prices and levels of capacity that may fluctuate in response to a number of factors including large catastrophic losses and investment returns being realized in the insurance industry. Demand for (re)insurance is influenced by underwriting results of insurers and insureds, including catastrophe losses, and prevailing general economic conditions. If any of these factors were to result in a decline in the demand for (re)insurance or an overall increase in (re)insurance capacity, our net income could decrease.

If rating agencies downgrade the ratings of our insurance subsidiaries, future prospects for growth and profitability could be significantly and adversely affected.

Our active insurance company subsidiaries currently hold financial strength ratings assigned by third-party rating agencies which assess and rate the claims paying ability and financial strength of insurers and reinsurers. Our active subsidiaries that have been rated carry an "A+" ("Superior") rating from A.M. Best. Everest Re, Everest National and Everest Indemnity hold an "A+" ("Strong") rating from Standard & Poor's and Everest Assurance holds an "A" ("Strong") rating from this same agency. Everest Re holds an "A1" ("upper-medium grade") rating from Moody's. Financial strength ratings are used by client companies and agents and brokers that place the business as an important means of assessing the financial strength and quality of reinsurers. A downgrade or withdrawal of any of these ratings might adversely affect our ability to market our insurance products and could have a material and adverse effect on future prospects for growth and profitability.

Consistent with market practice, much of our treaty reinsurance business allows the ceding company to terminate the contract or seek collateralization of our obligations in the event of a rating downgrade below a certain threshold. The termination provision would generally be triggered if a rating fell below A.M. Best's A- rating level, which is three levels below Everest Re's current rating of A+. To a lesser extent, Everest Re also has modest exposure to reinsurance contracts that contain provisions for obligatory funding of outstanding liabilities in the event of a rating agency

downgrade. Those provisions would also generally be triggered if Everest Re's rating fell below A.M. Best's A- rating level.

The failure of our insureds, intermediaries and reinsurers to satisfy their obligations to us could reduce our income.

In accordance with industry practice, we have uncollateralized receivables from insureds, agents and brokers and/or rely on agents and brokers to process our payments. We may not be able to collect amounts due from insureds, agents and brokers, resulting in a reduction to net income.

We are subject to credit risk of reinsurers in connection with retrocessional arrangements because the transfer of risk to a reinsurer does not relieve us of our liability to the insured. In addition, reinsurers may be unwilling to pay us even though they are able to do so. The failure of one or more of our reinsurers to honor their obligations to us in a timely fashion would impact our cash flow and reduce our net income and could cause us to incur a significant loss.

If we are unable or choose not to purchase reinsurance and transfer risk to the reinsurance markets, our net income could be reduced or we could incur a net loss in the event of unusual loss experience.

We are generally less reliant on the purchase of reinsurance than many of our competitors, in part because of our strategic emphasis on underwriting discipline and management of the cycles inherent in our business. We try to separate our risk taking process from our risk mitigation process in order to avoid developing too great a reliance on reinsurance. Historically, we generally purchased reinsurance from other third parties only when we expect a net benefit. With the expansion of the capital markets into insurance linked financial instruments, we increased our use of capital market products for catastrophe reinsurance starting in 2014. In addition, some of our quota share contracts with larger retrocessions were increased during 2014. The percentage of business that we reinsure may vary considerably from year to year, depending on our view of the relationship between cost and expected benefit for the contract period.

We entered into affiliated whole account quota share reinsurance agreements for 2002 through 2017 with Bermuda Re but we did not renew the quota share reinsurance agreement with Bermuda Re as of December 31, 2017. We believe that the terms, conditions and pricing of the quota share agreements reflect arm's length market conditions. These affiliated reinsurance arrangements allow us to more effectively leverage our capital, expertise, distribution platform and market presence than our stand alone capital position would otherwise allow.

Percentage of ceded written premiums to gross written premiums	2018	2017	2016	2015	2014
Unaffiliated	14.7%	14.6%	13.6%	8.2%	9.3%
Affiliated	8.7%	38.4%	45.9%	49.9%	48.2%

If we are unable to purchase affiliated or unaffiliated reinsurance in the future, we may have to reduce our premium volume and we may be more exposed to reductions in net income from large losses.

Our industry is highly competitive and we may not be able to compete successfully in the future.

Our industry is highly competitive and subject to pricing cycles that can be pronounced. We compete globally in the United States, international reinsurance and insurance markets with numerous competitors. Our competitors include independent reinsurance and insurance companies, subsidiaries or affiliates of established worldwide insurance companies, reinsurance departments of certain insurance companies and domestic and international underwriting operations, including underwriting syndicates at Lloyd's of London.

According to Standard & Poor's, Group ranks among the top ten global reinsurance groups, where more than two-thirds of the market share is concentrated. The worldwide net premium written by the Top 40 global reinsurance

groups, for both life and non-life business, was estimated to be $232.0 billion in 2017 according to data compiled by Standard & Poor's. The leaders in this market are Munich Re, Swiss Re, Berkshire Hathaway Re, Hannover Rueck SE, SCOR SE and syndicates at Lloyd's of London. Some of these competitors have greater financial resources than we do and have established long term and continuing business relationships throughout the industry, which can be a significant competitive advantage. In addition, the lack of strong barriers to entry into the reinsurance business and the entry of alternative capital

market products and vehicles provide additional sources of reinsurance and insurance capacity and increased competition.

We are dependent on our key personnel.

Our success has been, and will continue to be, dependent on our ability to retain the services of our existing key executive officers and to attract and retain additional qualified personnel in the future. The loss of the services of any key executive officer or the inability to hire and retain other highly qualified personnel in the future could adversely affect our ability to conduct business. Generally, we consider key executive officers to be those individuals who have the greatest influence in setting overall policy and controlling operations: Chairman, President and Chief Executive Officer, Dominic J. Addesso (age 65), Executive Vice President and Chief Financial Officer, Craig Howie (age 55), Executive Vice President and Chief Executive Officer Reinsurance Division, John P. Doucette (age 53), Executive Vice President, General Counsel, Chief Compliance Officer, Secretary and Managing Director and Chief Executive Officer of Bermuda Re, Sanjoy Mukherjee (age 52) and Executive Vice President, President and Chief Executive Officer of the Everest Insurance® Division, Jonathan Zaffino (age 46). Through Group and its affiliates, we have employment contracts with Mr. Addesso, Mr. Howie, Mr. Doucette, Mr. Mukherjee and Mr. Zaffino, which have been filed with the SEC and provide for terms of employment ending on December 31, 2019 for Mr. Addesso, April 1, 2019 for Mr. Howie, June 1, 2019 for Mr. Doucette, January 1, 2020 for Mr. Mukherjee and September 6, 2020 for Mr. Zaffino.

On January 7, 2019, the Company announced that Mr. Addesso has informed the Group's Board of Directors that he will retire at the end of his contract term on December 31, 2019. As a result, the Board is undertaking a search as part of its succession planning process, which will include a review of internal and external candidates for the position.

The other officer agreements referenced above contain automatic renewal provisions that provide for the contracts to continue indefinitely unless sooner terminated in accordance with the contract or as otherwise may be agreed.

Our investment values and investment income could decline because they are exposed to interest rate, credit and market risks.

A significant portion of our investment portfolio consists of fixed income securities and smaller portions consist of equity securities and other investments. Both the fair market value of our invested assets and associated investment income fluctuate depending on general economic and market conditions. For example, the fair market value of our predominant fixed income portfolio generally increases or decreases inversely to fluctuations in interest rates. The market value of our fixed income securities could also decrease as a result of a downturn in the business cycle that causes the credit quality of such securities to deteriorate. The net investment income that we realize from future investments in fixed income securities will generally increase or decrease with interest rates.

Interest rate fluctuations also can cause net investment income from fixed income investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, to differ from the income anticipated from those securities at the time of purchase. In addition, if issuers of individual investments are unable to meet their obligations, investment income will be reduced and realized capital losses may arise.

The majority of our fixed income securities are classified as available for sale and temporary changes in the market value of these investments are reflected as changes to our stockholder's equity. Our actively managed equity security portfolios are fair valued and any changes in fair value are reflected as net realized capital gains or losses. As a result, a decline in the value of our securities reduces our capital or could cause us to incur a loss.

We have invested a portion of our investment portfolio in equity securities. The value of these assets fluctuates with changes in the markets. In times of economic weakness, the fair value of these assets may decline, and may negatively impact net income. We also invest in non-traditional investments which have different risk characteristics than traditional fixed income and equity securities. These alternative investments are comprised primarily of private equity limited partnerships. The changes in value and investment income/(loss) for these partnerships may be more volatile than over-the-counter securities.

The following table quantifies the portion of our investment portfolio that consists of fixed income securities, equity securities and investments that carry prepayment risk.

(Dollars in millions)	At December 31, 2018	% of Total	
Mortgage-backed securities			
Commercial	$ 136.6	1.3	%
Agency residential	148.8	1.4	%
Non-agency residential	3.1	0.0	%
Other asset-backed	221.2	2.1	%
Total asset-backed	509.7	4.8	%
Other fixed income	6,452.4	60.3	%
Total fixed income, at market value	6,962.1	65.1	%
Fixed maturities, at fair value	2.3	0.0	%
Equity securities, at fair value	564.3	5.3	%
Other invested assets, at market value	882.7	8.2	%
Other invested assets, at fair value	1,717.3	16.0	%
Cash and short-term investments	578.7	5.4	%
Total investments and cash	$ 10,707.4	100.0	%

We may experience foreign currency exchange losses that reduce our net income and capital levels.

Through our international operations, we conduct business in a variety of foreign (non-U.S.) currencies, principally the Canadian dollar and the Singapore dollar. Assets, liabilities, revenues and expenses denominated in foreign currencies are exposed to changes in currency exchange rates. Our reporting currency is the U.S. dollar, and exchange rate fluctuations, especially relative to the U.S. dollar, may materially impact our results and financial position. In 2018, we wrote approximately 16.8% of our coverages in non-U.S. currencies; as of December 31, 2018, we maintained approximately 9.1% of our investment portfolio in investments denominated in non-U.S. currencies. During 2018, 2017 and 2016, the impact on our quarterly pre-tax net income from exchange rate fluctuations ranged from a loss of $12.3 million to a gain of $15.4 million.

Changes in the method for determining LIBOR and the potential replacement of LIBOR may affect our cost of capital and net investment income.

On July 27, 2017, the UK Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021, which is expected to result in these widely used reference rates no longer being available. Potential changes to LIBOR, as well as uncertainty related to such potential changes and the establishment of any alternative reference rates, may adversely affect the market for LIBOR-based securities and could adversely impact the interest rate on our long term subordinate notes. In addition, the discontinuance of LIBOR or changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR-based securities or the

value of our investment portfolio.

We are subject to cybersecurity risks that could negatively impact our business operations.

We are dependent upon our information technology platform, including our processing systems, data and electronic transmissions in our business operations. Security breaches could expose us to the loss or misuse of our information, litigation and potential liability. In addition, cyber incidents that impact the availability, reliability, speed, accuracy or other proper functioning of these systems could have a significant

negative impact on our operations and possibly our results. An incident could also result in a violation of applicable privacy and other laws, damage our reputation, cause a loss of customers or give rise to monetary fines and other penalties, which could be significant. Management is not aware of a cybersecurity incident that has had a material impact on our operations.

The NAIC has adopted an Insurance Data Security Model Law, which, when adopted by the states will require insurers, insurance producers and other entities required to be licensed under state insurance laws to comply with certain requirements under state insurance laws, such as developing and maintaining a written information security program, conducting risk assessments and overseeing the data security practices of third-party vendors. In addition, certain state insurance regulators are developing or have developed regulations that may impose regulatory requirements relating to cybersecurity on insurance and reinsurance companies (potentially including insurance and reinsurance companies that are not domiciled, but are licensed, in the relevant state). For example, the New York State Department of Financial Services has adopted a regulation pertaining to cybersecurity for all banking and insurance entities under its jurisdiction, effective as of March 1, 2017, which applies to us. We cannot predict the impact these laws and regulations will have on our business, financial condition or results of operations, but our insurance and reinsurance companies could incur additional costs resulting from compliance with such laws and regulations.

RISKS RELATING TO REGULATION

Insurance laws and regulations restrict our ability to operate and any failure to comply with those laws and regulations could have a material adverse effect on our business.

We are subject to extensive and increasing regulation under U.S., state and foreign insurance laws. These laws limit the amount of dividends that can be paid to us by our operating subsidiaries, impose restrictions on the amount and type of investments that we can hold, prescribe solvency, accounting and internal control standards that must be met and maintained and require us to maintain reserves. These laws also require disclosure of material inter-affiliate transactions and require prior approval of “extraordinary” transactions. Such “extraordinary” transactions include declaring dividends from operating subsidiaries that exceed statutory thresholds. These laws also generally require approval of changes of control of insurance companies. The application of these laws could affect our liquidity and ability to pay dividends, interest and other payments on securities, as applicable, and could restrict our ability to expand our business operations through acquisitions of new insurance subsidiaries. We may not have or maintain all required licenses and approvals or fully comply with the wide variety of applicable laws and regulations or the relevant authority’s interpretation of the laws and regulations. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or monetarily penalize us. These types of actions could have a material adverse effect on our business. To date, no material fine, penalty or restriction has been imposed on us for failure to comply with any insurance law or regulation.

As a result of the previous dislocation of the financial markets, Congress and the previous Presidential administration in the United States implemented changes in the way the financial services industry is regulated. Some of these changes are also impacting the insurance industry. For example, the U.S. Treasury established the Federal Insurance Office with the authority to monitor all aspects of the insurance sector, monitor the extent to which traditionally underserved communities and consumers have access to affordable non-health insurance products, to represent the United States on prudential aspects of international insurance matters, to assist with administration of the Terrorism Risk Insurance Program and to advise on important national and international insurance matters. In addition, several European regulatory bodies are in process of updating existing or developing new capital adequacy directives for insurers and reinsurers. The future impact of such initiatives or new initiatives from the current Government Administration, if any, on our operation, net income (loss) or financial condition cannot be determined at this time.

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RISK RELATING TO OUR SECURITIES

Because of our holding company structure, our ability to pay dividends, interest and principal is dependent on our receipt of dividends, loan payments and other funds from our subsidiaries.

We are a holding company, whose most significant asset consists of the stock of our operating subsidiaries. As a result, our ability to pay dividends, interest or other payments on our securities in the future will depend on the earnings and cash flows of the operating subsidiaries and the ability of the subsidiaries to pay dividends or to advance or repay funds to us. This ability is subject to general economic, financial, competitive, regulatory and other factors beyond our control. Payment of dividends and advances and repayments from some of the operating subsidiaries are regulated by U.S., state and foreign insurance laws and regulatory restrictions, including minimum solvency and liquidity thresholds. Accordingly, the operating subsidiaries may not be able to pay dividends or advance or repay funds to us in the future, which could prevent us from paying dividends, interest or other payments on our securities.

RISK RELATING TO TAXATION

If U.S. tax law changes, our net income may be impacted.

The 2017 enacted Tax Cut and Jobs Act ("TCJA") includes a provision for additional taxes on reinsurance transactions with affiliates in foreign jurisdictions. Such affiliated reinsurance transactions are now subject to a Base Erosion and Anti-abuse Tax ("BEAT") of 10% from 2019 to 2025 and 12.5% thereafter. In addition, new regulations may further limit the ability of the Company to execute alternative capital balancing transactions with unrelated parties. This would further impact our net income and effective tax rate.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Everest Re's corporate offices are located in approximately 230,500 square feet of leased office space in Liberty Corner, New Jersey. The Company's other eighteen locations occupy a total of approximately 190,540 square feet, all of which are leased. Management believes that the above described office space is adequate for its current and anticipated needs.

ITEM 3. 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 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 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information and Holder of Common Stock.
As of December 31, 2018, all of the Company's common stock was owned by Holdings Ireland and was not publicly traded.

Dividend History and Restrictions.
The Company did not pay any dividends in 2018, 2017 and 2016. The declaration and payment of future dividends, if any, by the Company will be at the discretion of the Board of Directors and will depend upon many factors, including the Company's earnings, financial condition, business needs and growth objectives, capital and surplus requirements of its operating subsidiaries, regulatory restrictions, rating agency considerations and other factors. As an insurance holding company, the Company is dependent on dividends and other permitted payments from its subsidiaries to pay cash dividends to its stockholder. The payment of dividends to Holdings by Everest Re is subject to limitations imposed by Delaware law. Generally, Everest Re may only pay dividends out of its statutory earned surplus, which was $3,650.6 million at December 31, 2018, and only after it has given 10 days prior notice to the Delaware Insurance Commissioner. During this 10-day period, the Commissioner may, by order, limit or disallow the payment of ordinary dividends if the Commissioner finds the insurer to be presently or potentially in financial distress. Further, the maximum amount of dividends that may be paid without the prior approval of the Delaware Insurance Commissioner in any twelve month period is the greater of (1) 10% of an insurer's statutory surplus as of the end of the prior calendar year or (2) the insurer's statutory net income, not including realized capital gains, for the prior calendar year. The maximum amount that is available for the payment of dividends by Everest Re in 2019 without prior regulatory approval is $365.0 million.

Recent Sales of Unregistered Securities.

None.

ITEM 6. SELECTED FINANCIAL DATA

Information for Item 6 is not required pursuant to General Instruction I(2) of Form 10-K.

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

The following is a discussion and analysis of our results of operations and financial condition. It should be read in conjunction with the Consolidated Financial Statements and accompanying notes thereto presented under ITEM 8, "Financial Statements and Supplementary Data".

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 were numerous natural catastrophes in 2018 with total industry losses estimated to be $90 billion. The costliest event was the Camp Wildfire in California, the deadliest and most destructive California fire on record. These 2018 catastrophe losses followed another record year of catastrophes in 2017 where total industry losses for the worldwide events were estimated at $140 billion. These catastrophe losses included 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. 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. 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 some firming of (re)insurance rates for the

areas impacted by the catastrophes.

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 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:

	Years Ended December 31,			Percentage Increase/(Decrease)	
(Dollars in millions)	2018	2017	2016	2018/2017	2017/2016
Gross written premiums	$6,573.7	$5,788.5	$5,063.7	13.6 %	14.3 %
Net written premiums	5,031.9	2,723.8	2,048.1	84.7 %	33.0 %
REVENUES:					
Premiums earned	$4,839.1	$1,949.6	$2,094.0	148.2 %	-6.9 %
Net investment income	314.4	286.3	264.8	9.8 %	8.1 %
Net realized capital gains (losses)	(185.4)	161.6	(28.9)	-214.7 %	NM
Other income (expense)	(3.9)	23.8	(10.5)	-116.2 %	NM
Total revenues	4,964.2	2,421.2	2,319.4	105.0 %	4.4 %
CLAIMS AND EXPENSES:					
Incurred losses and loss adjustment expenses	4,811.0	2,039.8	1,350.3	135.9 %	51.1 %
Commission, brokerage, taxes and fees	1,141.7	210.9	281.4	NM	-25.1 %
Other underwriting expenses	293.3	254.9	245.0	15.1 %	4.0 %
Corporate expense	11.0	7.4	8.3	49.2 %	-10.7 %
Interest, fee and bond issue cost amortization expense	30.6	31.2	35.4	-1.8 %	-12.0 %
Total claims and expenses	6,287.7	2,544.1	1,920.4	147.1 %	32.5 %
INCOME (LOSS) BEFORE TAXES	(1,323.5)	(123.0)	399.0	NM	-130.8 %
Income tax expense (benefit)	(365.8)	(201.2)	97.3	81.8 %	NM
NET INCOME (LOSS)	$(957.7)	$78.2	$301.6	NM	-74.1 %
RATIOS:				Point Change	
Loss ratio	99.4 %	104.6 %	64.5 %	(5.2)	40.1
Commission and brokerage ratio	23.6 %	10.8 %	13.4 %	12.8	(2.6)
Other underwriting expense ratio	6.1 %	13.1 %	11.7 %	(7.0)	1.4
Combined ratio	129.1 %	128.5 %	89.6 %	0.6	38.9

	At December 31,			Percentage Increase/ (Decrease)	
(Dollars in millions)	2018	2017	2016	2018/2017	2017/2016
Balance sheet data:					
Total investments and cash	$10,707.4	$8,911.5	$9,842.7	20.2 %	-9.5 %
Total assets	18,688.2	17,888.5	17,083.4	4.5 %	4.7 %
Loss and loss adjustment expense reserves	10,167.0	9,343.0	8,331.3	8.8 %	12.1 %
Total debt	933.6	633.4	633.2	47.4 %	0.0 %
Total liabilities	13,643.5	12,475.8	11,784.9	9.4 %	5.9 %
Stockholder's equity	5,044.7	5,412.7	5,298.6	-6.8 %	2.2 %

(Some amounts may not reconcile due to rounding)
(NM, not meaningful)

Revenues.

Premiums. Gross written premiums increased by 13.6% to $6,573.7 million in 2018, compared to $5,788.5 million in 2017, reflecting a $637.0 million, or 16.2%, increase in our reinsurance business and a $148.2 million, or 8.0%, increase in our insurance business. The increase in reinsurance premiums was mainly due to the increases in treaty property and treaty casualty writings, rise in mortgage business and growth in Latin American business. The rise in insurance premiums was primarily due to increases in many lines of business, including casualty, energy and accident and health. Net written premiums increased by 84.7% to $5,031.9 million in 2018, compared to $2,723.8 million in 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 in 2018 were $572.6 million compared with $2,219.4 million in 2017. Premiums earned increased by 148.2% to $4,839.1 million in 2018, compared to $1,949.6 million in 2017. The change in premiums earned relative to net written premiums is partially due to the impact of the non-renewal of the quota share contract between Everest Re and Bermuda Re and is also the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

Gross written premiums increased by 14.3% to $5,788.5 million in 2017, compared to $5,063.7 million in 2016, reflecting a $537.7 million, or 15.8%, increase in our reinsurance business and a $187.1 million, or 11.2%, increase in our insurance business. The increase in reinsurance premiums was mainly due to the new crop reinsurance transactions, increases in treaty property and financial lines of business and the influx of reinstatement premiums related to multiple catastrophe events in the third quarter. The rise in insurance premiums was primarily due to increases in many lines of business, including property, retail casualty and accident and health, partially offset by the impact of the sale of Heartland. Net written premiums increased by 33.0% to $2,723.8 million in 2017, compared to $2,048.1 million in 2016. 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 quota share contracts, particularly the non-renewal of the quota share agreement between Everest Re and Bermuda Re as of December 31, 2017, which resulted in a $799.0 million increase to net written premiums in 2017. Premiums earned decreased by 6.9% to $1,949.6 million in 2017, compared to $2,094.0 million in 2016. The change in premiums earned relative to net written premiums is partially due to the impact of the non-renewal of the quota share contract between Everest Re and Bermuda Re and is also the result of 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 9.8% to $314.4 million in 2018 compared with net investment income of $286.3 million in 2017. Net pre-tax investment income as a percentage of average invested assets was 3.2% in both 2018 and 2017. The increase in income was primarily the result of higher income from our limited partnerships and from our growing fixed maturity portfolio, partially offset by lower dividend income from our equity portfolio.

Net investment income increased 8.1% to $286.3 million in 2017 compared with net investment income of $264.8 million in 2016. Net pre-tax investment income as a percentage of average invested assets was 3.2% in 2017, compared to 2.8% in 2016. The increases in income and yield in 2017 were primarily the result of higher income from our limited partnerships and higher income from the growing fixed income portfolio, partially offset by lower dividend income from our equity portfolio.

Net Realized Capital Gains (Losses). Net realized capital losses were $185.4 million in 2018, net realized capital gains were $161.6 million in 2017 and net realized capital losses were $28.9 million in 2016. The net realized capital losses of $185.4 million in 2018, were comprised of $148.0 million of losses from fair value re-measurements, $31.2 million of losses from sales of investments and $6.2 million of other-than-temporary impairments. The net realized capital gains of $161.6 million were comprised of $158.5 million of gains from fair value re-measurements and $9.1

million of gains from sales of investments, partially offset by $6.1 million of other-than-temporary impairments. The net realized losses of $28.9 million in 2016 were comprised of a realized capital loss of $28.0 million from the sale of our Heartland subsidiary, $25.7 million of other-than-temporary impairments and $21.1 million of losses from sales of investments, partially offset by $45.9 million of gains from fair value re-measurements.

Other Income (Expense). We recorded other expense of $3.9 million in 2018, other income of $23.8 million in 2017, and other expense of $10.5 million in 2016. The changes were primarily the result of fluctuations in foreign currency exchange rates.

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.

	Years Ended December 31,					
	Current	Ratio %/	Prior	Ratio %/	Total	Ratio %/
(Dollars in millions)	Year	Pt Change	Years	Pt Change	Incurred	Pt Change
2018						
Attritional (a)	$3,092.6	63.9 %	$5.8	0.1 %	$3,098.4	64.0 %
Catastrophes	1,159.6	24.0 %	553.0	11.4%	1,712.6	35.4 %
Total	$4,252.2	87.9 %	$558.8	11.5%	$4,811.0	99.4 %
2017						
Attritional (a)	$1,200.6	61.5 %	$(102.3)	-5.2 %	$1,098.4	56.3 %
Catastrophes	956.9	49.1 %	(15.5)	-0.8 %	941.4	48.3 %
Total	$2,157.5	110.6%	$(117.7)	-6.0 %	$2,039.8	104.6%
2016						
Attritional (a)	$1,287.2	61.5 %	$(46.1)	-2.2 %	$1,241.1	59.3 %
Catastrophes	154.8	7.4 %	(45.6)	-2.2 %	109.2	5.2 %
Total	$1,442.0	68.9 %	$(91.7)	-4.4 %	$1,350.3	64.5 %
Variance 2018/2017						
Attritional (a)	$1,892.0	2.4 pts	$108.1	5.3 pts	$2,000.0	7.7 pts
Catastrophes	202.7	(25.1) pts	568.5	12.2 pts	771.2	(12.9) pts
Total	$2,094.7	(22.7) pts	$676.5	17.5 pts	$2,771.2	(5.2) pts
Variance 2017/2016						
Attritional (a)	$(86.6)	- pts	$(56.2)	(3.0) pts	$(142.7)	(3.0) pts
Catastrophes	802.1	41.7 pts	30.1	1.4 pts	832.2	43.1 pts
Total	$715.5	41.7 pts	$(26.1)	(1.6) pts	$689.5	40.1 pts

(a) Attritional losses exclude catastrophe losses.
(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE increased by 135.9% to $4,811.0 million in 2018 compared to $2,039.8 million in 2017, primarily due to an increase in current year attritional losses of $1,892.0 million, mainly due to the impact of the increase in premiums earned resulting primarily from 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. The increase in incurred losses also resulted from $553.0 million of unfavorable development on prior years catastrophe losses in 2018, mainly related to Hurricanes Harvey, Irma and Maria and the California wildfires and an increase in current year catastrophe losses of

$202.7 million. The current year catastrophe losses of $1,159.6 million in 2018 related to Hurricane Michael ($443.5 million), Camp wildfire ($297.0 million), Woolsey wildfire (151.0 million), Typhoon Jebi ($66.6 million), Hurricane Florence ($60.8 million), Cyclone Mekunu ($43.7 million), Typhoon Trami ($25.0 million), other 2018 California wildfires ($24.6 million), Australian hailstorm ($24.0 million), Japan Floods ($15.0 million) and the U.S. winter storms ($8.4 million). Current year catastrophe losses of $956.9 million in 2017 related to Hurricane Irma ($333.7 million), Hurricane Maria ($268.1 million), Hurricane Harvey ($235.8 million), the Northern California wildfires ($75.3 million), the South Africa Knysna fires ($9.6 million), the Mexico City earthquake ($9.3 million), Cyclone Debbie in Australia ($8.5 million), the Peru storms ($7.1 million), the 2017 US Midwest storms ($5.0 million) and the Southern California wildfires ($4.4 million).

Incurred losses and LAE increased by 51.1% to $2,039.8 million in 2017 compared to $1,350.3 million in 2016, primarily due to an increase of $802.1 million in current year catastrophe losses and less favorable development of $30.1 million on prior year catastrophe losses in 2017 compared to 2016. These increases were partially offset by a decrease of $86.6 million of current year attritional losses, mainly due to the impact of the decline in premiums earned and an additional $56.2 million of favorable development on prior years attritional losses in 2017 compared to 2016. The $102.3 million of favorable development on prior years

attritional losses in 2017 was mainly comprised of $68.8 million of favorable development on reinsurance business related to property and short tail business in the United States, partially offset by $25.2 million of adverse development on A&E reserves and $33.5 million of favorable development on insurance business, mainly related to workers compensation business. The current year catastrophe losses of $956.9 million in 2017 are outlined above. Current year catastrophe losses of $154.8 million in 2016 were related to Hurricane Matthew ($62.3 million), the Fort McMurray Canada wildfire ($26.6 million), the 2016 U.S. Storms ($25.7 million), the Ecuador earthquake ($11.6 million), the 2016 Taiwan earthquake ($7.5 million), the Tennessee wildfire ($7.3 million), the New Zealand earthquake ($6.9 million) and Hurricane Hermine ($6.8 million).

Commission, Brokerage, Taxes and Fees. Commission, brokerage, taxes and fees increased to $1,141.7 million in 2018 compared to $210.9 million in 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, increases in premiums earned and changes in the mix of business toward additional pro rata business.

Commission, brokerage, taxes and fees decreased by 25.1% to $210.9 million in 2017 compared to $281.4 million in 2016. The decrease was primarily due to the impact of the decrease in premiums earned, the impact of higher reinstatement premiums in 2017 and the impact of changes in affiliated quota share contracts.

Other Underwriting Expenses. Other underwriting expenses were $293.3 million, $254.9 million and $245.0 million in 2018, 2017 and 2016, respectively. The increases were 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, impact of increases in premium earned 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, have remained consistent at $11.0 million, $7.4 million and $8.3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Interest, Fees and Bond Issue Cost Amortization Expense. Interest, fees and other bond amortization expense were $30.6 million, $31.2 million and 35.4 million in 2018, 2017 and 2016, respectively. The changes in expense were primarily due to the movements in the floating interest rate related to the long term subordinated notes, which is reset quarterly per the note agreement. The floating rate was 5.0% as of December 31, 2018.

Income Tax Expense (Benefit). We had an income tax benefit of $365.8 million in 2018 and $201.2 million in 2017, which included $123.1 million of tax benefit related to the enactment of the TCJA, and income tax expense of $97.3 million for December 31, 2016. 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) as well as changes in tax exempt investment income and creditable foreign taxes. The change in income tax expense (benefit) was primarily due to the increase in catastrophe losses from 2017 to 2018. In addition, the enactment of the TCJA on December 22, 2017 reduced the U.S. corporate income tax rate to 21% from 35%.

During 2018, the Company completed its accounting and interpreted the additional guidance issued by the IRS and U.S. Department of Treasury and recognized an income tax benefit of $28.8 million primarily related to the 2017 tax return to provision true-up recorded in 2018.

Net Income (Loss).
Our net loss was $957.7 million in 2018, and our net income was $78.2 million and $301.6 million in 2017 and 2016, respectively. The changes were primarily driven by the financial component fluctuations explained above.

Ratios.
Our combined ratio increased by 0.6 points to 129.1% in 2018 compared to 128.5% in 2017. The loss ratio component decreased by 5.2 points in 2018 over the same period last year mainly due to a lower loss ratio on current year catastrophe losses and changes in affiliated reinsurance agreements, partially offset by higher unfavorable development on prior years catastrophe losses in 2018 compared to 2017. The commission and brokerage ratio component increased to 23.6% in 2018 compared to 10.8% in 2017, reflecting changes in affiliated reinsurance agreements and changes in the mix of business. The other underwriting expense ratio decreased to 6.1% in 2018 from 13.1% in 2017, mainly due to the impact of changes in affiliated reinsurance contracts.

Our combined ratio increased by 38.9 points to 128.5% in 2017, compared to 89.6% in 2016. The loss ratio components increased 40.1 points in 2017 over the same period last year. The changes were mainly due to the increases in current year catastrophe losses. The commission and brokerage ratio components decreased to 10.8% in 2017 from 13.4% in 2016. The decrease reflects changes in the mix of business, the impact of affiliated quota share contracts and the impact from reinstatement premiums. The other underwriting expense ratios increased to 13.1% in 2017 from 11.7% in 2016. The increase in 2017 was due to costs associated with the continued expansion of the insurance business, partially offset by lower variable compensation costs.

Stockholder's Equity.
Stockholder’s equity decreased by $368.1 million to $5,044.7 million at December 31, 2018 from $5,412.7 million at December 31, 2017, principally as a result of $957.7 million of net loss, $90.9 million of net unrealized depreciation on investments, net of tax and $36.4 million of net foreign currency translation adjustments, partially offset by $712.3 million of capital contributions and $4.5 million of net benefit plan obligation adjustments.

Stockholder’s equity increased by $114.2 million to $5,412.7 million at December 31, 2017 from $5,298.6 million at December 31, 2016, principally as a result of $78.2 million of net income, $37.4 million of net foreign currency translation adjustments, $6.5 million of net benefit plan obligation adjustments and $0.3 million of share-based compensation transactions, partially offset by $8.2 million of net unrealized depreciation on investments, net of tax.

Consolidated Investment Results

Net Investment Income.
Net investment income increased by 9.8% to $314.4 million in 2018 compared to $286.3 million in 2017. The increase in 2018 was primarily due to higher income from our limited partnerships and from our growing fixed maturity portfolio, partially offset by a lower dividend income from our equity portfolio.

Net investment income increased by 8.1% to $286.3 million in 2017 compared to $264.8 million in 2016. The increase in 2017 was primarily due to an increase in limited partnership income and higher income from the growing fixed income portfolio, partially offset by lower dividend income from our equity portfolio.

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

	Years Ended December 31,		
(Dollars in millions)	2018	2017	2016
Fixed maturities	$ 201.1	$ 193.7	$ 182.1
Equity securities	14.9	25.9	32.3
Short-term investments and cash	7.7	2.9	1.2
Other invested assets			
Limited partnerships	61.6	36.6	25.2
Dividends from preferred shares of affiliate	31.0	31.0	31.0
Other	17.8	6.7	1.0
Gross investment income before adjustments	334.2	296.8	272.9
Funds held interest income (expense)	5.2	5.0	6.1
Interest income from Parent	4.1	4.3	4.3
Gross investment income	343.5	306.0	283.3
Investment expenses	(29.1)	(19.8)	(18.5)
Net investment income	$ 314.4	$ 286.3	$ 264.8

(Some amounts may not reconcile due to rounding.)

The following table shows a comparison of various investment yields for the periods indicated:

	2018	2017	2018
Imbedded pre-tax yield of cash and invested assets at December 31	3.5%	3.4%	2.9%
Imbedded after-tax yield of cash and invested assets at December 31	2.8%	2.7%	2.0%
Annualized pre-tax yield on average cash and invested assets	3.2%	3.2%	2.8%
Annualized after-tax yield on average cash and invested assets	2.6%	2.2%	2.0%

Net Realized Capital Gains (Losses).
The following table presents the composition of our net realized capital gains (losses) for the periods indicated:

	Years Ended December 31,			2018/2017	2017/2016
(Dollars in millions)	2018	2017	2016	Variance	Variance
Gains (losses) from sales:					
Fixed maturity securities, market value					
Gains	$ 15.3	$ 31.3	$ 18.6	$ (16.0)	$ 12.7
Losses	(14.4)	(28.9)	(25.6)	14.5	(3.3)
Total	0.9	2.5	(7.0)	(1.6)	9.5
Fixed maturity securities, fair value					
Gains	-	-	0.3	-	(0.3)
Losses	(1.8)	-	(1.9)	(1.8)	1.9
Total	(1.8)	-	(1.6)	(1.8)	1.6
Equity securities, fair value					
Gains	25.2	23.2	16.2	2.0	7.0
Losses	(57.3)	(16.7)	(28.8)	(40.6)	12.1
Total	(32.1)	6.6	(12.6)	(38.7)	19.2
Other invested assets					
Gains	1.8	0.1	-	1.7	0.1
Losses	-	-	-	-	-
Total	1.8	0.1	-	1.7	0.1
Total net realized gains (losses) from sales					
Gains	42.3	54.6	35.1	(12.3)	19.5
Losses	(73.5)	(45.6)	(56.3)	(27.9)	10.7
Total	(31.2)	9.1	(21.1)	(40.3)	30.2
Gain (loss) on sale of subsidiary:	-	-	(28.0)	-	28.0
Other than temporary impairments:	(6.2)	(6.1)	(25.7)	(0.1)	19.6
Gains (losses) from fair value adjustments:					
Fixed maturities, fair value	1.5	-	1.4	1.5	(1.4)
Equity securities, fair value	(59.4)	117.7	51.1	(177.1)	66.6
Other invested assets, fair value	(90.1)	40.8	(6.6)	(130.9)	47.4
Total	(148.0)	158.5	45.9	(306.5)	112.6
Total net realized gains (losses)	$ (185.4)	$ 161.6	$ (28.9)	$ (347.0)	$ 190.5

(Some amounts may not reconcile due to rounding.)

Net realized capital losses were $185.4 million in 2018, net realized capital gains were $161.6 million in 2017 and net realized capital losses were $28.9 million in 2016. In 2018, we recorded $148.0 million of losses from fair value re-measurements, $31.2 million of losses from sales of investments and $6.2 million of other-than-temporary

impairments. In 2017, we recorded $158.5 million of gains from fair value re-measurements and $9.1 million of gains from sales of investments, partially offset by $6.1 million of other-than-temporary impairments. In 2016, we recorded a realized capital loss of $28.0 million from the sale of our Heartland subsidiary, $25.7 million of other-than-temporary impairments and $21.1 million of net realized capital losses from sales of investments, partially offset by $45.9 million of net realized capital gains due to fair value re-measurements. The fixed maturity and equity sales related primarily to adjusting the portfolios for overall market changes and individual credit shifts.

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.

	Years Ended December 31,			2018/2017		2017/2016	
(Dollars in millions)	2018	2017	2016	Variance	% Change	Variance	% Change
Gross written premiums	$3,014.3	$2,593.1	$2,125.8	$421.3	16.2 %	$467.3	22.0 %
Net written premiums	2,093.1	1,135.6	930.2	957.5	84.3 %	205.4	22.1 %
Premiums earned	$1,979.9	$858.2	$990.1	$1,121.7	130.7 %	$(131.9)	-13.3 %
Incurred losses and LAE	2,790.8	912.1	554.1	1,878.7	206.0 %	358.0	64.6 %
Commission and brokerage	568.4	160.3	189.5	408.1	NM	(29.2)	-15.4 %
Other underwriting expenses	60.3	55.9	54.1	4.4	7.8 %	1.8	3.3 %
Underwriting gain (loss)	$(1,439.5)	$(270.2)	$192.4	$(1,169.4)	NM	$(462.5)	-240.5 %
					Point Chg		Point Chg
Loss ratio	141.0 %	106.3 %	56.0 %		34.7		50.3
Commission and brokerage ratio	28.7 %	18.7 %	19.1 %		10.0		(0.4)
Other underwriting expense ratio	3.0 %	6.5 %	5.5 %		(3.5)		1.0
Combined ratio	172.7 %	131.5 %	80.6 %		41.2		50.9

(Some amounts may not
reconcile due to rounding)

Premiums. Gross written premiums increased by 16.2% to $3,014.3 million in 2018 from $2,593.1 million in 2017, primarily due to an increase in treaty property and treaty casualty writings as well as growth in the mortgage business. Net written premiums increased by 84.3% to $2,093.1 million in 2018 compared to $1,135.6 million in 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 130.7% to $1,979.9 million in 2018 compared to $858.2 million in 2017. The change in premiums earned relative to net written premiums is partially due to the impact of the non-renewal of the

quota share contract between Everest Re and Bermuda Re and is also the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

Gross written premiums increased by 22.0% to $2,593.1 million in 2017 from $2,125.8 million in 2016, primarily due to an increase in the new crop reinsurance business, an increase in treaty property business, the influx of reinstatement premiums due to the catastrophe losses and an increase in mortgage business. Net written premiums increased by 22.1% to $1,135.6 million in 2017 compared to $930.2 million in 2016, partially due to the changes in affiliated quota agreements including the non-renewal of the quota share agreement between Everest Re and Bermuda Re. Premiums earned decreased 13.3% to $858.2 million in 2017 compared to $990.1 million in 2016. The change in premiums earned relative to net written premiums is partially due to the impact of the non-renewal of the quota share contract between Everest Re and Bermuda Re and is also the result of 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.

	Years Ended December 31,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2018						
Attritional	$1,378.5	69.7 %	$5.8	0.3 %	$1,384.3	70.0 %
Catastrophes	952.2	48.1 %	454.3	22.9 %	1,406.5	71.0 %
Total segment	$2,330.7	117.8%	$460.1	23.2 %	$2,790.8	141.0%
2017						
Attritional	$522.3	61.0 %	$(80.4)	-9.4 %	$441.9	51.6 %
Catastrophes	485.2	56.5 %	(15.1)	-1.8 %	470.2	54.7 %
Total segment	$1,007.5	117.5%	$(95.5)	-11.2%	$912.1	106.3%
2016						
Attritional	$555.5	56.1 %	$(49.0)	-4.9 %	$506.5	51.2 %
Catastrophes	67.0	6.8 %	(19.5)	-2.0 %	47.6	4.8 %
Total segment	$622.5	62.9 %	$(68.5)	-6.9 %	$554.1	56.0 %
Variance 2018/2017						
Attritional	$856.2	8.7 pts	$86.2	9.7 pts	$942.4	18.4 pts
Catastrophes	467.0	(8.4) pts	469.4	24.7 pts	936.3	16.3 pts
Total segment	$1,323.2	0.3 pts	$555.6	34.4 pts	$1,878.7	34.7 pts
Variance 2017/2016						
Attritional	$(33.2)	4.9 pts	$(31.4)	(4.5) pts	$(64.6)	0.4 pts
Catastrophes	418.2	49.7 pts	4.4	0.2 pts	422.6	49.9 pts
Total segment	$385.0	54.6 pts	$(27.0)	(4.3) pts	$358.0	50.3 pts

(Some amounts may not reconcile due to rounding.)

Incurred losses increased by 206.0% to $2,790.8 million in 2018 compared to $912.1 million in 2017. The increase was primarily due to a rise of $856.2 million in current year attritional losses mainly due to the impact of the increase in premiums earned resulting primarily from 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. The increase in incurred losses also resulted from an increase of $467.0 million in current year catastrophe losses and $454.3 million of unfavorable development on prior years catastrophe losses in 2018 primarily related to Hurricane Harvey, Irma and Maria and the 2017 California wildfires. The increases in loss estimates for Hurricane Harvey, Irma and Maria were 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 current year catastrophe losses of $952.2 million in 2018 primarily related to Hurricane Michael ($416.5 million), Camp wildfire ($297.0 million), Woolsey wildfire ($151.0 million),Hurricane Florence ($49.3 million), other 2018 California wildfires ($23.1 million), Typhoon Jebi ($6.5 million), Japan Floods ($5.5 million), Typhoon Trami ($2.0 million) and the U.S. winter storms ($1.3 million). The current year catastrophe losses of $485.2 million in 2017 related to Hurricane Irma

($200.5 million), Hurricane Harvey ($185.4 million), the Northern California wildfires ($73.6 million), Hurricane Maria ($20.8 million), the Southern California wildfires ($3.6 million) and the 2017 US Midwest storms ($2.6 million).

Incurred losses increased by 64.6% to $912.1 million in 2017 compared to $554.1 million in 2016, primarily due to an increase of $418.2 million in current year catastrophe losses, partially offset by $31.4 million of more favorable development on prior years attritional losses in 2017 compared to 2016. The $80.4 million of favorable development on prior years attritional losses in 2017 was mainly related to property and short-tail business, partially offset by $25.2 million of adverse development on A&E reserves. The current year catastrophe losses of $485.2 million in 2017 are outlined above. The current year catastrophe losses of $67.0 million in 2016 related to Hurricane Matthew ($43.1 million), the 2016 U.S. Storms ($10.2 million), the Tennessee wildfire ($7.3 million) and Hurricane Hermine ($6.7 million).

Segment Expenses. Commission and brokerage increased to $568.4 million in 2018 compared to $160.3 million in 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, the impact of the increases in premiums earned and changes in the mix of business towards additional pro rata business. Segment other underwriting expenses increased to $60.3 million in 2018 from $55.9 million in 2017, mainly due to the impact of changes in affiliated reinsurance contracts and the impact of the increases in premiums earned.

Commission and brokerage decreased by 15.4% to $160.3 million in 2017 compared to $189.5 million in 2016. The decrease is mainly due to the impact of the influx of reinstatement premiums in 2017, the impact of affiliated quota share contracts and changes in the mix of business. Segment other underwriting expenses increased slightly to $55.9 million in 2017 from $54.1 million in 2016.

International.

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

	Years Ended December 31,			2018/2017		2017/2016	
(Dollars in millions)	2018	2017	2016	Variance	% Change	Variance	% Change
Gross written premiums	$1,555.2	$1,339.5	$1,269.1	$215.7	16.1%	$70.4	5.5%
Net written premiums	1,426.6	615.4	497.6	811.2	131.8%	117.8	23.7%
Premiums earned	$1,406.5	$502.3	$510.9	$904.2	180.0%	$(8.6)	-1.7%
Incurred losses and LAE	1,020.9	622.8	207.6	398.2	63.9%	415.2	200.0%
Commission and brokerage	355.5	101.9	111.5	253.6	248.8%	(9.6)	-8.6%
Other underwriting expenses	37.7	36.3	34.3	1.4	3.8%	2.0	5.9%
Underwriting gain (loss)	$(7.7)	$(258.7)	$157.5	$251.0	-97.0%	$(416.2)	NM
					Point Chg		Point Chg
Loss ratio	72.6%	124.0%	40.6%		(51.4)		83.4
Commission and brokerage ratio	25.3%	20.3%	21.8%		5.0		(1.5)
Other underwriting expense ratio	2.6%	7.2%	6.8%		(4.6)		0.4
Combined ratio	100.5%	151.5%	69.2%		(51.0)		82.3

(Some amounts may not reconcile due to rounding)
(NM, not meaningful)

Premiums. Gross written premiums increased by 16.1% to $1,555.2 million in 2018 compared to $1,339.5 million in 2017, primarily due to increases in Latin American business and business written through our Canada and Singapore branches, partially offset by the negative impact of $20.6 million from the movement of foreign exchange rates. Net written premiums increased by 131.8% to $1,426.6 million in 2018 compared to $615.4 million in 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 180.0% to $1,406.5 million in 2018 compared to $502.3 million in 2017. The change in premiums earned relative to net written premiums is partially due to

the impact of the non-renewal of the quota share contract between Everest Re and Bermuda Re and is also the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

Gross written premiums increased by 5.5% to $1,339.5 million in 2017 compared to $1,269.1 million in 2016, primarily due to increases in Middle East, African and Asian business and the positive impact of $22.0 million from the movement of foreign exchange rates, partially offset by a decline in Latin American business. Net written premiums increased by 23.7% to $615.4 million in 2017 compared to $497.6 million in 2016. The difference between the change in gross written premiums compared to the change in net written premiums is primarily due to varying utilization of reinsurance related to quota share contracts, including the impact of the non-renewal of the quota share contract between Everest Re and Bermuda Re. Premiums earned decreased 1.7% to $502.3 million in 2017 compared to $510.9 million in 2016. The change in premiums earned relative to net written premiums is partially due to the impact of the non-renewal of the quota share contract between Everest Re and Bermuda Re and is also the result of 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.

	Years Ended December 31,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2018						
Attritional	$751.5	53.4 %	$-	0.0 %	$751.5	53.4 %
Catastrophes	165.3	11.8 %	104.1	7.4 %	269.4	19.2 %
Total segment	$916.8	65.2 %	$104.1	7.4 %	$1,020.9	72.6 %
2017						
Attritional	$255.0	50.8 %	$11.6	2.3 %	$266.6	53.1 %
Catastrophes	357.2	71.1 %	(1.0)	-0.2 %	356.2	70.9 %
Total segment	$612.2	121.9%	$10.6	2.1 %	$622.8	124.0%
2016						
Attritional	$261.5	51.2 %	$(93.6)	-18.3%	$167.9	32.8 %
Catastrophes	65.5	12.8 %	(25.8)	-5.1 %	39.7	7.8 %
Total segment	$327.0	64.0 %	$(119.4)	-23.4%	$207.6	40.6 %
Variance 2018/2017						
Attritional	$496.5	2.6 pts	$(11.6)	(2.3) pts	$484.9	0.3 pts
Catastrophes	(191.9)	(59.3) pts	105.1	7.6 pts	(86.8)	(51.7) pts
Total segment	$304.6	(56.7) pts	$93.5	5.3 pts	$398.1	(51.4) pts
Variance 2017/2016						
Attritional	$(6.5)	(0.4) pts	$105.2	20.6 pts	$98.7	20.3 pts
Catastrophes	291.7	58.3 pts	24.8	4.9 pts	316.5	63.1 pts
Total segment	$285.2	57.9 pts	$130.0	25.5 pts	$415.2	83.4 pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE increased by 63.9% to $1,020.9 million in 2018 compared to $622.8 million in 2017, primarily due to an increase of $496.5 million in current year attritional losses related to the increase in premiums earned resulting primarily from changes in affiliated reinsurance agreements, including the non-renewal of the quota share agreement with Bermuda Re as of December 31, 2017, as well as $104.1 million of unfavorable development on prior years catastrophe losses, mainly related to Hurricane Harvey, Irma and Maria and the 2017 Mexico earthquake. The increase was partially offset by a decrease of $191.9 million in current year catastrophe losses. The current year catastrophe losses of $165.3 million in 2018 primarily related to Typhoon Jebi ($60.1 million), Cyclone Mekunu ($43.7 million), Australia hailstorm ($24.0 million), Typhoon Trami ($23.0 million), Japan Floods ($9.5 million), Hurricane Michael ($3.0 million) and Hurricane Florence ($2.0 million). The current year catastrophe losses of $357.2 million in 2017 related to Hurricane Maria ($238.6 million), Hurricane Irma ($79.2 million), the Mexico City earthquake ($10.2 million),

the South Africa Knysna fires ($9.9 million), Cyclone Debbie in Australia ($8.4 million), the Peru storms ($7.4 million) and Hurricane Harvey ($3.4 million).

Incurred losses and LAE increased by 200.0% to $622.8 million in 2017 compared to $207.6 million in 2016, primarily due to an increase of $291.7 million in current catastrophe losses, favorable development of $105.2 million on prior years attritional losses and $24.8 million on prior years catastrophe losses. The current year catastrophe losses of $357.2 million in 2017 are outlined above. The $65.5 million of current year catastrophe losses in 2016 were due to the Fort McMurray Canada wildfire ($24.9 million), Hurricane Matthew ($13.7 million), the Ecuador earthquake ($11.8 million), the 2016 Taiwan earthquake ($7.6 million) and the New Zealand earthquake ($6.9 million).

Segment Expenses. Commission and brokerage increased to $355.5 million in 2018 compared to $101.9 million in 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, the impact of increases in premiums earned and changes in the mix of business. Segment other underwriting expenses increased slightly to $37.7 million in 2018 from $36.3 million in 2017.

Commission and brokerage decreased 8.6% to $101.9 million in 2017 compared to $111.5 million in 2016. The decrease was due to the impact of the decrease in premiums earned, the impact of affiliated quota share agreements and the changes in the mix of business. Segment other underwriting expenses increased slightly to $36.3 million in 2017 compared to $34.3 million in 2016.

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

	Years Ended December 31,			2018/2017		2017/2016	
(Dollars in millions)	2018	2017	2016	Variance	% Change	Variance	% Change
Gross written premiums	$2,004.1	$1,855.9	$1,668.8	$148.2	8.0 %	$187.1	11.2 %
Net written premiums	1,512.2	972.8	620.3	539.3	55.4 %	352.5	56.8 %
Premiums earned	$1,452.7	$589.1	$593.1	$863.6	146.6 %	$(4.0)	-0.7 %
Incurred losses and LAE	999.3	504.9	588.6	494.4	97.9 %	(83.7)	-14.2 %
Commission and brokerage	217.8	(51.3)	(19.6)	269.1	NM	(31.7)	162.0 %
Other underwriting expenses	195.4	162.7	156.6	32.7	20.1 %	6.1	3.9 %
Underwriting gain (loss)	$40.2	$(27.1)	$(132.5)	$67.3	-248.0 %	$105.4	-79.5 %
					Point Chg		Point Chg
Loss ratio	68.8 %	85.7 %	99.2 %		(16.9)		(13.5)
Commission and brokerage ratio	15.0 %	-8.7 %	-3.3 %		23.7		(5.4)
Other underwriting expense ratio	13.4 %	27.6 %	26.5 %		(14.2)		1.1
Combined ratio	97.2 %	104.6 %	122.3 %		(7.4)		(17.7)

(Some amounts may not reconcile due to rounding)
(NM, not meaningful)

Premiums. Gross written premiums increased by 8.0% to $2,004.1 million in 2018 compared to $1,855.9 million in 2017. This increase was related to most lines of business including casualty, energy and accident and health. Net written premiums increased by 55.4% to $1,512.2 million in 2018 compared to $972.8 million in 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 146.6% to $1,452.7 million in 2018 compared to $589.1 million in 2017. The change in premiums earned relative to net written premiums is partially due to the impact of the non-renewal of the quota share contract between Everest Re and Bermuda Re and is also the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

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Gross written premiums increased by 11.2% to $1,855.9 million in 2017 compared to $1,668.8 million in 2016. Excluding the impact of the sale of Heartland, which accounted for $230.4 million of gross written premiums in 2016, gross written premiums increased $417.4 million. This increase was primarily driven by expansion of many lines of business, including retail casualty, retail property and accident and health. Net written premiums increased by 56.8% to $972.8 million in 2017 compared to $620.3 million in 2016. 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 quota share agreements, including the impact of the non-renewal of the quota share agreement between Everest Re and Bermuda Re. Premiums earned decreased slightly to $589.1 million in 2017 compared to $593.1 million in 2016. 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.

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

	Years Ended December 31,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2018						
Attritional	$962.6	66.3 %	$-	0.0 %	$962.6	66.3 %
Catastrophes	42.1	2.9 %	(5.4)	-0.4 %	36.7	2.5 %
Total segment	$1,004.7	69.2 %	$(5.4)	-0.4 %	$999.3	68.8 %
2017						
Attritional	$423.4	71.9 %	$(33.5)	-5.7 %	$389.9	66.2 %
Catastrophes	114.5	19.4 %	0.6	0.1 %	115.0	19.5 %
Total segment	$537.9	91.3 %	$(32.9)	-5.6 %	$504.9	85.7 %
2016						
Attritional	$470.2	79.2 %	$96.5	16.3 %	$566.7	95.5 %
Catastrophes	22.2	3.7 %	(0.3)	0.0 %	21.9	3.7 %
Total segment	$492.4	82.9 %	$96.2	16.3 %	$588.6	99.2 %
Variance 2018/2017						
Attritional	$539.2	(5.6) pts	$33.5	5.7 pts	$572.7	0.1 pts
Catastrophes	(72.4)	(16.5) pts	(6.0)	(0.5) pts	(78.3)	(17.0) pts
Total segment	$466.8	(22.1) pts	$27.5	5.2 pts	$494.4	(16.9) pts
Variance 2017/2016						
Attritional	$(46.8)	(7.3) pts	$(130.0)	(22.0) pts	$(176.8)	(29.3) pts
Catastrophes	92.3	15.7 pts	0.9	0.1 pts	93.1	15.8 pts
Total segment	$45.5	8.4 pts	$(129.1)	(21.9) pts	$(83.7)	(13.5) pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE increased by 97.9% to $999.3 million in 2018 compared to $504.9 million in 2017, mainly due to an increase of $539.2 million in current year attritional losses, resulting from the impact of the increase in premiums earned resulting primarily from changes in affiliated reinsurance agreements, including the non-renewal of

the quota share agreement with Bermuda Re as of December 31, 2017. The increase was partially offset by a decrease of $72.4 million in current year catastrophe losses. The current year catastrophe losses of $42.1 million in 2018 primarily related to Hurricane Michael ($24.0 million), Hurricane Florence ($9.5 million), the U.S. winter storms ($7.1 million) and other 2018 California wildfires ($1.5 million). The current year catastrophe losses of $114.5 million in 2017 primarily related to Hurricane Irma ($53.9 million), Hurricane Harvey ($47.0 million), Hurricane Maria ($8.7 million), the 2017 US Midwest storms ($2.4 million), the Northern California wildfires ($1.7 million) and the Southern California wildfires ($0.8 million).

Incurred losses and LAE decreased by 14.2% to $504.9 million in 2017 compared to $588.6 million in 2016, mainly due to $130.0 million of more favorable development on prior years attritional losses and a decrease of $46.8 million in current year attritional losses, partially offset by an increase of $92.3 million in current year catastrophe losses. The decrease in current year attritional losses primarily related to changes in the mix of business and the impact of affiliated quota share agreements. The $33.5 million of favorable

development on prior years attritional losses in 2017 mainly related to workers compensation business. The current year catastrophe losses of $114.5 million in 2017 are outlined above. The $22.2 million of current year catastrophe losses in 2016 were due to the U.S. storms ($15.0 million), Hurricane Matthew ($5.5 million) and the Fort McMurray Canada wildfire ($1.7 million).

Segment Expenses. Commission and brokerage increased to $217.8 million in 2018 compared to ($51.3) million in 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, the impact of increases in premiums earned and changes in the mix of business. Segment other underwriting expenses increased to $195.4 million in 2018 compared to $162.7 million in 2017. The increases were mainly due to the impact of the increases in premiums earned and expenses related to the continued build out of the insurance business.

Commission and brokerage decreased to ($51.3) million in 2017 compared to ($19.6) million in 2016. The decrease was mainly due to the impact of changes in the mix of business and the impacts from affiliated quota share agreements. Segment other underwriting expenses increased to $162.7 million in 2017 compared to $156.6 million in 2016. The increase was primarily due to the impact of the increased expenses related to the continued build out of the insurance business.

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". Fo
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". 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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.

Interest Rate Risk. Our $10.7 billion investment portfolio, at December 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 $288.5 million of mortgage-backed securities in the $6,964.4 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 $174.1 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.

	Impact of Interest Rate Shift in Basis Points				
	At December 31, 2018				
(Dollars in millions)	-200	-100	0	100	200
Total Market/Fair Value	$7,505.3	$7,320.6	$7,138.5	$6,957.6	$6,778.5
Market/Fair Value Change from Base (%)	5.1 %	2.6 %	0.0 %	-2.5 %	-5.0 %
Change in Unrealized Appreciation					
After-tax from Base ($)	$289.7	$143.9	$-	$(143.0)	$(284.4)

	Impact of Interest Rate Shift in Basis Points				
	At December 31, 2017				
(Dollars in millions)	-200	-100	0	100	200
Total Market/Fair Value	$5,524.8	$5,367.4	$5,213.4	$5,061.3	$4,910.9
Market/Fair Value Change from Base (%)	6.0 %	3.0 %	0.0 %	-2.9 %	-5.8 %
Change in Unrealized Appreciation					
After-tax from Base ($)	$202.4	$100.1	$-	$(98.9)	$(196.6)

We had $10,167.0 million and $9,343.0 million of gross reserves for losses and LAE as of December 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.

	Impact of Percentage Change in Equity Fair/Market Values At December 31, 2018				
(Dollars in millions)	-20%	-10%	0%	10%	20%
Fair/Market Value of the Equity Portfolio	$ 451.5	$ 507.9	$ 564.3	$ 620.8	$ 677.2
After-tax Change in Fair/Market Value	(89.2)	(44.6)	-	44.6	89.2

	Impact of Percentage Change in Equity Fair/Market Values At December 31, 2017				
(Dollars in millions)	-20%	-10%	0%	10%	20%
Fair/Market Value of the Equity Portfolio	$ 657.9	$ 740.1	$ 822.4	$ 904.6	$ 986.9
After-tax Change in Fair/Market Value	(106.9)	(53.5)	-	53.5	106.9

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 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.

The tables below display the potential impact of a parallel and immediate 10% and 20% increase and decrease in foreign exchange rates on the valuation of invested assets subject to foreign currency exposure for the periods indicated. This analysis includes the after-tax impact of translation from transactional currency to functional currency as well as the after-tax impact of translation from functional currency to the U.S. dollar reporting currency.

	Change in Foreign Exchange Rates in Percent At December 31, 2018				
(Dollars in millions)	-20%	-10%	0%	10%	20%
Total After-tax Foreign Exchange Exposure	$ (166.9)	$ (83.4)	$ -	$ 83.4	$ 166.9

	Change in Foreign Exchange Rates in Percent At December 31, 2017				
(Dollars in millions)	-20%	-10%	0%	10%	20%
Total After-tax Foreign Exchange Exposure	$ (131.8)	$ (65.9)	$ -	$ 65.9	$ 131.8

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and schedules listed in the accompanying Index to Financial Statements and Schedules on page F-1 are filed as part of this report.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act), our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles.

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

Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013) Based on our assessment we concluded that, as of December 31, 2018, our internal control over financial reporting is effective based on those criteria.

Attestation Report of the Registered Public Accounting Firm

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report due to the Company's status as a non-accelerated filer.

Changes in Internal Control Over Financial Reporting

As required by Rule 13a-15(d) of the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated our internal control over financial reporting to determine whether any changes occurred during the fourth fiscal quarter covered by this annual 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 fourth quarter.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information for Item 10 is not required pursuant to General Instruction I(2) of Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Information for Item 11 is not required pursuant to General Instruction I(2) of Form 10-K.

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

Information for Item 12 is not required pursuant to General Instruction I(2) of Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information for Item 13 is not required pursuant to General Instruction I(2) of Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The PricewaterhouseCoopers LLP (and its worldwide affiliates) fees incurred are as follows for the periods indicated:

(Dollars in thousands)	2018	2017
(1) Audit Fees	$2,633.1	$2,666.3
(2) Audit-Related Fees	159.8	133.1
(3) Tax Fees	172.0	561.5
(4) All Other Fees	14.0	13.6

Audit fees include the annual audit and quarterly financial statement reviews, subsidiary audits, and procedures required to be performed by the independent auditor to be able to form an opinion on our consolidated financial statements. These other procedures include information systems and procedural reviews and testing performed in order to understand and place reliance on the systems of internal control, and consultations relating to the audit or quarterly review. Audit fees may also include statutory audits or financial audits for our subsidiaries or affiliates and services associated with SEC registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings.

Audit-related fees include assurance and related services that are reasonably related to the performance of the audit or review of our financial statements, including due diligence services pertaining to potential business acquisitions/dispositions, accounting consultations related to accounting, financial reporting or disclosure matters not classified as “audit services”; assistance with understanding and implementing new accounting and financial reporting guidance from rule making authorities; financial audits of employee benefit plans; agreed-upon or expanded audit procedures related to accounting and/or billing records required to respond to or comply with financial, accounting or

regulatory reporting matters and assistance with internal control reporting requirements.

Tax fees include tax compliance, tax planning and tax advice and is granted general pre-approval by Group's Audit Committee.

All other fees represent an accounting research subscription and software.

Under its Charter and the "Audit and Non-Audit Services Pre-Approval Policy" (the "Policy"), the Audit Committee is required to pre-approve the audit and non-audit services to be performed by the independent auditors. The Policy mandates specific approval by the Audit Committee for any service that has not received a general pre-approval or that exceeds pre-approved cost levels or budgeted amounts. For both specific and general pre-approval, the Audit Committee considers whether such services are consistent with the SEC's rules on auditor independence. The Audit Committee also considers whether the independent auditors are best positioned to provide the most effective and efficient service and whether the service might enhance the Company's ability to manage or control risk or improve audit quality. The Audit Committee is also mindful of the relationship between fees for audit and non-audit services in deciding whether to pre-approve any such services. It may determine, for each fiscal year, the appropriate ratio between the total amount of audit, audit-related and tax fees and a total amount of fees for certain permissible non-audit services classified below as "All Other Fees". All such factors are considered as a whole, and no one factor is determinative. The Audit Committee further considered whether the performance by PricewaterhouseCoopers LLP of the non-audit related services disclosed below is compatible with maintaining their independence. The Audit Committee approved all of the audit-related fees, tax fees and all other fees for 2018 and 2017.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Exhibits

The exhibits listed on the accompanying Index to Exhibits on page E-1 are filed as part of this report except that the certifications in Exhibit 32 are being furnished to the SEC, rather than filed with the SEC, as permitted under applicable SEC rules.

Financial Statements and Schedules.

The financial statements and schedules listed in the accompanying Index to Financial Statements and Schedules on page F-1 are filed as part of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on April 1, 2019.

EVEREST REINSURANCE HOLDINGS, INC.

By: /S/DOMINIC J. ADDESSO
Dominic J. Addesso
(Chairman, President and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ DOMINIC J. ADDESSO Dominic J. Addesso	Chairman, President and Chief Executive Officer (Principal Executive Officer)	April 1, 2019
/S/ CRAIG HOWIE Craig Howie	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	April 1, 2019
/S/ KEITH T. SHOEMAKER Keith T. Shoemaker	Comptroller (Principal Accounting Officer)	April 1, 2019

INDEX TO EXHIBITS

Exhibit No.

2.1	Agreement and Plan of Merger among Everest Reinsurance Holdings, Inc., Everest Re Group, Ltd. and Everest Re Merger Corporation, incorporated herein by reference to Exhibit 2.1 to the Registration Statement on Form S-4 (No. 333-87361)
3.1	Certificate of Incorporation of Everest Reinsurance Holdings, Inc., incorporated herein by reference to Exhibit 4.1 to the Registration Statement on Form S-8 (No. 333-05771)
3.2	By-Laws of Everest Reinsurance Holdings, Inc., incorporated herein by reference to Exhibit 3.2 to the Everest Reinsurance Holdings, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2000
4.1	Indenture, dated March 14, 2000, between Everest Reinsurance Holdings, Inc. and The Chase Manhattan Bank, as Trustee, incorporated herein by reference to Exhibit 4.1 to Everest Reinsurance Holdings, Inc. Form 8-K filed on March 15, 2000
4.2	Fourth Supplemental Indenture relating to Holdings $400.0 million 4.868% Senior Notes due June 1, 2044, dated June 5 2014, between Holdings and the Bank of New York Mellon, as Trustee, incorporated herein by reference to Exhibit 4.1 to Everest Reinsurance Holdings, Inc. Form 8-K filed on June 5, 2014
10.1	Completion of Tender Offer relating to Everest Reinsurance Holdings, Inc. 6.60% Fixed to Floating Rate Long Term Subordinated Notes (LoTS^{SM}) dated March 19, 2009, incorporated herein by reference to Exhibit 99.1 to Everest Re Group, Ltd. Form 8-K filed on March 31, 2009
*10.2	Employment agreement between Everest Global Services, Inc., Everest Reinsurance Holdings Inc. and Dominic J. Addesso, dated December 4, 2015, incorporated herein by reference to Exhibit 10.1 to Everest Re Group, Ltd. Form 8-K filed on December 8, 2015.
*10.3	Employment agreement between Everest National Insurance Company and Jonathan M. Zaffino, dated September 8, 2017, incorporated herein by reference to Exhibit 10.1 to Everest Re Group, Ltd. Form 8-K filed on September 12, 2017.
*10.4	Amendment of employment agreement between Everest Global Services, Inc., Everest Re Group, Ltd., Everest Reinsurance Holdings Inc. and Dominic J. Addesso, dated November 20, 2017, incorporated herein by reference to Exhibit 10.1 to Everest Re Group, Ltd. Form 8-K filed November 20, 2017

31. 1	Section 302 Certification of Dominic J. Addesso, filed herewith
31. 2	Section 302 Certification of Craig Howie, filed herewith
32. 1	Section 906 Certification of Dominic J. Addesso and Craig Howie, filed herewith
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 Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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* Management contract or compensatory plan or arrangement.

EVEREST REINSURANCE HOLDINGS, INC.

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Schedules other than those listed above are omitted for the reason that they are not applicable or the information is otherwise contained in the Financial Statements.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder
of Everest Reinsurance Holdings, Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Everest Reinsurance Holdings, Inc. and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2018, including the related notes and financial statement schedules listed in the index appearing on page F-1 (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
New York, New York
April 1, 2019

We have served as the Company's auditor since 1996.

EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share amounts and par value per share)	December 31, 2018	2017
ASSETS:		
Fixed maturities - available for sale, at market value	$6,962,075	$4,971,921
(amortized cost: 2018, $7,032,749; 2017, $4,927,622)		
Fixed maturities - available for sale, at fair value	2,337	-
Equity securities, at fair value	564,338	822,375
Short-term investments (cost: 2018, $174,155; 2017, $241,506)	174,131	241,506
Other invested assets (cost: 2018, $882,647; 2017, $835,597)	882,647	838,694
Other invested assets, at fair value	1,717,336	1,807,473
Cash	404,522	229,552
Total investments and cash	10,707,386	8,911,521
Note receivable - affiliated	-	250,000
Accrued investment income	47,232	35,376
Premiums receivable	1,471,805	1,301,827
Reinsurance receivables - unaffiliated	1,295,961	1,180,648
Reinsurance receivables - affiliated	3,544,975	4,940,039
Income taxes	409,892	87,110
Funds held by reinsureds	238,566	210,939
Deferred acquisition costs	353,630	307,741
Prepaid reinsurance premiums	328,796	346,708
Other assets	289,962	316,603
TOTAL ASSETS	$18,688,205	$17,888,512
LIABILITIES:		
Reserve for losses and loss adjustment expenses	$10,167,018	$9,343,028
Unearned premium reserve	1,826,868	1,607,622
Funds held under reinsurance treaties	41,600	40,536
Other net payable to reinsurers	316,826	491,299
Senior notes due 6/1/2044	396,954	396,834
Long term notes due 5/1/2067	236,659	236,561
Note payable - affiliated	300,000	-
Accrued interest on debt and borrowings	3,093	2,727
Unsettled securities payable	50,912	25,338
Other liabilities	303,610	331,844
Total liabilities	13,643,540	12,475,789
Commitments and Contingencies (Note 15)		
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	1,100,315	387,841
Accumulated other comprehensive income (loss), net of deferred income tax expense		
(benefit) of ($33,506) at 2018 and ($299) at 2017	(126,254)	(942)

Retained earnings	4,070,604	5,025,824
Total stockholder's equity	5,044,665	5,412,723
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$18,688,205	$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)

	Years Ended December 31,		
(Dollars in thousands)	2018	2017	2016
REVENUES:			
Premiums earned	$4,839,058	$1,949,595	$2,094,049
Net investment income	314,381	286,259	264,807
Net realized capital gains (losses):			
Other-than-temporary impairments on fixed maturity securities	(6,164)	(6,077)	(25,679)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-	-
Realized gain (loss) on sale of subsidiary	-	-	(28,032)
Other net realized capital gains (losses)	(179,192)	167,630	24,770
Total net realized capital gains (losses)	(185,356)	161,553	(28,941)
Other income (expense)	(3,851)	23,750	(10,542)
Total revenues	4,964,232	2,421,157	2,319,373
CLAIMS AND EXPENSES:			
Incurred losses and loss adjustment expenses	4,811,018	2,039,751	1,350,280
Commission, brokerage, taxes and fees	1,141,714	210,925	281,424
Other underwriting expenses	293,347	254,886	244,966
Corporate expenses	11,034	7,394	8,277
Interest, fee and bond issue cost amortization expense	30,611	31,183	35,435
Total claims and expenses	6,287,724	2,544,139	1,920,382
INCOME (LOSS) BEFORE TAXES	(1,323,492)	(122,982)	398,991
Income tax expense (benefit)	(365,825)	(201,180)	97,347
NET INCOME (LOSS)	$(957,667)	$78,198	$301,644
Other comprehensive income (loss), net of tax:			
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	(92,966)	(10,536)	4,114
Less: reclassification adjustment for realized losses (gains) included in net income (loss)	2,021	2,303	21,273
Total URA(D) on securities arising during the period	(90,945)	(8,233)	25,387
Foreign currency translation adjustments	(36,431)	37,427	2,849
Benefit plan actuarial net gain (loss) for the period	(510)	1,027	(7,488)
Reclassification adjustment for amortization of net (gain) loss included in net income (loss)	5,021	5,477	5,073
Total benefit plan net gain (loss) for the period	4,511	6,504	(2,415)
Total other comprehensive income (loss), net of tax	(122,865)	35,698	25,821
COMPREHENSIVE INCOME (LOSS)	$(1,080,532)	$113,896	$327,465

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

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

	Years Ended December 31,		
(Dollars in thousands, except share amounts)	2018	2017	2016
COMMON STOCK (shares outstanding):			
Balance, beginning of period	1,000	1,000	1,000
Balance, end of period	1,000	1,000	1,000
ADDITIONAL PAID-IN CAPITAL:			
Balance, beginning of period	$387,841	$387,567	$374,789
Capital contribution from parent	712,253	-	-
Share-based compensation plans	221	274	12,778
Balance, end of period	1,100,315	387,841	387,567
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES:			
Balance, beginning of period	(942)	(36,315)	(62,136)
Change to beginning balance due to adoption of Accounting Standards Update 2016-01	(2,447)	-	-
Reclass due to early adoption of Accounting Standards Update 2018-02	-	(325)	-
Net increase (decrease) during the period	(122,865)	35,698	25,821
Balance, end of period	(126,254)	(942)	(36,315)
RETAINED EARNINGS:			
Balance, beginning of period	5,025,824	4,947,301	4,645,657
Change to beginning balance due to adoption of Accounting Standards Update 2016-01	2,447	-	-
Reclass due to early adoption of Accounting Standards Update 2018-02	-	325	-
Net income (loss)	(957,667)	78,198	301,644
Balance, end of period	4,070,604	5,025,824	4,947,301
TOTAL STOCKHOLDER'S EQUITY, END OF PERIOD	$5,044,665	$5,412,723	$5,298,553

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

EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Years Ended December 31, 2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$(957,667)	$78,198	$301,644
Adjustments to reconcile net income to net cash provided by operating activities:			
Decrease (increase) in premiums receivable	(171,642)	(170,234)	1,140
Decrease (increase) in funds held by reinsureds, net	(26,680)	(90,410)	(4,445)
Decrease (increase) in reinsurance receivables	1,260,865	(731,292)	(112,797)
Decrease (increase) in income taxes	(291,528)	(250,118)	62,991
Decrease (increase) in prepaid reinsurance premiums	17,302	436,571	(8,083)
Increase (decrease) in reserve for losses and loss adjustment expenses	859,691	964,415	384,628
Increase (decrease) in unearned premiums	221,850	291,108	(38,271)
Increase (decrease) in other net payable to reinsurers	(173,810)	(329,946)	(371,856)
Increase (decrease) in losses in course of payment	66,148	(31,815)	(42,643)
Change in equity adjustments in limited partnerships	(70,494)	(35,749)	(24,486)
Distribution of limited partnership income	55,350	33,629	32,613
Change in other assets and liabilities, net	(143,047)	(367,338)	15,148
Non-cash compensation expense	13,863	10,212	9,481
Amortization of bond premium (accrual of bond discount)	3,735	17,690	18,051
Net realized capital (gains) losses	185,356	(161,553)	28,941
Net cash provided by (used in) operating activities	849,292	(336,632)	252,056
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from fixed maturities matured/called - available for sale, at market value	741,360	1,005,532	781,744
Proceeds from fixed maturities sold - available for sale, at market value	791,368	1,676,203	704,191
Proceeds from fixed maturities sold - available for sale, at fair value	1,751	-	5,837
Proceeds from equity securities sold - at fair value	1,029,920	586,496	695,039
Proceeds from sale of subsidiary (net of cash disposed)	-	-	47,721
Distributions from other invested assets	1,043,131	2,327,206	1,756,484
Cost of fixed maturities acquired - available for sale, at market value	(3,714,695)	(2,431,780)	(2,110,113)
Cost of fixed maturities acquired - available for sale, at fair value	(4,381)	-	(3,940)
Cost of equity securities acquired - at fair value	(702,221)	(396,056)	(324,407)
Cost of other invested assets acquired	(1,138,317)	(2,546,289)	(1,928,119)
Net change in short-term investments	193,623	67,164	257,792
Net change in unsettled securities transactions	55,967	(40,530)	10,474
Proceeds from repayment of long term note receivable, affiliated	250,000	-	-
Net cash provided by (used in) investing activities	(1,452,494)	247,946	(107,297)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Tax benefit from share-based compensation, net of expense	(11,195)	(9,938)	3,298
Capital contribution from parent	500,324	-	-
Proceeds from borrowing for long term note payable, affiliated	300,000	-	-

Net cash provided by (used in) financing activities	789,129	(9,938)	3,298
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(10,957)	30,382	(5,692)
Net increase (decrease) in cash	174,970	(68,242)	142,365
Cash, beginning of period	229,552	297,794	155,429
Cash, end of period	$404,522	$229,552	$297,794
SUPPLEMENTAL CASH FLOW INFORMATION:			
Income taxes paid (recovered)	$(73,669)	$53,019	$31,018
Interest paid	30,027	31,775	35,217
NON-CASH TRANSACTION:			
Equity value of non-cash capital contribution of affiliate from parent, net of cash held by affiliate	$211,928	$-	$-
Transfer of fixed maturities, available for sale, at market value to Bermuda Re as part of settlement for loss portfolio transfer agreement as of 12/31/17	-	790,583	-

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Business and Basis of Presentation.

Everest Reinsurance Holdings, Inc. (“Holdings”), a Delaware company and direct subsidiary of Everest Underwriting Group (Ireland) Limited (“Holdings Ireland”), which is a direct subsidiary of Everest Re Group, Ltd. (“Group”), through its subsidiaries, principally provides property and casualty reinsurance and insurance in the United States of America and internationally. As used in this document, “Company” means Holdings and its subsidiaries.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The statements include all of the following domestic and foreign direct and indirect subsidiaries of the Company: Everest Reinsurance Company (“Everest Re”), Everest Global Services, Inc. (“Global Services”), Everest National Insurance Company (“Everest National”), Everest Indemnity Insurance Company (“Everest Indemnity”), Everest Security Insurance Company (“Everest Security”), Everest Reinsurance Company – Escritório de Representação No Brasil Ltda. (“Everest Brazil”), Mt. Whitney Securities, Inc., Everest Denali Insurance Company (“Everest Denali”), Everest Premier Insurance Company (“Everest Premier”), Everest Specialty Underwriters Services, LLC, Heartland Crop Insurance, Inc. (“Heartland”), Everest International Assurance, Ltd. (“Everest Assurance”), Specialty Insurance Group, Inc. (“Specialty”), Specialty Insurance Group - Leisure and Entertainment Risk Purchasing Group LLC (“Specialty RPG”) and Mt. McKinley Managers, L.L.C. All amounts are reported in U.S. dollars.

During the fourth quarter of 2018, Global Services was contributed to Holdings from its parent company, Holdings Ireland. The operating results of Global Services for the fourth quarter of 2018 are included within the Company’s consolidated financial statements.

During the third quarter of 2016, the Company established Delaware domiciled property and casualty insurance subsidiaries, Everest Premier and Everest Denali, which are used in the continued expansion of the Insurance operations.

Effective August 24, 2016, the Company sold its wholly owned subsidiary, Heartland, a managing agent for crop insurance, to CGB Diversified Services, Inc. (“CGB”). The operating results of Heartland through August 24, 2016 are included within the Company’s financial statements.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and 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.

B. Investments.

Fixed maturity investments available for sale, at market value, reflect unrealized appreciation and depreciation, as a result of temporary changes in market value during the period, in stockholder’s equity, net of income taxes in “accumulated other comprehensive income (loss)” in the consolidated balance sheets. Fixed maturity, equity securities and other invested assets carried at fair value reflect fair value re-measurements as net realized capital gains and losses

in the consolidated statements of operations and comprehensive income (loss). The Company records changes in fair value for its fixed maturities-available for sale, at market value through stockholder's equity, net of taxes in accumulated other comprehensive

income (loss) since cash flows from these investments will be primarily used to settle its reserve for losses and loss adjustment expense liabilities. The Company anticipates holding these investments for an extended period as the cash flow from interest and maturities will fund the projected payout of these liabilities. As of January 1, 2018, the Company carries all of its equity securities at fair value. For equity securities, at fair value, the Company reflects changes in value as net realized capital gains and losses since these securities may be sold in the near term depending on financial market conditions. Interest income on all fixed maturities and dividend income on all equity securities are included as part of net investment income in the consolidated statements of operations and comprehensive income (loss). Unrealized losses on fixed maturities, which are deemed other-than-temporary and related to the credit quality of a security, are charged to net income (loss) as net realized capital losses. Short-term investments are stated at cost, which approximates market value. Realized gains or losses on sales of investments are determined on the basis of identified cost. For some non-publicly traded securities, market prices are determined through the use of pricing models that evaluate securities relative to the U.S. Treasury yield curve, taking into account the issue type, credit quality, and cash flow characteristics of each security. For other non-publicly traded securities, investment managers' valuation committees will estimate fair value, and in many instances, these fair values are supported with opinions from qualified independent third parties. For publicly traded securities, market value is based on quoted market prices or valuation models that use observable market inputs. When a sector of the financial markets is inactive or illiquid, the Company may use its own assumptions about future cash flows and risk-adjusted discount rates to determine fair value. Retrospective adjustments are employed to recalculate the values of asset-backed securities. 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 to effect the calculation of projected and prepayments for pass-through security types. Other invested assets include limited partnerships, rabbi trusts and, prior to July 1, 2018, a private placement liquidity sweep facility. Cash contributions to and cash distributions from the sweep facility were reported gross in cash flows from investing activities in the consolidated statements of cash flows. Limited partnerships are accounted for under the equity method of accounting, which can be recorded on a monthly or quarterly lag. Other invested assets, at fair value, are comprised of convertible preferred stock of Everest Preferred International Holdings, Ltd. ("Preferred Holdings"), an affiliated entity. The fair values of the Preferred Holdings convertible preferred stock at December 31, 2018 and December 31, 2017 were determined using a pricing model.

C. Uncollectible Receivable Balances.

The Company provides reserves for uncollectible reinsurance recoverable and premium receivable balances based on management's assessment of the collectability of the outstanding balances. Such reserves are presented in the table below for the periods indicated.

	Years Ended December 31,	
(Dollars in thousands)	2018	2017
Reinsurance recoverable and premium receivables	$ 25,163	$ 23,011

D. Deferred Acquisition Costs.

Acquisition costs, consisting principally of commissions and brokerage expenses and certain premium taxes and fees incurred at the time a contract or policy is issued and that vary with and are directly related to the Company's reinsurance and insurance business, are deferred and amortized over the period in which the related premiums are earned. Deferred acquisition costs are limited to their estimated realizable value by line of business based on the related unearned premiums, anticipated claims and claim expenses and anticipated investment income. Deferred acquisition costs amortized to income are presented in the table below for the periods indicated.

	Years Ended December 31,		
(Dollars in thousands)	2018	2017	2016
Deferred acquisition costs	$1,141,714	$210,925	$281,424

E. Reserve for Losses and Loss Adjustment Expenses.
The reserve for losses and loss adjustment expenses (“LAE”) is based on individual case estimates and reports received from ceding companies. A provision is included for losses and LAE incurred but not reported (“IBNR”) based on past experience. A provision is also included for certain potential liabilities relating to asbestos and environmental (“A&E”) exposures, for which liabilities cannot be estimated using traditional reserving techniques. See also Note 3. The reserves are reviewed periodically and any changes in estimates are reflected in earnings in the period the adjustment is made. The Company’s loss and LAE reserves represent management’s best estimate of the ultimate liability. Loss and LAE reserves are presented gross of reinsurance receivables and incurred losses and LAE are presented net of reinsurance.

Accruals for commissions are established for reinsurance contracts that provide for the stated commission percentage to increase or decrease based on the loss experience of the contract. Changes in estimates for such arrangements are recorded as commission expense. Commission accruals for contracts with adjustable features are estimated based on expected loss and LAE.

F. Premium Revenues.
Written premiums are earned ratably over the periods of the related insurance and reinsurance contracts. Written premiums related to crop insurance are earned on a seasonal pattern, which is based upon the planting and harvesting periods of each crop season. Unearned premium reserves are established relative to the unexpired contract period. For reinsurance contracts, such reserves are established based upon reports received from ceding companies or estimated using pro rata methods based on statistical data. Reinstatement premiums represent additional premium received on reinsurance coverages, most prevalently catastrophe related, when limits have been depleted under the original reinsurance contract and additional coverage is granted. Written and earned premiums and the related costs, which have not yet been reported to the Company, are estimated and accrued. Premiums are net of ceded reinsurance.

G. Prepaid Reinsurance Premiums.
Prepaid reinsurance premiums represent unearned premium reserves ceded to other reinsurers. Prepaid reinsurance premiums for any foreign reinsurers comprising more than 10% of the outstanding balance at December 31, 2018 were collateralized either through collateralized trust arrangements, rights of offset or letters of credit, thereby limiting the credit risk to the Company.

H. Income Taxes.
The Company and its wholly-owned subsidiaries file a consolidated U.S. Corporation Income Tax Return. The Company’s foreign subsidiaries and foreign branches of its US subsidiaries file country and local corporation income tax returns as required. Deferred U.S. federal and foreign income taxes have been recorded to recognize the tax effect of temporary differences between the GAAP and income tax bases of assets and liabilities, which arise because of differences between the financial reporting and income tax rules.

I. Foreign Currency.
As a global entity, the Company transacts business in numerous currencies through business units located around the world. The base transactional currency for each business unit is determined by the local currency used for most economic activity in that area. Movements in exchange rates related to assets and liabilities at the business units between the original currency and the base currency are recorded through the consolidated statements of operations and comprehensive income (loss) in other income (expense), except for currency movements related to available for sale investments, which are excluded from net income (loss) and accumulated in stockholder’s equity, net of deferred taxes.

The business units’ base currency financial statements are translated to U.S. dollars using the exchange rates at the end of period for the balance sheets and the average exchange rates in effect for the reporting period for the income statements. Gains and losses resulting from translating the foreign currency financial statements, net of deferred

income taxes, are excluded from net income loss and accumulated in stockholder's equity.

J. Segmentation.

The Company, through its subsidiaries, operates in three segments: U.S. Reinsurance, International and Insurance. See also Note 17.

K. Retroactive Reinsurance.
Premiums on ceded retroactive contracts are earned when written with a corresponding reinsurance recoverable established for the amount of reserves ceded. The initial gain, if applicable, is deferred and amortized into income over an actuarially determined expected payout period. Any future loss is recognized immediately and charged against earnings.

L. Application of Recently Issued Accounting Standard Changes.
Simplification of Disclosure Requirements. In August 2018, the Securities and Exchange Commission ("SEC") issued Final Rule Release #33-10532 ("the Rule") which addresses the simplification of the SEC's disclosure requirements for quarterly and annual financial reports. The main change addressed by the Rule that is applicable to the Company is a new requirement to disclose changes in equity by line item with subtotals for each interim reporting period on the Statements of Changes in Shareholders' Equity. The Rule became effective for all financial reports filed after November 5, 2018 (30 days after its publication in the Federal Register), except for the additional requirement for the Statements of Changes in Shareholders' Equity which can be implemented for first quarter 2019 reporting. The Company has adopted the portions of the Rule that became effective November 5, 2018. The portion of the Rule related to the new requirement for the Statements of Changes in Shareholders' Equity will be adopted by the Company in the first quarter of 2019.

Accounting for Cloud Computing Arrangement. In August 2018, The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-15, which outlines accounting for implementation costs of a cloud computing arrangement that is a service contract. This guidance requires that implementation costs of a cloud computing arrangement that is a service contract must be capitalized and expensed in accordance with the existing provisions provided in Subtopic 350-40 regarding development of internal use software. In addition, any capitalized implementation costs should be amortized over the term of the hosting arrangement. The guidance is effective for annual reporting periods beginning after December 15, 2019 and interim periods within that annual reporting period. The Company is currently evaluating the impact of the adoption of ASU 2018-15 on its financial statements.

Accounting for Long Duration Contracts. In August 2018, FASB issued ASU 2018-12, which discusses changes to the recognition, measurement and presentation of long duration contracts. The main provisions of this guidance address the following: 1) In determining liability for future policy benefits, companies must review cash flow assumptions at least annually and the discount rate assumption at each reporting period date 2) Amortization of deferred acquisition costs has been simplified to be in constant level proportion to either premiums, gross profits or gross margins 3) Disaggregated roll forwards of beginning and ending liabilities for future policy benefits are required. The guidance is effective for annual reporting periods beginning after December 15, 2020 and interim periods within that annual reporting period. The Company is currently evaluating the impact of the adoption of ASU 2018-12 on its financial statements.

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 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. As an accounting policy, the Company has adopted the aggregate portfolio approach for releasing disproportionate income tax effects from AOCI.

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. In 2018, the Company recorded adjustments to the amount of tax expense it recorded in 2017 with respect to the TCJA as estimated amounts were finalized, which did not 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 (and subsequently issued ASU 2018-11 in July 2018) 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 will adopt ASU 2016-02 effective January 1, 2019 and estimates that its increase in lease liability will be $65,000 thousand with no impact on shareholders' equity upon adoption and no material impact on future consolidated statements of operation and comprehensive income (loss).

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.

Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share. In May 2015, the FASB issued ASU 2015-07, which removes the requirement to categorize, within the fair value hierarchy, investments for which fair values are estimated using the net asset value practical expedient provided by Accounting Standards Codification 820, Fair Value Measurement. The updated guidance is effective for annual reporting periods beginning after December 15, 2015. The Company implemented this guidance effective in the fourth quarter of 2016. The adoption did not have a material impact on the Company’s financial statements.

Debt Issuance Costs. In April 2015, The FASB issued ASU 2015–03, authoritative guidance on the presentation of debt issuance costs. This guidance requires that debt issuance costs be presented within the balance sheet as a reduction of the carrying value of the debt liability, rather than as a separate asset. This guidance is effective for annual reporting periods beginning after December 15, 2015 and related interim reporting periods. The Company implemented this guidance effective in the second quarter of 2016. The adoption did not have a material impact on the Company’s financial statements.

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.

2. 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 originally reported, the impact upon those line items due to the revision, and the amounts as currently revised within the financial statements.

CONSOLIDATED BALANCE SHEETS	December 31, 2016		
	As Originally Reported	Impact of Revisions	As Revised
(Dollars in thousands)			
ASSETS:			
Deferred acquisition costs	$73,924	$(5,303)	$68,621
TOTAL ASSETS	$17,088,739	$(5,303)	$17,083,436
LIABILITIES:			
Other net payable to reinsurers	$860,391	$(45,093)	$815,298
Income taxes	142,143	6,797	148,940
Total liabilities	11,823,179	(38,296)	11,784,883
STOCKHOLDERS EQUITY:			
Retained earnings	4,914,308	32,993	4,947,301
Total stockholder's equity	5,265,560	32,993	5,298,553
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$17,088,739	$(5,303)	$17,083,436

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS):	Year Ended December 31, 2016		
	As Originally Reported	Impact of Revisions	As Revised
(Dollars in thousands)			
CLAIMS AND EXPENSES:			
Commission, brokerage, taxes and fees	$289,982	$ (8,558)	$281,424
Total claims and expenses	1,928,940	(8,558)	1,920,382
INCOME (LOSS) BEFORE TAXES	390,433	8,558	398,991
Income tax expense (benefit)	94,683	2,664	97,347
NET INCOME (LOSS)	$295,750	$ 5,894	$301,644
COMPREHENSIVE INCOME (LOSS)	$321,571	$ 5,894	$327,465

CONSOLIDATED STATEMENTS OF Year Ended December 31, 2016

CHANGES IN STOCKHOLDER'S EQUITY	As Originally Reported	Impact of Revisions	As Revised
(Dollars in thousands)			
RETAINED EARNINGS:			
Balance, beginning of period	$4,618,558	$ 27,099	$4,645,657
Net income (loss)	295,750	5,894	301,644
Balance, end of period	4,914,308	32,993	4,947,301
TOTAL STOCKHOLDER'S EQUITY, END OF PERIOD	$5,265,560	$ 32,993	$5,298,553

CONSOLIDATED STATEMENTS OF CASH FLOWS	Year Ended December 31, 2016		
	As Originally Reported	Impact of Revisions	As Revised
(Dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$295,750	$ 5,894	$ 301,644
Decrease (increase) in income taxes	60,325	2,666	62,991
Increase (decrease) in other net payable to reinsurers	(364,242)	(7,614)	(371,856)
Change in other assets and liabilities, net	16,090	(946)	15,144

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 December 31, 2018				
(Dollars in thousands)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	OTTI in AOCI (a)
Fixed maturity securities					
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$2,250,312	$ 3,573	$ (11,088)	$2,242,797	$ -
Obligations of U.S. states and political subdivisions	489,013	12,915	(2,839)	499,089	440
Corporate securities	2,273,581	12,487	(69,915)	2,216,153	430
Asset-backed securities	223,192	102	(2,039)	221,255	-
Mortgage-backed securities					
Commercial	135,380	1,947	(723)	136,604	-
Agency residential	149,306	1,177	(1,709)	148,774	-
Non-agency residential	3,115	3	(4)	3,114	-
Foreign government securities	576,540	14,399	(11,353)	579,586	-
Foreign corporate securities	932,310	13,325	(30,932)	914,703	281
Total fixed maturity securities	$7,032,749	$ 59,928	$ (130,602)	$6,962,075	$ 1,151

	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.

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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 December 31, 2018		At December 31, 2017	
(Dollars in thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value
Fixed maturity securities – available for sale				
Due in one year or less	$511,193	$507,572	$319,858	$320,746
Due after one year through five years	4,271,245	4,230,451	2,601,898	2,595,237
Due after five years through ten years	1,177,752	1,163,831	1,051,431	1,069,617
Due after ten years	561,566	550,474	649,625	683,200
Asset-backed securities	223,192	221,255	138,203	138,024
Mortgage-backed securities				
Commercial	135,380	136,604	52,121	51,751
Agency residential	149,306	148,774	114,435	113,288
Non-agency residential	3,115	3,114	51	58
Total fixed maturity securities	$7,032,749	$6,962,075	$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:

	Years Ended December 31,	
(Dollars in thousands)	2018	2017
Increase (decrease) during the period between the market value and cost of investments carried at market value, and deferred taxes thereon:		
Fixed maturity securities	$ (115,642)	$ (11,166)
Fixed maturity securities, other-than-temporary impairment	645	(4,537)
Other invested assets	-	3,037
Change in unrealized appreciation (depreciation), pre-tax	(114,997)	(12,666)
Deferred tax benefit (expense)	24,187	2,845
Deferred tax benefit (expense), other-than-temporary impairment	(135)	1,588
Change in unrealized appreciation (depreciation), net of deferred taxes, included in stockholder's equity	$ (90,945)	$ (8,233)

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 December 31, 2018 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$245,357	$(6,099)	$373,377	$(4,989)	$618,734	$(11,088)
Obligations of U.S. states and political subdivisions	107,183	(2,829)	1,475	(10)	108,658	(2,839)
Corporate securities	1,390,942	(57,043)	194,770	(12,872)	1,585,712	(69,915)
Asset-backed securities	127,052	(1,408)	47,551	(631)	174,603	(2,039)
Mortgage-backed securities						
Commercial	51,357	(695)	2,259	(28)	53,616	(723)
Agency residential	44,071	(1,221)	21,889	(488)	65,960	(1,709)
Non-agency residential	3,093	(4)	-	-	3,093	(4)
Foreign government securities	192,510	(10,690)	101,137	(663)	293,647	(11,353)
Foreign corporate securities	501,532	(25,821)	65,279	(5,111)	566,811	(30,932)
Total fixed maturity securities	$2,663,097	$(105,810)	$807,737	$(24,792)	$3,470,834	$(130,602)

	Duration of Unrealized Loss at December 31, 2018 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities						
Due in one year or less	$165,545	$(7,618)	$118,322	$(1,164)	$283,867	$(8,782)
Due in one year through five years	1,423,431	(44,924)	525,554	(9,530)	1,948,985	(54,454)
	624,875	(35,360)	42,902	(2,773)	667,777	(38,133)

Due in five years through ten years					
Due after ten years	223,673	(14,580)	49,260	(10,178)	272,933