

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

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

FOR THE QUARTERLY PERIOD ENDED:

March 31, 2017

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)

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

YES ☒ NO ☐

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

YES ☒ 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
(Do not check if smaller reporting company)		Emerging growth company	<input type="checkbox"/>

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 ☐ NO ☒

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

YES ☐ NO ☒

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

Class	Number of Shares Outstanding At May 1, 2017
Common Shares, \$0.01 par value	1,000

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

EVEREST REINSURANCE HOLDINGS, INC.

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EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

	March 31, 2017 (unaudited)	December 31, 2016
(Dollars in thousands, except par value per share)		
ASSETS:		
Fixed maturities - available for sale, at market value (amortized cost: 2017, \$6,137,668; 2016, \$5,910,494)	\$ 6,206,415	\$ 5,970,496
Equity securities - available for sale, at fair value	852,993	887,800
Short-term investments	336,611	306,286
Other invested assets (cost: 2017, \$658,686; 2016, \$613,680)	659,189	613,740
Other invested assets, at fair value	1,837,302	1,766,626
Cash	235,586	297,794
Total investments and cash	10,128,096	9,842,742
Note receivable - affiliated	250,000	250,000
Accrued investment income	44,915	45,323
Premiums receivable	1,257,211	1,128,639
Reinsurance receivables - unaffiliated	919,890	887,657
Reinsurance receivables - affiliated	3,690,125	3,686,130
Funds held by reinsureds	183,791	190,421
Deferred acquisition costs	62,308	73,924
Prepaid reinsurance premiums	842,956	781,384
Other assets	208,548	202,519
TOTAL ASSETS	\$ 17,587,840	\$ 17,088,739
LIABILITIES:		
Reserve for losses and loss adjustment expenses	\$ 8,369,162	\$ 8,331,288
Unearned premium reserve	1,353,230	1,312,386
Funds held under reinsurance treaties	109,010	110,836
Losses in the course of payment	182,667	82,915
Commission reserves	44,137	52,037
Other net payable to reinsurers	832,307	860,391
4.868% Senior notes due 6/1/2044	396,744	396,714
6.6% Long term notes due 5/1/2067	236,487	236,462
Accrued interest on debt and borrowings	12,341	3,537
Income taxes	223,629	142,143
Unsettled securities payable	108,316	27,121
Other liabilities	271,593	267,349
Total liabilities	12,139,623	11,823,179
Commitments and Contingencies (Note 6)		
STOCKHOLDER'S EQUITY:		
Common stock, par value: \$0.01; 3,000 shares authorized; 1,000 shares issued and outstanding (2017 and 2016)	-	-
Additional paid-in capital	387,637	387,567
Accumulated other comprehensive income (loss), net of deferred income tax expense (benefit) of (\$13,335) at 2017 and (\$19,549) at 2016	(24,772)	(36,315)
Retained earnings	5,085,352	4,914,308
Total stockholder's equity	5,448,217	5,265,560
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 17,587,840	\$ 17,088,739

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

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

(Dollars in thousands)	Three Months Ended	
	March 31,	
	2017	2016
	(unaudited)	
REVENUES:		
Premiums earned	\$ 471,055	\$ 481,925
Net investment income	60,849	58,445
Net realized capital gains (losses):		
Other-than-temporary impairments on fixed maturity securities	(1,132)	(23,015)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-
Other net realized capital gains (losses)	118,900	(43,362)
Total net realized capital gains (losses)	117,768	(66,377)
Other income (expense)	9,855	13,102
Total revenues	659,527	487,095
CLAIMS AND EXPENSES:		
Incurred losses and loss adjustment expenses	289,722	296,062
Commission, brokerage, taxes and fees	49,470	68,822
Other underwriting expenses	59,895	59,227
Corporate expenses	3,597	2,336
Interest, fee and bond issue cost amortization expense	8,859	8,859
Total claims and expenses	411,543	435,306
INCOME (LOSS) BEFORE TAXES	247,984	51,789
Income tax expense (benefit)	76,940	12,863
NET INCOME (LOSS)	\$ 171,044	\$ 38,926
Other comprehensive income (loss), net of tax:		
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	9,439	19,600
Less: reclassification adjustment for realized losses (gains) included in net income (loss)	(3,467)	25,915
Total URA(D) on securities arising during the period	5,972	45,515
Foreign currency translation adjustments	3,567	14,932
Benefit plan actuarial net gain (loss) for the period	-	-
Reclassification adjustment for amortization of net (gain) loss included in net income (loss)	2,004	1,340
Total benefit plan net gain (loss) for the period	2,004	1,340
Total other comprehensive income (loss), net of tax	11,543	61,787
COMPREHENSIVE INCOME (LOSS)	\$ 182,587	\$ 100,713

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

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

(Dollars in thousands, except share amounts)

	Three Months Ended March 31,	
	2017	2016
	(unaudited)	
COMMON STOCK (shares outstanding):		
Balance, beginning of period	1,000	1,000
Balance, end of period	1,000	1,000
ADDITIONAL PAID-IN CAPITAL:		
Balance, beginning of period	\$ 387,567	\$ 374,789
Share-based compensation plans	70	4,793
Balance, end of period	387,637	379,582
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES:		
Balance, beginning of period	(36,315)	(62,136)
Net increase (decrease) during the period	11,543	61,787
Balance, end of period	(24,772)	(349)
RETAINED EARNINGS:		
Balance, beginning of period	4,914,308	4,618,558
Net income (loss)	171,044	38,926
Balance, end of period	5,085,352	4,657,484
TOTAL STOCKHOLDER'S EQUITY, END OF PERIOD	\$ 5,448,217	\$ 5,036,717

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

EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2017	2016
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 171,044	\$ 38,926
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease (increase) in premiums receivable	(127,985)	38,549
Decrease (increase) in funds held by reinsureds, net	5,307	3,817
Decrease (increase) in reinsurance receivables	(33,666)	(56,106)
Decrease (increase) in income taxes	75,304	6,546
Decrease (increase) in prepaid reinsurance premiums	(61,392)	15,994
Increase (decrease) in reserve for losses and loss adjustment expenses	34,016	29,962
Increase (decrease) in unearned premiums	39,180	(33,573)
Increase (decrease) in other net payable to reinsurers	(30,525)	(106,588)
Increase (decrease) in losses in course of payment	99,506	17,456
Change in equity adjustments in limited partnerships	225	2,514
Distribution of limited partnership income	3,727	9,859
Change in other assets and liabilities, net	18,204	24,496
Non-cash compensation expense	2,629	3,117
Amortization of bond premium (accrual of bond discount)	4,494	4,541
Amortization of underwriting discount on senior notes	1	1
Net realized capital (gains) losses	(117,768)	66,377
Net cash provided by (used in) operating activities	82,301	65,888
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from fixed maturities matured/called - available for sale, at market value	274,356	154,378
Proceeds from fixed maturities sold - available for sale, at market value	292,994	188,046
Proceeds from equity securities sold - available for sale, at fair value	134,051	86,149
Distributions from other invested assets	448,121	255,889
Cost of fixed maturities acquired - available for sale, at market value	(785,984)	(506,085)
Cost of equity securities acquired - available for sale, at fair value	(56,724)	(92,019)
Cost of other invested assets acquired	(497,077)	(413,223)
Net change in short-term investments	(29,794)	235,895
Net change in unsettled securities transactions	72,275	5,870
Net cash provided by (used in) investing activities	(147,782)	(85,100)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Tax benefit from share-based compensation	(2,560)	1,676
Net cash provided by (used in) financing activities	(2,560)	1,676
EFFECT OF EXCHANGE RATE CHANGES ON CASH	5,833	10,546
Net increase (decrease) in cash	(62,208)	(6,990)
Cash, beginning of period	297,794	155,429
Cash, end of period	\$ 235,586	\$ 148,439
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid (recovered)	\$ 1,581	\$ 4,558
Interest paid	-	-

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

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2017 and 2016

1. GENERAL

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

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

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

Effective July 13, 2015, the Company sold all of the outstanding shares of capital stock of a wholly-owned subsidiary entity, Mt. McKinley Insurance Company (“Mt. McKinley”), to Clearwater Insurance Company. The operating results of Mt. McKinley for the three and nine months ended September 30, 2015 are included within the Company’s financial statements.

2. BASIS OF PRESENTATION

The unaudited consolidated financial statements of the Company for the three months ended March 31, 2017 and 2016 include all adjustments, consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair statement of the results on an interim basis. Certain financial information, which is normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), has been omitted since it is not required for interim reporting purposes. The December 31, 2016 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The results for the three months ended March 31, 2017 and 2016 are not necessarily indicative of the results for a full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2016, 2015 and 2014 included in the Company’s most recent Form 10-K filing.

All intercompany accounts and transactions have been eliminated.

Certain reclassifications and format changes have been made to prior years’ amounts to conform to the 2017 presentation.

Application of Recently Issued Accounting Standard Changes.

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 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 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. This adoption did not have any material impact on the Company's financial statements.

Consolidation. In February 2015, the FASB issued ASU 2015-02, authoritative guidance regarding consolidation of reporting entities. The new guidance focuses on the required evaluation of whether certain legal entities should be consolidated. This guidance is effective for annual and interim reporting periods beginning after December 15, 2015. The adoption did not have a material impact on the Company's financial statements.

3. INVESTMENTS

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

	At March 31, 2017				
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	OTTI in AOCI (a)
(Dollars in thousands)					
Fixed maturity securities					
U.S. Treasury securities and obligations of					
U.S. government agencies and corporations	\$ 772,443	\$ 2,678	\$ (3,901)	\$ 771,220	\$ -
Obligations of U.S. states and political subdivisions	705,145	18,818	(11,526)	712,437	-
Corporate securities	2,238,328	45,144	(11,854)	2,271,618	1,332
Asset-backed securities	175,864	381	(75)	176,170	-
Mortgage-backed securities					
Commercial	75,108	838	(324)	75,622	-
Agency residential	704,451	2,380	(8,365)	698,466	-
Non-agency residential	68	11	-	79	-
Foreign government securities	474,211	21,809	(6,925)	489,095	-
Foreign corporate securities	992,050	31,699	(12,041)	1,011,708	213
Total fixed maturity securities	\$ 6,137,668	\$ 123,758	\$ (55,011)	\$ 6,206,415	\$ 1,545

	At December 31, 2016				
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	OTTI in AOCI (a)
(Dollars in thousands)					
Fixed maturity securities					
U.S. Treasury securities and obligations of					
U.S. government agencies and corporations	\$ 693,005	\$ 2,509	\$ (4,434)	\$ 691,080	\$ -
Obligations of U.S. states and political subdivisions	723,938	18,016	(11,970)	729,984	-
Corporate securities	2,119,324	50,665	(15,786)	2,154,203	4,868
Asset-backed securities	136,826	330	(129)	137,027	-
Mortgage-backed securities					
Commercial	75,435	510	(452)	75,493	-
Agency residential	721,772	2,365	(8,993)	715,144	-
Non-agency residential	76	12	-	88	-
Foreign government securities	495,572	22,088	(10,383)	507,277	-
Foreign corporate securities	944,546	30,015	(14,361)	960,200	175
Total fixed maturity securities	\$ 5,910,494	\$ 126,510	\$ (66,508)	\$ 5,970,496	\$ 5,043

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

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

	At March 31, 2017		At December 31, 2016	
	Amortized Cost	Market Value	Amortized Cost	Market Value
(Dollars in thousands)				
Fixed maturity securities – available for sale				
Due in one year or less	\$ 466,605	\$ 466,630	\$ 394,401	\$ 392,824
Due after one year through five years	2,988,903	3,016,699	2,925,786	2,955,325
Due after five years through ten years	919,998	938,822	879,762	894,166
Due after ten years	806,671	833,927	776,436	800,429
Asset-backed securities	175,864	176,170	136,826	137,027
Mortgage-backed securities				
Commercial	75,108	75,622	75,435	75,493
Agency residential	704,451	698,466	721,772	715,144
Non-agency residential	68	79	76	88
Total fixed maturity securities	\$ 6,137,668	\$ 6,206,415	\$ 5,910,494	\$ 5,970,496

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

	Three Months Ended March 31,	
	2017	2016
(Dollars in thousands)		
Increase (decrease) during the period between the market value and cost of investments carried at market value, and deferred taxes thereon:		
Fixed maturity securities	\$ 12,242	\$ 69,826
Fixed maturity securities, other-than-temporary impairment	(3,499)	197
Other invested assets	444	-
Change in unrealized appreciation (depreciation), pre-tax	9,187	70,023
Deferred tax benefit (expense)	(4,440)	(24,439)
Deferred tax benefit (expense), other-than-temporary impairment	1,225	(69)
Change in unrealized appreciation (depreciation), net of deferred taxes, included in stockholder's equity	\$ 5,972	\$ 45,515

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 and equity securities, by security type and contractual maturity, in each case subdivided according to length of time that individual securities had been in a continuous unrealized loss position for the periods indicated:

	Duration of Unrealized Loss at March 31, 2017 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of						
U.S. government agencies and corporations	\$ 331,049	\$ (3,901)	\$ -	\$ -	\$ 331,049	\$ (3,901)
Obligations of U.S. states and political subdivisions	206,241	(10,966)	492	(560)	206,733	(11,526)
Corporate securities	441,626	(7,815)	88,102	(4,039)	529,728	(11,854)
Asset-backed securities	40,290	(73)	4,026	(2)	44,316	(75)
Mortgage-backed securities						
Commercial	8,255	(297)	3,072	(27)	11,327	(324)
Agency residential	465,110	(6,116)	86,304	(2,249)	551,414	(8,365)
Non-agency residential	20	-	-	-	20	-
Foreign government securities	140,028	(1,524)	56,147	(5,401)	196,175	(6,925)
Foreign corporate securities	205,862	(3,054)	71,426	(8,987)	277,288	(12,041)
Total fixed maturity securities	<u>\$ 1,838,481</u>	<u>\$ (33,746)</u>	<u>\$ 309,569</u>	<u>\$ (21,265)</u>	<u>\$ 2,148,050</u>	<u>\$ (55,011)</u>

Duration of Unrealized Loss at March 31, 2017 By Maturity						
(Dollars in thousands)	Less than 12 months		Greater than 12 months		Total	
	Gross Unrealized		Gross Unrealized		Gross Unrealized	
	Market Value	Depreciation	Market Value	Depreciation	Market Value	Depreciation
Fixed maturity securities						
Due in one year or less	\$ 196,751	\$ (436)	\$ 18,642	\$ (3,152)	\$ 215,393	\$ (3,588)
Due in one year through five years	703,649	(8,563)	155,494	(13,136)	859,143	(21,699)
Due in five years through ten years	199,849	(6,607)	40,361	(2,676)	240,210	(9,283)
Due after ten years	224,557	(11,654)	1,670	(23)	226,227	(11,677)
Asset-backed securities	40,290	(73)	4,026	(2)	44,316	(75)
Mortgage-backed securities	473,385	(6,413)	89,376	(2,276)	562,761	(8,689)
Total fixed maturity securities	<u>\$ 1,838,481</u>	<u>\$ (33,746)</u>	<u>\$ 309,569</u>	<u>\$ (21,265)</u>	<u>\$ 2,148,050</u>	<u>\$ (55,011)</u>

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at March 31, 2017 were \$2,148,050 thousand and \$55,011 thousand, respectively. The market value of securities for the single issuer whose securities comprised the largest unrealized loss position at March 31, 2017, (the U.S. Government) did not exceed 6.0% of the overall market value of the Company's fixed maturity securities. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The \$33,746 thousand of unrealized losses related to fixed maturity securities that have been in an unrealized loss position for less than one year were generally comprised of obligations of U.S. states and political subdivisions, domestic corporate securities and agency residential mortgage-backed securities. Of these unrealized losses, \$31,496 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating agency. The \$21,265 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to domestic and foreign corporate securities, as well as foreign government securities. Of these unrealized losses, \$17,263 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating agency. There was no gross unrealized depreciation for mortgage-backed securities related to sub-prime and alt-A loans. In all instances, there were no projected cash flow shortfalls to recover the full book value of the investments and the related interest obligations. The mortgage-backed securities still have excess credit coverage and are current on interest and principal payments.

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

The tables below display the aggregate market value and gross unrealized depreciation of fixed maturity and equity 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, 2016 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of						
U.S. government agencies and corporations	\$ 469,571	\$ (4,434)	\$ -	\$ -	\$ 469,571	\$ (4,434)
Obligations of U.S. states and political subdivisions	221,088	(11,486)	564	(484)	221,652	(11,970)
Corporate securities	431,757	(10,121)	118,172	(5,665)	549,929	(15,786)
Asset-backed securities	35,065	(122)	5,745	(7)	40,810	(129)
Mortgage-backed securities						
Commercial	27,230	(391)	3,060	(61)	30,290	(452)
Agency residential	487,000	(6,320)	90,740	(2,673)	577,740	(8,993)
Non-agency residential	-	-	-	-	-	-
Foreign government securities	218,171	(2,713)	61,542	(7,670)	279,713	(10,383)
Foreign corporate securities	264,939	(4,950)	75,489	(9,411)	340,428	(14,361)
Total fixed maturity securities	<u>\$ 2,154,821</u>	<u>\$ (40,537)</u>	<u>\$ 355,312</u>	<u>\$ (25,971)</u>	<u>\$ 2,510,133</u>	<u>\$ (66,508)</u>

	Duration of Unrealized Loss at December 31, 2016 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
Fixed maturity securities						
Due in one year or less	\$ 111,926	\$ (322)	\$ 21,691	\$ (3,625)	\$ 133,617	\$ (3,947)
Due in one year through five years	1,015,066	(10,567)	190,960	(16,511)	1,206,026	(27,078)
Due in five years through ten years	243,082	(10,369)	41,371	(2,961)	284,453	(13,330)
Due after ten years	235,452	(12,446)	1,745	(133)	237,197	(12,579)
Asset-backed securities	35,065	(122)	5,745	(7)	40,810	(129)
Mortgage-backed securities	514,230	(6,711)	93,800	(2,734)	608,030	(9,445)
Total fixed maturity securities	<u>\$ 2,154,821</u>	<u>\$ (40,537)</u>	<u>\$ 355,312</u>	<u>\$ (25,971)</u>	<u>\$ 2,510,133</u>	<u>\$ (66,508)</u>

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at December 31, 2016 were \$2,510,133 thousand and \$66,508 thousand, respectively. The market value of securities for the single issuer whose securities comprised the largest unrealized loss position at December 31, 2016, did not exceed 1.0% of the overall market value of the Company's fixed maturity securities. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The \$40,537 thousand of unrealized losses related to fixed maturity securities that have been in an unrealized loss position for less than one year were generally comprised of obligations of U.S. states and political subdivisions, domestic and foreign corporate securities, agency residential mortgage-backed securities and foreign government securities. Of these unrealized losses, \$36,646 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating agency. The \$25,971 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to domestic and foreign corporate securities, foreign government securities and agency residential mortgage-backed securities. Of these unrealized losses \$22,882 thousand is attributable to net unrealized foreign exchange losses, as the U.S. dollar has strengthened against other currencies. There was no gross unrealized depreciation for mortgage-backed securities related to sub-prime and alt-A loans. In all instances, there were no projected cash flow shortfalls to recover the full book value of the investments and the related interest obligations. The mortgage-backed securities still have excess credit coverage and are current on interest and principal payments.

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

(Dollars in thousands)	Three Months Ended March 31,	
	2017	2016
Fixed maturities	\$ 46,980	\$ 45,326
Equity securities	6,748	9,148
Short-term investments and cash	390	304
Other invested assets		
Limited partnerships	(224)	(2,514)
Dividends from preferred shares of affiliate	7,758	7,758
Other	1,252	(912)
Gross investment income before adjustments	62,904	59,110
Funds held interest income (expense)	1,939	2,654
Interest income from Parent	1,075	1,075
Gross investment income	65,918	62,839
Investment expenses	(5,069)	(4,394)
Net investment income	\$ 60,849	\$ 58,445

(Some amounts may not reconcile due to rounding.)

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

The Company had contractual commitments to invest up to an additional \$320,344 thousand in limited partnerships at March 31, 2017. These commitments will be funded when called in accordance with the partnership agreements, which have investment periods that expire, unless extended, through 2021.

The Company's other invested assets at March 31, 2017 and December 31, 2016 included \$101,545 thousand and \$57,126 thousand, respectively, related to a private placement liquidity sweep facility. The primary purpose of the facility is to enhance the Company's return on its short-term investments and cash positions. The facility invests in high quality, short-duration securities and permits daily liquidity.

Other invested assets, at fair value, as of March 31, 2017 and December 31, 2016, were comprised of preferred shares held in Preferred Holdings, an affiliated company.

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

	Three Months Ended March 31,	
	2017	2016
(Dollars in thousands)		
Fixed maturity securities, market value:		
Other-than-temporary impairments	\$ (1,132)	\$ (23,015)
Gains (losses) from sales	6,465	(16,855)
Fixed maturity securities, fair value:		
Gains (losses) from fair value adjustments	-	(232)
Equity securities, fair value:		
Gains (losses) from sales	4,340	(7,950)
Gains (losses) from fair value adjustments	37,418	(18,325)
Other invested assets	1	-
Other invested assets, fair value:		
Gains (losses) from fair value adjustments	70,675	-
Short-term investment gains (losses)	1	-
Total net realized capital gains (losses)	<u>\$ 117,768</u>	<u>\$ (66,377)</u>

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

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

	Three Months Ended March 31,	
	2017	2016
(Dollars in thousands)		
Proceeds from sales of fixed maturity securities	\$ 292,994	\$ 188,046
Gross gains from sales	7,995	1,464
Gross losses from sales	(1,530)	(18,319)
Proceeds from sales of equity securities	\$ 134,051	\$ 86,149
Gross gains from sales	8,013	1,782
Gross losses from sales	(3,673)	(9,732)

4. RESERVES FOR LOSSES AND LAE

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

	Three Months Ended March 31,	Twelve Months Ended At December 31,
(Dollars in thousands)	2017	2016
Gross reserves at January 1	\$ 8,331,288	\$ 7,940,720
Less reinsurance recoverables	(4,199,791)	(3,875,073)
Net reserves at January 1	4,131,497	4,065,647
Incurred related to:		
Current year	286,204	1,441,962
Prior years	3,518	(91,682)
Total incurred losses and LAE	289,722	1,350,280
Paid related to:		
Current year	46,284	400,489
Prior years	269,625	892,207
Total paid losses and LAE	315,909	1,292,696
Foreign exchange/translation adjustment	1,159	8,266
Net reserves at December 31	4,106,469	4,131,497
Plus reinsurance recoverables	4,262,693	4,199,791
Gross reserves at December 31	\$ 8,369,162	\$ 8,331,288

Incurred prior years' reserves increased by \$3,518 thousand and decreased by \$91,682 thousand for the three months ended March 31, 2017 and the year ended December 31, 2016, respectively. The increase for the three months ended March 31, 2017, was mainly due to unfavorable development in the insurance segment related to casualty business.

The decrease for the year ended December 31, 2016 was attributable to favorable development in the reinsurance segments of \$187,909 thousand related primarily to property and short-tail business in the U.S., property business in Canada, Latin America, Middle East and Africa, as well as favorable development on prior year catastrophe losses, partially offset by \$45,668 thousand of adverse development on A&E reserves. Part of the favorable development in the reinsurance segment related to the 2015 loss from the explosion at the Chinese port of Tianjin. In 2015, this loss was originally estimated to be \$21,566 thousands. At December 31, 2016, this loss was projected to be \$6,261 thousands resulting in \$15,305 thousands of favorable development in 2016. The net favorable development in the reinsurance segments was partially offset by \$96,227 thousand of unfavorable development in the insurance segment primarily related to run-off construction liability and umbrella program business.

5. FAIR VALUE

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

The levels in the hierarchy are defined as follows:

- Level 1: Inputs to the valuation methodology are observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in an active market;
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument;
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

In limited instances where prices are not provided by pricing services or in rare instances when a manager may not agree with the pricing service, price quotes on a non-binding basis are obtained from investment brokers. The investment asset managers do not make any changes to prices received from either the pricing services or the investment brokers. In addition, the investment asset managers have procedures in place to review the reasonableness of the prices from the service providers and may request verification of the prices. In addition, the Company continually performs analytical reviews of price changes and tests the prices on a random basis to an independent pricing source. No material variances were noted during these price validation procedures. In limited situations, where financial markets are inactive or illiquid, the Company may use its own assumptions about future cash flows and risk-adjusted discount rates to determine fair value. Due to the unavailability of prices for forty-two private placement securities, the investment manager's valuation committee valued the forty-two securities at \$87,124 thousand at March 31, 2017. Due to the unavailability of prices for forty-two private placement securities, the investment manager's valuation committee valued the forty-two securities at \$86,536 thousand at December 31, 2016.

The Company internally manages a public equity portfolio which had a fair value at March 31, 2017 and December 31, 2016 of \$154,123 thousand and \$133,755 thousand, respectively, and all prices were obtained from publically published sources.

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

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

The fixed maturities with fair values categorized as level 3 result when prices are not available from the nationally recognized pricing services. The asset managers will then obtain non-binding price quotes for the securities from brokers. The single broker quotes are provided by market makers or broker-dealers who are recognized as market participants in the markets in which they are providing the quotes. The prices received from brokers are reviewed for reasonableness by the third party asset managers and the Company. If the

broker quotes are for foreign denominated securities, the quotes are converted to U.S. dollars using currency exchange rates from nationally recognized sources. In limited circumstances when broker prices are not available for private placements, the Company will value the securities using comparable market information.

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

- U.S. Treasury securities and obligations of U.S. government agencies and corporations are primarily comprised of U.S. Treasury bonds and the fair value is based on observable market inputs such as quoted prices, reported trades, quoted prices for similar issuances or benchmark yields;
- Obligations of U.S. states and political subdivisions are comprised of state and municipal bond issuances and the fair values are based on observable market inputs such as quoted market prices, quoted prices for similar securities, benchmark yields and credit spreads;
- Corporate securities are primarily comprised of U.S. corporate and public utility bond issuances and the fair values are based on observable market inputs such as quoted market prices, quoted prices for similar securities, benchmark yields and credit spreads;
- Asset-backed and mortgage-backed securities fair values are based on observable inputs such as quoted prices, reported trades, quoted prices for similar issuances or benchmark yields and cash flow models using observable inputs such as prepayment speeds, collateral performance and default spreads;
- Foreign government securities are comprised of global non-U.S. sovereign bond issuances and the fair values are based on observable market inputs such as quoted market prices, quoted prices for similar securities and models with observable inputs such as benchmark yields and credit spreads and then, where applicable, converted to U.S. dollars using an exchange rate from a nationally recognized source;
- Foreign corporate securities are comprised of global non-U.S. corporate bond issuances and the fair values are based on observable market inputs such as quoted market prices, quoted prices for similar securities and models with observable inputs such as benchmark yields and credit spreads and then, where applicable, converted to U.S. dollars using an exchange rate from a nationally recognized source.

Other invested assets, at fair value, was categorized as Level 3 at March 31, 2017 and December 31, 2016, since it represented a privately placed convertible preferred stock issued by an affiliate. The stock was received in exchange for shares of the Company's parent. The fair value of the preferred stock at March 31, 2017 and December 31, 2016 was determined using a pricing model.

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

		Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)	March 31, 2017			
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	\$ 771,220	\$ -	\$ 771,220	\$ -
Obligations of U.S. States and political subdivisions	712,437	-	712,437	-
Corporate securities	2,271,618	-	2,187,296	84,322
Asset-backed securities	176,170	-	176,170	-
Mortgage-backed securities				
Commercial	75,622	-	75,622	-
Agency residential	698,466	-	698,466	-
Non-agency residential	79	-	79	-
Foreign government securities	489,095	-	489,095	-
Foreign corporate securities	1,011,708	-	1,008,906	2,802
Total fixed maturities, market value	6,206,415	-	6,119,291	87,124
Equity securities, fair value	852,993	835,536	17,457	-
Other invested assets, fair value	1,837,302	-	-	1,837,302

There were no transfers between Level 1 and Level 2 for the three months ended March 31, 2017.

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

		Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)	December 31, 2016			
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	\$ 691,080	\$ -	\$ 691,080	\$ -
Obligations of U.S. States and political subdivisions	729,984	-	729,984	-
Corporate securities	2,154,203	-	2,089,006	65,197
Asset-backed securities	137,027	-	137,027	-
Mortgage-backed securities				
Commercial	75,493	-	75,493	-
Agency residential	715,144	-	715,144	-
Non-agency residential	88	-	88	-
Foreign government securities	507,277	-	507,277	-
Foreign corporate securities	960,200	-	957,662	2,538
Total fixed maturities, market value	5,970,496	-	5,902,761	67,735
Equity securities, fair value	887,800	827,237	60,563	-
Other invested assets, fair value	1,766,626	-	-	1,766,626

In addition \$22,118 thousand and \$18,801 thousand of investments within other invested assets on the consolidated balance sheets as of March 31, 2017 and December 31, 2016, respectively, are not included within the fair value hierarchy tables as the assets are valued using the NAV practical expedient guidance within ASU 2015-07.

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

	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	Corporate Securities	Foreign Corporate	Total	Corporate Securities	Foreign Corporate	Total
(Dollars in thousands)						
Beginning balance	\$ 65,197	\$ 2,538	\$ 67,735	\$ 3,933	\$ 1,593	\$ 5,526
Total gains or (losses) (realized/unrealized)						
Included in earnings	214	(24)	190	8	(997)	(989)
Included in other comprehensive income (loss)	(29)	-	(29)	(6)	-	(6)
Purchases, issuances and settlements	18,940	288	19,228	11,771	-	11,771
Transfers in and/or (out) of Level 3	-	-	-	-	-	-
Ending balance	\$ 84,322	\$ 2,802	\$ 87,124	\$ 15,706	\$ 596	\$ 16,302
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	\$ -	\$ -	\$ -	\$ -	\$ (997)	\$ (997)

(Some amounts may not reconcile due to rounding.)

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

	Three Months Ended March 31,	
	2017	2016
(Dollars in thousands)		
Other invested assets, fair value:		
Beginning balance	\$ 1,766,626	\$ 1,773,214
Total gains or (losses) (realized/unrealized)		
Included in earnings	70,675	-
Included in other comprehensive income (loss)	-	-
Purchases, issuances and settlements	-	-
Transfers in and/or (out) of Level 3	-	-
Ending balance	\$ 1,837,302	\$ 1,773,214
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	\$ -	\$ -

(Some amounts may not reconcile due to rounding.)

6. COMMITMENTS AND CONTINGENCIES

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

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

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

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

	At March 31, 2017	At December 31, 2016
(Dollars in thousands)		
The Prudential	\$ 146,620	\$ 146,507
Unaffiliated life insurance company	32,458	33,860

7. COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
(Dollars in thousands)						
Unrealized appreciation (depreciation) ("URA(D)") on securities - temporary	\$ 18,020	\$ (6,307)	\$ 11,713	\$ 29,956	\$ (10,484)	\$ 19,472
URA(D) on securities - OTTI	(3,499)	1,225	(2,274)	197	(69)	128
Reclassification of net realized losses (gains) included in net income (loss)	(5,334)	1,867	(3,467)	39,870	(13,955)	25,915
Foreign currency translation adjustments	5,487	(1,920)	3,567	22,977	(8,045)	14,932
Benefit plan actuarial net gain (loss)	-	-	-	-	-	-
Reclassification of amortization of net gain (loss) included in net income (loss)	3,083	(1,079)	2,004	2,062	(722)	1,340
Total other comprehensive income (loss)	\$ 17,757	\$ (6,214)	\$ 11,543	\$ 95,062	\$ (33,275)	\$ 61,787

(Some amounts may not reconcile due to rounding)

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

AOCI component	Three Months Ended March 31,		Affected line item within the statements of operations and comprehensive income (loss)
	2017	2016	
(Dollars in thousands)			
URA(D) on securities	\$ (5,334)	\$ 39,870	Other net realized capital gains (losses)
	1,867	(13,955)	Income tax expense (benefit)
	\$ (3,467)	\$ 25,915	Net income (loss)
Benefit plan net gain (loss)	\$ 3,083	\$ 2,062	Other underwriting expenses
	(1,079)	(722)	Income tax expense (benefit)
	\$ 2,004	\$ 1,340	Net income (loss)

(Some amounts may not reconcile due to rounding)

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

	Three Months Ended March 31, 2017	Twelve Months Ended December 31, 2016
(Dollars in thousands)		
Beginning balance of URA (D) on securities	\$ 39,041	\$ 13,654
Current period change in URA (D) of investments - temporary	8,246	22,063
Current period change in URA (D) of investments - non-credit OTTI	(2,274)	3,324
Ending balance of URA (D) on securities	45,013	39,041
Beginning balance of foreign currency translation adjustments	(9,852)	(12,701)
Current period change in foreign currency translation adjustments	3,567	2,849
Ending balance of foreign currency translation adjustments	(6,285)	(9,852)
Beginning balance of benefit plan net gain (loss)	(65,504)	(63,089)
Current period change in benefit plan net gain (loss)	2,004	(2,415)
Ending balance of benefit plan net gain (loss)	(63,500)	(65,504)
Ending balance of accumulated other comprehensive income (loss)	\$ (24,772)	\$ (36,315)

8. COLLATERALIZED REINSURANCE AND TRUST AGREEMENTS

A subsidiary of the Company, Everest Re, has established a trust agreement, which effectively uses Everest Re's investments as collateral, as security for assumed losses payable to a non-affiliated ceding company. At March 31, 2017, the total amount on deposit in the trust account was \$617,060 thousand.

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

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

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

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

storm and earthquake events. These agreements provide up to \$50,000 thousand, \$75,000 thousand and \$175,000 thousand, respectively, of annual aggregate reinsurance coverage from named storms and earthquakes in the United States, Puerto Rico and Canada.

Kilimanjaro has financed the various property catastrophe reinsurance coverages by issuing catastrophe bonds to unrelated, external investors. On April 24, 2014, Kilimanjaro issued \$450,000 thousand of notes ("Series 2014-1 Notes"). On November 18, 2014, Kilimanjaro issued \$500,000 thousand of notes ("Series 2014-2 Notes"). On December 1, 2015, Kilimanjaro issued \$625,000 thousand of notes ("Series 2015-1 Notes"). On April 13, 2017, Kilimanjaro issued \$950,000 thousand of notes ("Series 2017-1 Notes") and \$300,000 thousand of notes ("Series 2017-2 Notes"). The proceeds from the issuance of the Notes listed above are held in reinsurance trust throughout the duration of the applicable reinsurance agreements and invested solely in US government money market funds with a rating of at least "AAAm" by Standard & Poor's.

9. SENIOR NOTES

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

(Dollars in thousands)	Date Issued	Date Due	Principal Amounts	March 31, 2017		December 31, 2016	
				Consolidated Balance		Consolidated Balance	
				Sheet Amount	Market Value	Sheet Amount	Market Value
4.868% Senior notes	06/05/2014	06/01/2044	400,000	\$ 396,744	\$ 403,468	\$ 396,714	\$ 383,612

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

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

(Dollars in thousands)	Three Months Ended March 31,	
	2017	2016
	\$	\$
Interest expense incurred	4,868	4,868

10. LONG TERM SUBORDINATED NOTES

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

(Dollars in thousands)	Date Issued	Original Principal Amount	Maturity Date		March 31, 2017		December 31, 2016	
			Scheduled	Final	Consolidated Balance		Consolidated Balance	
					Sheet Amount	Market Value	Sheet Amount	Market Value
6.6% Long term subordinated notes	04/26/2007	\$ 400,000	05/15/2037	05/01/2067	\$ 236,487	\$ 222,456	\$ 236,462	\$ 204,636

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

Holdings can redeem the long term subordinated notes prior to May 15, 2017, in whole but not in part at the applicable redemption price, which will equal the greater of (a) 100% of the principal amount being redeemed and (b) the present value of the principal payment on May 15, 2017 and scheduled payments of interest that would have accrued from the redemption date to May 15, 2017 on the long term subordinated notes being redeemed, discounted to the redemption date on a semi-annual basis at a discount rate equal to the treasury rate plus an applicable spread of either 0.25% or 0.50%, in each case plus accrued and unpaid interest. Holdings may redeem the long term subordinated notes on or after May 15, 2017, in whole or in part at 100% of the principal amount plus accrued and unpaid interest; however, redemption on or after the scheduled maturity date and prior to May 1, 2047 is subject to a replacement capital covenant. This covenant is for the benefit of certain senior note holders and it mandates that Holdings receive proceeds from the sale of another subordinated debt issue, of at least similar size, before it may redeem the subordinated notes. Effective upon the maturity of the Company's 5.40% senior notes on October 15, 2014, the Company's 4.868% senior notes, due on June 1, 2044, have become the Company's long term indebtedness that ranks senior to the long term subordinated notes.

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

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

	Three Months Ended	
	March 31,	
	2017	2016
(Dollars in thousands)		
Interest expense incurred	\$ 3,937	\$ 3,937

11. SEGMENT REPORTING

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

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

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

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

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

U.S. Reinsurance

(Dollars in thousands)

	Three Months Ended March 31,	
	2017	2016
Gross written premiums	\$ 578,958	\$ 536,706
Net written premiums	219,062	223,428
Premiums earned	\$ 208,314	\$ 235,243
Incurred losses and LAE	120,434	116,170
Commission and brokerage	40,373	49,731
Other underwriting expenses	14,251	13,458
Underwriting gain (loss)	\$ 33,256	\$ 55,884

International

(Dollars in thousands)

	Three Months Ended March 31,	
	2017	2016
Gross written premiums	\$ 278,575	\$ 238,478
Net written premiums	103,246	87,716
Premiums earned	\$ 118,151	\$ 113,173
Incurred losses and LAE	68,414	73,415
Commission and brokerage	23,535	26,110
Other underwriting expenses	8,889	7,823
Underwriting gain (loss)	\$ 17,313	\$ 5,825

Insurance

(Dollars in thousands)

	Three Months Ended March 31,	
	2017	2016
Gross written premiums	\$ 394,851	\$ 354,720
Net written premiums	126,528	152,926
Premiums earned	\$ 144,590	\$ 133,509
Incurred losses and LAE	100,874	106,477
Commission and brokerage	(14,438)	(7,019)
Other underwriting expenses	36,755	37,946
Underwriting gain (loss)	\$ 21,399	\$ (3,895)

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

	Three Months Ended March 31,	
	2017	2016
(Dollars in thousands)		
Underwriting gain (loss)	\$ 71,968	\$ 57,814
Net investment income	60,849	58,445
Net realized capital gains (losses)	117,768	(66,377)
Corporate expense	(3,597)	(2,336)
Interest, fee and bond issue cost amortization expense	(8,859)	(8,859)
Other income (expense)	9,855	13,102
Income (loss) before taxes	\$ 247,984	\$ 51,789

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

(Dollars in thousands)	Three Months Ended	
	March 31,	
	2017	2016
Canada gross written premiums	\$ 27,957	\$ 23,586

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

12. RELATED-PARTY TRANSACTIONS

Parent

Group entered into a \$250,000 thousand long term promissory note agreement with Holdings as of December 31, 2014. The note will mature on December 31, 2023 and has an interest rate of 1.72% that is payable annually. This transaction is presented as a Note Receivable – Affiliated in the Consolidated Balance Sheets of Holdings. Interest income in the amount of \$1,075 thousand was recorded by Holdings for the three months ended March 31, 2017, and March 31, 2016.

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

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

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

In December, 2015, Holdings transferred the 9,719,971 Common Shares of Group, which it held as other invested assets, at fair value, valued at \$1,773,214 thousand, to Preferred Holdings, an affiliated entity and subsidiary of Group, in exchange for 1,773.214 preferred shares of Preferred Holdings with a \$1,000 thousand par value and 1.75% annual dividend rate. After the exchange, Holdings no longer holds any shares or has any ownership interest in Group.

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

(Dollars in thousands)	Three Months Ended	
	March 31,	
	2017	2016
Dividends received on preferred stock of affiliate	\$ 7,758	\$ 7,758

Affiliated Companies

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

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

(Dollars in thousands)	Three Months Ended	
	March 31,	
	2017	2016
Expenses incurred	\$ 23,183	\$ 21,170

Affiliates

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

(Dollars in thousands)						
Coverage Period	Ceding Company	Percent Ceded	Assuming Company	Type of Business	Single Occurrence Limit	Aggregate Limit
01/01/2010-12/31/2010	Everest Re	44.0%	Bermuda Re	property / casualty business	150,000	325,000
01/01/2011-12/31/2011	Everest Re	50.0%	Bermuda Re	property / casualty business	150,000	300,000
01/01/2012-12/31/2014	Everest Re	50.0%	Bermuda Re	property / casualty business	100,000	200,000
01/01/2015-12/31/2016	Everest Re	50.0%	Bermuda Re	property / casualty business	162,500	325,000
01/01/2017	Everest Re	60.0%	Bermuda Re	property / casualty business	219,000	438,000
01/01/2010-12/31/2010	Everest Re- Canadian Branch	60.0%	Bermuda Re	property business	350,000 ⁽¹⁾	-
01/01/2011-12/31/2011	Everest Re- Canadian Branch	60.0%	Bermuda Re	property business	350,000 ⁽¹⁾	-
01/01/2012-12/31/2012	Everest Re- Canadian Branch	75.0%	Bermuda Re	property / casualty business	206,250 ⁽¹⁾	412,500 ⁽¹⁾
01/01/2013-12/31/2013	Everest Re- Canadian Branch	75.0%	Bermuda Re	property / casualty business	150,000 ⁽¹⁾	412,500 ⁽¹⁾
01/01/2014	Everest Re- Canadian Branch	75.0%	Bermuda Re	property / casualty business	262,500 ⁽¹⁾	412,500 ⁽¹⁾
01/01/2012	Everest Canada	80.0%	Everest Re- Canadian Branch	property business	-	-

⁽¹⁾ Amounts shown are Canadian dollars.

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

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

On July 13, 2015, the Company sold Mt. McKinley to Clearwater Insurance Company, a Delaware domiciled insurance company. As of that date, Mt. McKinley is no longer deemed an affiliated company or related party.

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

Bermuda Re

(Dollars in thousands)

Ceded written premiums
Ceded earned premiums
Ceded losses and LAE (a)

Three Months Ended March 31,	
2017	2016
\$ 634,896	\$ 516,683
588,874	538,953
340,131	290,476

Everest International

(Dollars in thousands)

Ceded written premiums
Ceded earned premiums
Ceded losses and LAE

Three Months Ended March 31,	
2017	2016
\$ (70)	\$ (31)
(71)	(24)
(443)	142

Everest Canada

(Dollars in thousands)

Assumed written premiums
Assumed earned premiums
Assumed losses and LAE

Three Months Ended March 31,	
2017	2016
\$ 12,848	\$ 10,199
12,853	10,454
6,651	6,987

Lloyd's Syndicate 2786

(Dollars in thousands)

Assumed written premiums
Assumed earned premiums
Assumed losses and LAE

Three Months Ended March 31,	
2017	2016
\$ 7,849	\$ 696
6,927	88
3,433	-

(a) Ceded losses and LAE include the Mt. McKinley loss portfolio transfer that constitutes losses ceded under retroactive reinsurance and therefore, in accordance with FASB guidance, amortization of deferred gain on retroactive reinsurance is reflected in other income on the consolidated statements of operations and comprehensive income (loss). Upon the sale of Mt. McKinley, the value of the remaining deferred gain on retroactive reinsurance was included in the calculation of the realized gain on sale of subsidiary.

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

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

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

<u>Mt. Logan Re Segregated Accounts</u>	Three Months Ended	
	March 31,	
	2017	2016
(Dollars in thousands)		
Ceded written premiums	\$ 39,179	\$ 40,931
Ceded earned premiums	33,957	34,872
Ceded losses and LAE	19,759	9,098
Assumed written premiums	2,732	3,560
Assumed earned premiums	2,732	3,560
Assumed losses and LAE	-	-

13. RETIREMENT BENEFITS

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

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

<u>Pension Benefits</u>	Three Months Ended	
	March 31,	
	2017	2016
(Dollars in thousands)		
Service cost	\$ 3,299	\$ 2,897
Interest cost	2,276	2,361
Expected return on plan assets	(3,155)	(2,484)
Amortization of net (income) loss	3,040	2,014
Net periodic benefit cost	\$ 5,460	\$ 4,788

<u>Other Benefits</u>	Three Months Ended	
	March 31,	
	2017	2016
(Dollars in thousands)		
Service cost	\$ 440	\$ 438
Interest cost	249	296
Amortization of prior service costs	(33)	-
Amortization of net (income) loss	76	48
Net periodic benefit cost	\$ 732	\$ 782

The Company did not make any contributions to the qualified pension benefit plan for the three months ended March 31, 2017 and 2016.

14. INCOME TAXES

The Company is domiciled in the United States and has subsidiaries domiciled within the United States with significant branches in Canada and Singapore. The Company's non-U.S. branches are subject to income taxation at varying rates in their respective domiciles.

For interim reporting periods, the company is generally required to use the annualized effective tax rate ("AETR") method, as prescribed by ASC 740-270, Interim Reporting, to calculate its income tax provision. Under this method, the AETR is applied to the interim year-to-date pre-tax income to determine the income tax expense or benefit for the year-to-date period. The income tax expense or benefit for a quarter represents the difference between the year-to-date income tax expense or benefit for the current year-to-date

period less such amount for the immediately preceding year-to-date period. Management considers the impact of all known events in its estimation of the Company's annual pre-tax income and AETR.

15. DISPOSITION

On August 24, 2016 the Company sold Heartland, its crop Managing General Agent to CGB for \$49,000 thousand. The sale agreement includes a provision for a long term strategic reinsurance relationship with CGB. The Company has recognized an after-tax loss on the sale of Heartland of \$12,942 thousand. Under the terms of the reinsurance arrangement, there will not be a material fluctuation in the level of crop business, although it will be reflected as reinsurance rather than insurance.

16. SUBSEQUENT EVENTS

On April 13, 2017, the Company entered into six collateralized reinsurance agreements with Kilimanjaro Re to provide the Company with annual aggregate catastrophe reinsurance coverage. Kilimanjaro has financed these coverages by issuing \$950,000 thousand and \$300,000 thousand of catastrophe bonds to unrelated, external investors. See also Footnote 8, Collateralized Reinsurance and Trust Agreements.

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

Industry Conditions.

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

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

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

Rates tend to fluctuate by specific region and products, particularly areas recently impacted by large catastrophic events. Although there were flooding and wind storm events and earthquakes in parts of the world, the overall 2013, 2014 and 2015 catastrophe losses for the industry were considerably lower than average. During 2016, there was an increase in catastrophes: the Fort McMurray Canadian wildfire, Hurricane Matthew which affected a large area of the Caribbean and southeastern United States, storms and an earthquake in Ecuador. There are industry reports that the catastrophe losses for 2016 reached their highest level in four years and the United States experienced the most loss events since 1980 and the highest total losses since 2012. While the future impact on market conditions from these catastrophes cannot be determined at this time, it is unlikely to have a significant impact on the overall markets, but may impact loss affected areas.

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:

(Dollars in millions)	Three Months Ended March 31,		Percentage Increase/ (Decrease)
	2017	2016	
Gross written premiums	\$ 1,252.4	\$ 1,129.9	10.8%
Net written premiums	448.8	464.1	-3.3%
REVENUES:			
Premiums earned	\$ 471.1	\$ 481.9	-2.3%
Net investment income	60.8	58.4	4.1%
Net realized capital gains (losses)	117.8	(66.4)	NM
Other income (expense)	9.9	13.1	-24.8%
Total revenues	659.5	487.1	35.4%
CLAIMS AND EXPENSES:			
Incurred losses and loss adjustment expenses	289.7	296.1	-2.1%
Commission, brokerage, taxes and fees	49.5	68.8	-28.1%
Other underwriting expenses	59.9	59.2	1.1%
Corporate expense	3.6	2.3	54.0%
Interest, fee and bond issue cost amortization expense	8.9	8.9	0.0%
Total claims and expenses	411.5	435.3	-5.5%
INCOME (LOSS) BEFORE TAXES	248.0	51.8	NM
Income tax expense (benefit)	76.9	12.9	NM
NET INCOME (LOSS)	\$ 171.0	\$ 38.9	NM
RATIOS:			
			Point Change
Loss ratio	61.5%	61.4%	0.1
Commission and brokerage ratio	10.5%	14.3%	(3.8)
Other underwriting expense ratio	12.7%	12.3%	0.4
Combined ratio	84.7%	88.0%	(3.3)
(Dollars in millions)	At March 31,	At December 31,	Percentage Increase/ (Decrease)
	2017	2016	
Balance sheet data:			
Total investments and cash	\$ 10,128.1	\$ 9,842.7	2.9%
Total assets	17,587.8	17,088.7	2.9%
Loss and loss adjustment expense reserves	8,369.2	8,331.3	0.5%
Total debt	633.2	633.2	0.0%
Total liabilities	12,139.6	11,823.2	2.7%
Stockholder's equity	5,448.2	5,265.6	3.5%

(Some amounts may not reconcile due to rounding)

(NM, not meaningful)

Revenues.

Premiums. Gross written premiums increased by 10.8% to \$1,252.4 million for the three months ended March 31, 2017, compared to \$1,129.9 million for the three months ended March 31, 2016, reflecting, a \$82.3 million, or 10.6%, increase in our reinsurance business and a \$40.1 million, or 11.3%, increase in our insurance business. The increase in reinsurance premiums was mainly due to the new crop reinsurance transactions and increases in treaty casualty and financial lines of business. The rise in insurance premiums was primarily due to increases in most lines of business, as we have focused on expanding the insurance operations. Net written premiums decreased by 3.3% to \$448.8 million for the three months ended March 31, 2017, compared to \$464.1 million for the three months ended March 31, 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 mainly related to affiliated quota share contracts. Premiums earned decreased by 2.3% to \$471.1 million for the three months ended March 31, 2017, compared to \$481.9 million for the three months ended March 31, 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.

Net Investment Income. Net investment income increased 4.1% to \$60.8 million for the three months ended March 31, 2017 compared with net investment income of \$58.4 million for the three months ended March 31, 2016. Net pre-tax investment income as a percentage of average invested assets was 2.5% for the three months ended March 31, 2017 and 2016. The increase in income and yield was primarily the result of higher income from other invested assets, including lower year over year losses from our limited partnerships, and higher income from our fixed income portfolio, partially offset by lower dividends from equity securities.

Net Realized Capital Gains (Losses). Net realized capital gains were \$117.8 million and net realized capital losses were \$66.4 million for the three months ended March 31, 2017 and 2016, respectively. The net realized capital gains of \$117.8 million were comprised of \$108.1 million of gains from fair value re-measurements on equity securities and other invested assets and \$10.8 million of gains from sales on our fixed maturity and equity securities, partially offset by \$1.1 million of other-than-temporary impairments. The net realized capital losses of \$66.4 for the three months ended March 31, 2016 million were comprised of \$24.8 million of net losses from sales on our fixed maturity and equity securities, \$23.0 million of other-than-temporary impairments and \$18.6 million of losses from fair value re-measurements on fixed maturity and equity securities.

Other Income (Expense). We recorded other income of \$9.9 million and \$13.1 million for the three months ended March 31, 2017 and 2016, respectively. The changes were primarily the result of fluctuations in foreign currency exchange rates for the corresponding periods.

Claims and Expenses.

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

(Dollars in millions)	Three Months Ended March 31,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
<u>2017</u>						
Attritional	\$ 279.0	59.2%	\$ 4.1	0.9%	\$ 283.1	60.1%
Catastrophes	7.2	1.5%	(0.6)	-0.1%	6.6	1.4%
Total segment	<u>\$ 286.2</u>	<u>60.7%</u>	<u>\$ 3.5</u>	<u>0.8%</u>	<u>\$ 289.7</u>	<u>61.5%</u>
<u>2016</u>						
Attritional	\$ 293.4	60.8%	\$ (2.0)	-0.4%	\$ 291.4	60.4%
Catastrophes	5.2	1.1%	(0.5)	-0.1%	4.7	1.0%
Total segment	<u>\$ 298.6</u>	<u>61.9%</u>	<u>\$ (2.5)</u>	<u>-0.5%</u>	<u>\$ 296.1</u>	<u>61.4%</u>
<u>Variance 2017/2016</u>						
Attritional	\$ (14.4)	(1.6) pts	\$ 6.1	1.3 pts	\$ (8.3)	(0.3) pts
Catastrophes	2.0	0.4 pts	(0.1)	- pts	1.9	0.4 pts
Total segment	<u>\$ (12.4)</u>	<u>(1.2) pts</u>	<u>\$ 6.0</u>	<u>1.3 pts</u>	<u>\$ (6.4)</u>	<u>0.1 pts</u>

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased by 2.1% to \$289.7 million for the three months ended March 31, 2017 compared to \$296.1 million for the three months ended March 31, 2016, primarily due to a decrease of \$14.4 million in current years' attritional losses, mainly due to the reduction in earned premiums, partially offset by an increase of \$6.1 million of prior year attritional loss development. The \$4.1 million of unfavorable prior years' attritional loss development for the three months ended March 31, 2017 was mainly related to casualty business in the insurance segment. The current year catastrophe losses of \$7.2 million for the three months ended March 31, 2017 related to Cyclone Debbie in Australia (\$7.2 million). The current year catastrophe losses of \$5.2 million for the three months ended March 31, 2016 primarily related to the Taiwan earthquake (\$5.2 million).

Commission, Brokerage, Taxes and Fees. Commission, brokerage, taxes and fees decreased by 28.1% to \$49.5 million for the three months ended March 31, 2017 compared to \$68.8 million for the three months ended March 31, 2016. This change was primarily 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.

Other Underwriting Expenses. Other underwriting expenses were relatively flat at \$59.9 million and \$59.2 million for the three months ended March 31, 2017 and March 31, 2016, respectively.

Corporate Expenses. Corporate expenses, which are general operating expenses that are not allocated to segments, were \$3.6 million and \$2.3 for the three months ended March 31, 2017 and 2016, respectively. The increase in corporate expenses were primarily due to higher compensation costs.

Interest, Fees and Bond Issue Cost Amortization Expense. Interest, fees and other bond amortization expense remained the same at \$8.9 million for the three months ended March 31, 2017 and 2016.

Income Tax Expense (Benefit). Income tax expense was \$76.9 million and \$12.9 million for the three months ended March 31, 2017 and 2016, respectively. Income tax expense is primarily a function of the geographic location of the Company's pre-tax income and the statutory tax rates in those jurisdictions, as affected by tax-exempt investment income. Variations in the income tax expense generally result from changes in the relative levels of pre-tax income, including the impact of catastrophe losses and net capital gains (losses), among jurisdictions with different tax rates. The increase in income tax expenses for the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was mainly due to realized capital gains for 2017 compared to realized capital losses in 2016.

Net Income (Loss).

Our net income was \$171.0 million and \$38.9 million for the three months ended March 31, 2017 and 2016, respectively. The changes were primarily driven by the financial component fluctuations explained above.

Ratios.

Our combined ratio decreased by 3.3 points to 84.7% for the three months ended March 31, 2017 compared to 88.0% for the three months ended March 31, 2016. The loss ratio component remained relatively flat at 61.5% for the three months ended March 31, 2017 compared to 61.4% for the same period last year. The commission and brokerage ratio component was 10.5% for the three months ended March 31, 2017 and 14.3% for the three months ended March 31, 2016 reflecting change in the mix of business and the impact of affiliated quota share agreements. The other underwriting expense ratio was comparable at 12.7% for the three months ended March 31, 2017 and 12.3% for the same period last year.

Stockholder's Equity.

Stockholders' equity increased by \$182.7 million to \$5,448.2 million at March 31, 2017 from \$5,265.6 million at December 31, 2016, principally as a result of \$171.0 million of net income, \$6.0 million of net unrealized appreciation on investments, net of tax, \$3.6 million of net foreign currency translation adjustments, \$2.0 million of net benefit plan obligation adjustments and \$0.1 million of share-based compensation transactions.

Consolidated Investment Results**Net Investment Income.**

Net investment income increased by 4.1% to \$60.8 million for the three months ended March 31, 2017 compared to \$58.4 million for the three months ended March 31, 2016, primarily due to higher income from other invested assets, including lower year over year losses from our limited partnerships, and higher income from our fixed income portfolios, partially offset by lower dividends on equity securities.

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

	Three Months Ended March 31,	
	2017	2016
(Dollars in millions)		
Fixed maturities	\$ 47.0	\$ 45.3
Equity securities	6.7	9.1
Short-term investments and cash	0.4	0.3
Other invested assets		
Limited partnerships	(0.2)	(2.5)
Dividends from preferred shares of affiliate	7.8	7.8
Other	1.3	(0.9)
Gross investment income before adjustments	62.9	59.1
Funds held interest income (expense)	1.9	2.7
Interest income from Parent	1.1	1.1
Gross investment income	65.9	62.8
Investment expenses	(5.1)	(4.4)
Net investment income	\$ 60.8	\$ 58.4

(Some amounts may not reconcile due to rounding.)

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

	At March 31, 2017	At December 31, 2016
Imbedded pre-tax yield of cash and invested assets at December 31	2.8%	2.9%
Imbedded after-tax yield of cash and invested assets at December 31	1.9%	2.0%

	Three Months Ended March 31, 2017	2016
Annualized pre-tax yield on average cash and invested assets	2.5%	2.5%
Annualized after-tax yield on average cash and invested assets	1.8%	1.8%

Net Realized Capital Gains (Losses).

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

(Dollars in millions)	Three Months Ended March 31,		
	2017	2016	Variance
<u>Gains (losses) from sales:</u>			
Fixed maturity securities, market value			
Gains	\$ 8.0	\$ 1.5	\$ 6.5
Losses	(1.5)	(18.3)	16.8
Total	6.5	(16.9)	23.3
Equity securities, fair value			
Gains	8.0	1.8	6.2
Losses	(3.7)	(9.7)	6.0
Total	4.3	(8.0)	12.2
Total net realized gains (losses) from sales			
Gains	16.0	3.3	12.7
Losses	(5.2)	(28.1)	22.9
Total	10.8	(24.8)	35.6
<u>Other than temporary impairments:</u>	(1.1)	(23.0)	21.9
<u>Gains (losses) from fair value adjustments:</u>			
Fixed maturities, fair value	-	(0.2)	0.2
Equity securities, fair value	37.4	(18.3)	55.7
Other invested assets, fair value	70.7	-	70.7
Total	108.1	(18.6)	126.6
Total net realized gains (losses)	\$ 117.8	\$ (66.4)	\$ 184.2

(Some amounts may not reconcile due to rounding.)

Net realized capital gains were \$117.8 million and net realized capital losses were \$66.4 million for the three months ended March 31, 2017 and 2016, respectively. For the three months ended March 31, 2017, we recorded \$108.1 million of net realized capital gains due to fair value re-measurements on equity securities and other invested assets and \$10.8 million of net realized capital gains from sales of fixed maturity and equity securities, partially offset by \$1.1 million of other-than-temporary impairments. For the three months ended March 31, 2016, we recorded \$24.8 million of net realized capital losses from sales of fixed maturity and equity securities, \$23.0 million of other-than-temporary impairments and \$18.6 million of net realized capital losses due to fair value re-measurements on fixed maturities and equity securities. The fixed maturity and equity sales for the three months ended March 31, 2017 and 2016 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.

(Dollars in millions)	Three Months Ended March 31,			
	2017	2016	Variance	% Change
Gross written premiums	\$ 579.0	\$ 536.7	\$ 42.3	7.9%
Net written premiums	219.1	223.4	(4.3)	-2.0%
Premiums earned	\$ 208.3	\$ 235.2	\$ (26.9)	-11.4%
Incurred losses and LAE	120.4	116.2	4.2	3.7%
Commission and brokerage	40.4	49.7	(9.3)	-18.8%
Other underwriting expenses	14.3	13.5	0.8	5.9%
Underwriting gain (loss)	\$ 33.3	\$ 55.9	\$ (22.6)	-40.5%
Loss ratio	57.8%	49.4%		Point Chg 8.4
Commission and brokerage ratio	19.4%	21.1%		(1.7)
Other underwriting ratio	6.8%	5.7%		1.1
Combined ratio	84.0%	76.2%		7.8

(Some amounts may not reconcile due to rounding.)

Premiums. Gross written premiums increased by 7.9% to \$579.0 million for the three months ended March 31, 2017 from \$536.7 million for the three months ended March 31, 2016, primarily due to increase in the new crop reinsurance business and the increase in treaty casualty and surety business. Net written premiums decreased by 2.0% to \$219.1 million for the three months ended March 31, 2017 compared to \$223.4 million for the three months ended March 31, 2016. The difference between the change in gross written premiums compared to the change in net written premiums is primarily due to a varying utilization of reinsurance primarily related to the affiliated quota share contracts. Premiums earned decreased 11.4% to \$208.3 million for the three months ended March 31, 2017 compared to \$235.2 million for the three

months ended March 31, 2016. The change in premiums earned relative to net written premiums is primarily 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.

	Three Months Ended March 31,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
(Dollars in millions)						
<u>2017</u>						
Attritional	\$ 120.6	57.8%	\$ (0.5)	-0.2%	\$ 120.1	57.6%
Catastrophes	0.4	0.2%	(0.1)	0.0%	0.3	0.2%
Total segment	<u>\$ 121.0</u>	<u>58.0%</u>	<u>\$ (0.6)</u>	<u>-0.2%</u>	<u>\$ 120.4</u>	<u>57.8%</u>
<u>2016</u>						
Attritional	\$ 118.4	50.4%	\$ (2.3)	-1.0%	\$ 116.1	49.4%
Catastrophes	-	0.0%	-	0.0%	-	0.0%
Total segment	<u>\$ 118.4</u>	<u>50.4%</u>	<u>\$ (2.3)</u>	<u>-1.0%</u>	<u>\$ 116.2</u>	<u>49.4%</u>
<u>Variance 2017/2016</u>						
Attritional	\$ 2.2	7.4 pts	\$ 1.8	0.8 pts	\$ 4.0	8.2 pts
Catastrophes	0.4	0.2 pts	(0.1)	- pts	0.3	0.2 pts
Total segment	<u>\$ 2.6</u>	<u>7.6 pts</u>	<u>\$ 1.7</u>	<u>0.8 pts</u>	<u>\$ 4.2</u>	<u>8.4 pts</u>

(Some amounts may not reconcile due to rounding.)

Incurred losses increased by 3.7% to \$120.4 million for the three months ended March 31, 2017 compared to \$116.2 million for the three months ended March 31, 2016, primarily due to an increase of \$2.2 million in current year attritional losses, resulting mainly from the change in the mix of business and impact of the new crop reinsurance contract. The current year catastrophe losses of \$0.4 million for the three months ended March 31, 2017 primarily related to Cyclone Debbie in Australia (\$0.4 million). There were no current year catastrophes for the three months ended March 31, 2016.

Segment Expenses. Commission and brokerage decreased by 18.8% to \$40.4 million for the three months ended March 31, 2017 compared to \$49.7 million for the three months ended March 31, 2016. The decrease was mainly due to the impact of the new crop reinsurance contract, the impact of affiliated quota share contracts and changes in the mix of business. Segment other underwriting expenses increased slightly to \$14.3 million for the three months ended March 31, 2017 from \$13.5 million for the three months ended March 31, 2016. The increase was primarily due to the impact of changes in the mix of business.

International.

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

(Dollars in millions)	Three Months Ended March 31,			
	2017	2016	Variance	% Change
Gross written premiums	\$ 278.6	\$ 238.5	\$ 40.1	16.8%
Net written premiums	103.2	87.7	15.5	17.7%
Premiums earned	\$ 118.2	\$ 113.2	\$ 5.0	4.4%
Incurred losses and LAE	68.4	73.4	(5.0)	-6.8%
Commission and brokerage	23.5	26.1	(2.6)	-9.9%
Other underwriting expenses	8.9	7.8	1.1	13.6%
Underwriting gain (loss)	\$ 17.3	\$ 5.8	\$ 11.5	NM
				Point Chg
Loss ratio	57.9%	64.9%		(7.0)
Commission and brokerage ratio	19.9%	23.1%		(3.2)
Other underwriting ratio	7.5%	6.9%		0.6
Combined ratio	85.3%	94.9%		(9.6)

(NM, not meaningful)

Premiums. Gross written premiums increased by 16.8% to \$278.6 million for the three months ended March 31, 2017 compared to \$238.5 million for the three months ended March 31, 2016, primarily due to increases in Middle East, Latin America, Singapore and Canada business and the positive impact of \$11.6 million from the movement of foreign exchange rates. Net written premiums increased by 17.7% to \$103.2 million for the three months ended March 31, 2017 compared to \$87.7 million for the three months ended March 31, 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 the quota share contracts. Premiums earned increased 4.4% to \$118.2 million for the three months ended March 31, 2017 compared to \$113.2 million for the three months ended March 31, 2016. The change in premiums earned relative to net written premiums is primarily 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.

(Dollars in millions)	Three Months Ended March 31,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2017						
Attritional	\$ 61.1	51.7%	\$ 0.8	0.7%	\$ 61.9	52.4%
Catastrophes	6.8	5.8%	(0.3)	-0.3%	6.5	5.5%
Total segment	\$ 67.9	57.5%	\$ 0.5	0.4%	\$ 68.4	57.9%
2016						
Attritional	\$ 71.4	63.1%	\$ (2.8)	-2.5%	\$ 68.6	60.6%
Catastrophes	5.2	4.6%	(0.4)	-0.3%	4.8	4.3%
Total segment	\$ 76.6	67.7%	\$ (3.2)	-2.8%	\$ 73.4	64.9%
Variance 2017/2016						
Attritional	\$ (10.3)	(11.4) pts	\$ 3.6	3.2 pts	\$ (6.7)	(8.2) pts
Catastrophes	1.6	1.2 pts	0.1	- pts	1.7	1.2 pts
Total segment	\$ (8.7)	(10.2) pts	\$ 3.7	3.2 pts	\$ (5.0)	(7.0) pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased by 6.8% to \$68.4 million for the three months ended March 31, 2017 compared to \$73.4 million for the three months ended March 31, 2016, primarily due to a decrease in current year attritional losses of \$10.3 million, partially offset by more year over year development on prior year attritional losses of \$3.6 million and an increase of \$1.6 million in current year catastrophe losses. The decrease in attritional losses related to the impact of affiliated quota share agreements and changes in the mix of business. The current year catastrophe losses of \$6.8 million for the three months ended March 31, 2017 primarily related to Cyclone Debbie in Australia (\$6.8 million). The \$5.2 million of current year catastrophe losses for the three months ended March 31, 2016 were primarily due to Taiwan earthquake (\$5.2 million).

Segment Expenses. Commission and brokerage decreased 9.9% to \$23.5 million for the three months ended March 31, 2017 compared to \$26.1 million for the three months ended March 31, 2016. The decrease was due to the impact of affiliated quota share agreements and changes in the mix of business. Segment other underwriting expenses increased slightly to \$8.9 million for the three months ended March 31, 2017 from \$7.8 million for the three months ended March 31, 2016, mainly due to the impact of the increase in premiums earned.

Insurance.

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

(Dollars in millions)	Three Months Ended March 31,			
	2017	2016	Variance	% Change
Gross written premiums	\$ 394.9	\$ 354.7	\$ 40.1	11.3%
Net written premiums	126.5	152.9	(26.4)	-17.3%
Premiums earned	\$ 144.6	\$ 133.5	\$ 11.1	8.3%
Incurred losses and LAE	100.9	106.5	(5.6)	-5.3%
Commission and brokerage	(14.4)	(7.0)	(7.4)	105.7%
Other underwriting expenses	36.8	37.9	(1.2)	-3.1%
Underwriting gain (loss)	\$ 21.4	\$ (3.9)	\$ 25.3	NM
				Point Chg
Loss ratio	69.8%	79.8%		(10.0)
Commission and brokerage ratio	-10.0%	-5.3%		(4.7)
Other underwriting ratio	25.4%	28.4%		(3.0)
Combined ratio	85.2%	102.9%		(17.7)
(NM, not meaningful)				

Premiums. Gross written premiums increased by 11.3% to \$394.9 million for the three months ended March 31, 2017 compared to \$354.7 million for the three months ended March 31, 2016. This increase was primarily driven by expansion of various insurance lines of business and an increase in accident and health business. Net written premiums decreased by 17.3% to \$126.5 million for the three months ended March 31, 2017 compared to \$152.9 million for the three months ended March 31, 2016. The difference between the change in gross written premiums compared to the change in net written premiums is primarily due to the marginally more conservative reinsurance position we have taken to support our new business and the impact of affiliated quota share agreements. Premiums earned increased 8.3% to \$144.6 million for the three months ended March 31, 2017 compared to \$133.5 million for the three months ended March 31, 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.

	Three Months Ended March 31,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
(Dollars in millions)						
<u>2017</u>						
Attritional	\$ 97.3	67.3%	\$ 3.7	2.6%	\$ 101.0	69.9%
Catastrophes	-	0.0%	(0.1)	-0.1%	(0.1)	-0.1%
Total segment	<u>\$ 97.3</u>	<u>67.3%</u>	<u>\$ 3.6</u>	<u>2.5%</u>	<u>\$ 100.9</u>	<u>69.8%</u>
<u>2016</u>						
Attritional	\$ 103.6	77.6%	\$ 3.0	2.3%	\$ 106.7	79.9%
Catastrophes	-	0.0%	(0.2)	-0.1%	(0.2)	-0.1%
Total segment	<u>\$ 103.6</u>	<u>77.6%</u>	<u>\$ 2.8</u>	<u>2.2%</u>	<u>\$ 106.5</u>	<u>79.8%</u>
<u>Variance 2017/2016</u>						
Attritional	\$ (6.3)	(10.3) pts	\$ 0.7	0.3 pts	\$ (5.7)	(10.0) pts
Catastrophes	-	- pts	0.1	- pts	0.1	- pts
Total segment	<u>\$ (6.3)</u>	<u>(10.3) pts</u>	<u>\$ 0.8</u>	<u>0.3 pts</u>	<u>\$ (5.6)</u>	<u>(10.0) pts</u>

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased by 5.3% to \$100.9 million for the three months ended March 31, 2017 compared to \$106.5 million for the three months ended March 31, 2016, mainly due to an decrease of \$6.3 million in current year attritional 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. There were no current year catastrophe losses for the three months ended March 31, 2017 and 2016.

Segment Expenses. Commission and brokerage decreased to (\$14.4) million for the three months ended March 31, 2017 compared to (\$7.0) million for the three months ended March 31, 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 decreased slightly to \$36.8 million for the three months ended March 31, 2017 compared to \$37.9 million for the three months ended March 31, 2016.

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 \$10.1 billion investment portfolio, at March 31, 2017, 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 \$774.2 million of mortgage-backed securities in the \$6,206.4 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 \$336.6 million of short-term investments) for the period indicated based on upward and downward parallel and immediate 100 and 200 basis point shifts in interest rates. For legal entities with a U.S. dollar functional currency, this modeling was performed on each security individually. To generate appropriate price estimate on mortgage-backed securities, changes in prepayment expectations under different interest rate environments were taken into account. For legal entities with non-U.S. dollar functional currency, the effective duration of the involved portfolio of securities was used as a proxy for the market value change under the various interest rate change scenarios.

(Dollars in millions)	Impact of Interest Rate Shift in Basis Points				
	At March 31, 2017				
	-200	-100	0	100	200
Total Market/Fair Value	\$ 6,910.7	\$ 6,730.4	\$ 6,543.0	\$ 6,348.9	\$ 6,154.7
Market/Fair Value Change from Base (%)	5.6%	2.9%	0.0%	-3.0%	-5.9%
Change in Unrealized Appreciation					
After-tax from Base (\$)	\$ 239.0	\$ 121.8	\$ -	\$ (126.2)	\$ (252.4)

We had \$8,369.2 million and \$8,331.3 million of gross reserves for losses and LAE as of March 31, 2017 and December 31, 2016, 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 March 31, 2017				
(Dollars in millions)	-20%	-10%	0%	10%	20%
Fair/Market Value of the Equity Portfolio	\$ 682.4	\$ 767.7	\$ 853.0	\$ 938.3	\$ 1,023.6
After-tax Change in Fair/Market Value	(110.9)	(55.4)	-	55.4	110.9

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.

SAFE HARBOR DISCLOSURE

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, our management carried out an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”). Based on their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether

any changes occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

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

ITEM 1A. RISK FACTORS

No material changes.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Index:

<u>Exhibit No.</u>	<u>Description</u>
31.1	Section 302 Certification of Dominic J. Addesso
31.2	Section 302 Certification of Craig Howie
32.1	Section 906 Certification of Dominic J. Addesso and Craig Howie
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Labels Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

Everest Reinsurance Holdings, Inc.

Signatures

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

Everest Reinsurance Holdings, Inc.
(Registrant)

/S/ CRAIG HOWIE

Craig Howie
Executive Vice President and
Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

Dated: May 15, 2017