EVEREST INTERNATIONAL REINSURANCE, LTD.

(a wholly owned subsidiary of Everest Re Group, Ltd.)

GAAP Financial Statements

For the Years Ended December 31, 2018 and 2017

Report of Independent Auditors

To the Board of Directors of Everest International Reinsurance, Ltd.:

We have audited the accompanying financial statements of Everest International Reinsurance, Ltd., which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations and comprehensive income (loss), of changes in shareholder's equity, and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Everest International Reinsurance, Ltd. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11 to the financial statements, the Company has entered into significant transactions with related parties. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP, 300 Madison Avenue New York, NY 10017
T: 646-471-3000, F: 813-286-6000, www.pwc.com

Other Matter

Accounting principles generally accepted in the United States of America require that the information about incurred and paid claims development for the years ended December 31, 2012 to December 31, 2017 on pages 16 and 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, New York
April 29, 2019

EVEREST INTERNATIONAL REINSURANCE, LTD.
BALANCE SHEETS

(Dollars in thousands)	December 31, 2018	December 31, 2017
ASSETS:		
Fixed maturities - available for sale, at market value	$ 1,158,626	$ 1,168,821
(amortized cost: 2018, $1,196,928; 2017, $1,179,717)		
Other invested assets (cost: 2018, $7,710; 2017, $12,569)	7,710	12,569
Other invested assets, at fair value	2,116,621	2,150,641
Short-term investments (cost: 2018, $0; 2017, $5,342)	-	5,342
Cash	48,905	74,031
Total investments and cash	3,331,862	3,411,404
Accrued investment income	9,059	7,648
Premiums receivable	156,459	130,595
Reinsurance receivables	31,542	34,605
Funds held by reinsureds	30,350	27,898
Deferred acquisition costs	38,245	28,422
Prepaid reinsurance premiums	2,947	2,947
Other assets	4,163	4,461
TOTAL ASSETS	$ 3,604,627	$ 3,647,979
LIABILITIES:		
Reserve for losses and loss adjustment expenses	$ 741,068	$ 649,160
Unearned premium reserve	177,899	137,340
Funds held under reinsurance treaties	225	291
Other liabilities	8,734	13,894
Total liabilities	927,926	800,685
(Commitment and Contingencies Note 10)		
SHAREHOLDER'S EQUITY:		
Common shares, par value: $1.00; 1,564,000 issued and outstanding (2018 and 2017)	1,564	1,564
Preferred shares, par value: $1,000,000; 10,000 shares authorized, 2,023.214 shares issued and outstanding (2018 and 2017)	2,023,214	2,023,214
Additional paid-in capital	229,851	229,851
Accumulated other comprehensive income (loss)	(38,300)	(10,895)
Retained earnings	460,372	603,560
Total shareholder's equity	2,676,701	2,847,294
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 3,604,627	$ 3,647,979

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

EVEREST INTERNATIONAL REINSURANCE, LTD.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)	Years Ended December 31, 2018	2017
REVENUES:		
Premiums earned	$ 356,498	$ 279,297
Net investment income	81,160	73,160
Net realized capital gains (losses):		
Other-than-temporary impairments on fixed maturity securities	-	-
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-
Other net realized capital gains (losses)	(43,731)	33,791
Total net realized capital gains (losses)	(43,731)	33,791
Other income (expense)	13,992	(31,520)
Total revenues	407,919	354,728
CLAIMS AND EXPENSES:		
Incurred losses and loss adjustment expenses	238,426	202,788
Commission, brokerage, taxes and fees	79,787	65,584
Other underwriting expenses	1,513	1,864
Total claims and expenses	319,726	270,236
INCOME (LOSS) BEFORE TAXES	88,193	84,492
Income tax expense (benefit)	21	-
NET INCOME (LOSS)	$ 88,172	$ 84,492
Other comprehensive income (loss), net of tax:		
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	(37,116)	10,996
Less: reclassification adjustment for realized losses (gains) included in net income (loss)	9,711	13,448
Total URA(D) on securities arising during the period	(27,405)	24,444
Total other comprehensive income (loss), net of tax	(27,405)	24,444
COMPREHENSIVE INCOME (LOSS)	$ 60,767	$ 108,936

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

EVEREST INTERNATIONAL REINSURANCE, LTD.
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

(Dollars in thousands, except share amounts)	Years Ended December 31, 2018	2017
COMMON SHARES (shares outstanding):		
Balance, beginning of period	1,564,000	1,564,000
Issued during the period, net	-	-
Balance, end of period	1,564,000	1,564,000
COMMON SHARES (par value):		
Balance, beginning of period	$ 1,564	$ 1,564
Issued during the period, net	-	-
Balance, end of period	1,564	1,564
PREFERRED SHARES (par value);		
Balance, beginning of period	2,023,214	2,023,214
Issued during the period, net	-	-
Balance, end of period	2,023,214	2,023,214
ADDITIONAL PAID-IN CAPITAL:		
Balance, beginning of period	229,851	229,851
Net increase (decrease) during the period	-	-
Balance, end of period	229,851	229,851
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):		
Balance, beginning of period	(10,895)	(35,339)
Net increase (decrease) during the period	(27,405)	24,444
Balance, end of period	(38,300)	(10,895)
RETAINED EARNINGS:		
Balance, beginning of period	603,560	550,428
Net income (loss)	88,172	84,492
Dividends paid to parent	(200,000)	-
Dividends paid to preferred stockholders	(31,360)	(31,360)
Balance, end of period	460,372	603,560
TOTAL SHAREHOLDER'S EQUITY, END OF PERIOD	$ 2,676,701	$ 2,847,294

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

EVEREST INTERNATIONAL REINSURANCE, LTD.
STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Years Ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 88,172	$ 84,492
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease (increase) in premiums receivable	(25,566)	(44,149)
Decrease (increase) in funds held by reinsureds, net	(2,519)	(6,539)
Decrease (increase) in reinsurance receivables	3,063	(4,152)
Increase (decrease) in reserve for losses and loss adjustment expenses	91,908	154,192
Increase (decrease) in unearned premiums	40,558	49,281
Increase (decrease) in losses in course of payment	(479)	322
Change in equity adjustments in limited partnerships	1,609	1,583
Change in other assets and liabilities, net	(11,777)	(6,718)
Amortization of bond premium (accrual of bond discount)	4,461	3,890
Net realized capital (gains) losses	43,731	(33,791)
Net cash provided by (used in) operating activities	233,161	198,411
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from fixed maturities matured/called - available for sale, at market value	108,262	98,988
Proceeds from fixed maturities sold - available for sale, at market value	353,251	27,262
Distributions from other invested assets	458,458	205,672
Cost of fixed maturities acquired - available for sale, at market value	(492,896)	(264,281)
Cost of other invested assets acquired	(455,208)	(192,412)
Net change in short-term investments	5,342	(5,332)
Net change in securities transactions	(4,136)	4,818
Net cash provided by (used in) investing activities	(26,927)	(125,285)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to parent	(200,000)	-
Dividends paid to preferred shareholders	(31,360)	(31,360)
Net cash provided by (used in) financing activities	(231,360)	(31,360)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	-	-
Net increase (decrease) in cash	(25,126)	41,766
Cash, beginning of period	74,031	32,265
Cash, end of period	$ 48,905	$ 74,031

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

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Business and Basis of Presentation.

Everest International Reinsurance, Ltd. (the "Company" or "Everest International"), a Bermuda insurance company and direct wholly owned subsidiary of Everest Re Group, Ltd. ("Group") is registered as a Class 4 general insurer. The Company's operations include the reinsuring of property and casualty products. Currently, this business is the result of quota share reinsurance agreements with the following affiliates: (1) Everest Reinsurance Company ("Everest Re"), (2) Everest Reinsurance (Bermuda), Ltd. ("Bermuda Re"), (3) Everest Reinsurance Company (Ireland) dac ("Ireland Re") and (4) Everest Insurance (Ireland) dac ("Ireland Insurance).

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All amounts are reported in U.S. dollars.

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

B. Investments.

Fixed maturity security investments available for sale, at market value, reflect unrealized appreciation and depreciation, as a result of temporary changes in market value during the period, in shareholder's equity, in "accumulated other comprehensive income (loss)" in the balance sheets. The Company records changes in fair value for its fixed maturities available for sale, at market value through shareholders' equity, net of taxes in accumulated other comprehensive income (loss) since cash flows from these investments will be primarily used to settle its reserve for losses and loss adjustment expense liabilities. The Company anticipates holding these investments for an extended period as the cash flow from interest and maturities will fund the projected payout of these liabilities. Interest income on all fixed maturities are included as part of net investment income in the comprehensive income (loss). Unrealized losses on fixed maturities, which are deemed other-than-temporary and related to the credit quality of a security, are charged to net income (loss) as net realized capital losses. Other invested assets carried at fair value reflect fair value re-measurements as net realized capital gains and losses in the consolidated statements of operations and comprehensive income (loss). Short-term investments are stated at cost, which approximates market value. Realized gains or losses on sales of investments are determined on the basis of identified cost. For non-publicly traded securities, market prices are determined through the use of pricing models that evaluate securities relative to the U.S. Treasury yield curve, taking into account the issue type, credit quality, and cash flow characteristics of each security. For publicly traded securities, market value is based on quoted market prices or valuation models that use observable market inputs. When a sector of the financial markets is inactive or illiquid, the Company may use its own assumptions about future cash flows and risk-adjusted discount rates to determine fair value. Retrospective adjustments are employed to recalculate the values of asset-backed securities. Each acquisition lot is reviewed to recalculate the effective yield. The recalculated effective yield is used to derive a book value as if the new yield were applied at the time of acquisition. Outstanding principal factors from the time of acquisition to the adjustment date are used to calculate the prepayment history for all applicable securities. Conditional prepayment rates, computed with life to date factor histories and weighted average maturities, are used to effect the calculation of projected and prepayments for pass-through security types. Other invested assets include a limited partnership investment, which is accounted for under the equity method of accounting and recorded on a quarterly lag and a private placement liquidity sweep facility. Cash contributions to and cash distributions from the sweep facility are reported gross in cash flows from investing activities in the statements of cash flows. The other invested assets, at fair value, represent shares of Group stock held by the company.

C. Deferred Acquisition Costs.

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

	Years Ended December 31,	
(Dollars in thousands)	2018	2017
Deferred acquisition costs	$ 79,787	$ 65,584

D. Reserve for Losses and Loss Adjustment Expenses.

The reserve for losses and loss adjustment expenses ("LAE") is based on reports received from ceding companies. A provision is included for losses and LAE incurred but not reported ("IBNR") based on past experience. The reserves are reviewed periodically and any changes in estimates are reflected in earnings in the period the adjustment is made. The Company's loss and LAE reserves represent management's best estimate of the ultimate liability. Loss and LAE reserves are presented gross of reinsurance receivables and incurred losses and LAE are presented net of reinsurance.

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

E. Premium Revenues.

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

F. Prepaid Reinsurance Premiums.

Prepaid reinsurance premiums represent unearned premium reserves ceded to other reinsurers.

G. Income Taxes.

Under the current Bermuda law, no income or capital gains taxes are imposed on the Company. The Minister of Finance of Bermuda has also assured the Company that, pursuant to the Exempted Undertakings Tax Protection Amendment Act of 2011, they will be exempt until 2035 from any such taxes imposed in the future.

H. Foreign Currency.

Gains and losses resulting from foreign currency transactions, other than debt securities available for sale, are recorded through the statements of operations and comprehensive income (loss) in other income (expense). Gains and losses resulting from changes in the foreign currency exchange rates on debt securities, available for sale at market value, are recorded in the balance sheets in accumulated other comprehensive income (loss) as unrealized appreciation (depreciation) and any losses which are deemed other-than-temporary are charged to net income (loss) as net realized capital loss.

I. Application of Recently Issued Accounting Standard Changes.

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

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

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

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

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, 2016 and interim reporting periods beginning after December 15, 2017. The Company implemented this guidance effective in the fourth quarter of 2017.

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

2. 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 December 31, 2018				
(Dollars in thousands)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	OTTI in AOCI (a)
Fixed maturity securities					
U.S. Treasury securities and obligations of					
U.S. government agencies and corporations	$ 51,999	$ 6	$ (630)	$ 51,375	$ -
U.S. corporate securities	489,360	1,937	(9,677)	481,620	4
Asset-backed securities	32,543	35	(280)	32,298	-
Mortgage-backed securities					
Commercial	27,356	112	(397)	27,071	-
Agency residential	199,591	571	(3,830)	196,332	-
Non-agency residential	18	-	-	18	-
Foreign government securities	68,123	942	(4,447)	64,618	-
Foreign corporate securities	327,938	652	(23,296)	305,294	-
Total fixed maturity securities	$ 1,196,928	$ 4,255	$ (42,557)	$ 1,158,626	$ 4

	At December 31, 2017				
(Dollars in thousands)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	OTTI in AOCI (a)
Fixed maturity securities					
U.S. Treasury securities and obligations of					
U.S. government agencies and corporations	$ 298,988	$ -	$ (2,102)	$ 296,886	$ -
U.S. corporate securities	342,576	3,714	(2,173)	344,117	20
Asset-backed securities	66,287	16	(262)	66,041	-
Mortgage-backed securities					
Commercial	20,867	6	(211)	20,662	-
Agency residential	202,534	693	(2,695)	200,532	-
Non-agency residential	182	2	-	184	-
Foreign government securities	67,365	2,644	(4,153)	65,856	-
Foreign corporate securities	180,918	2,851	(9,226)	174,543	-
Total fixed maturity securities	$ 1,179,717	$ 9,926	$ (20,822)	$ 1,168,821	$ 20

(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 table by contractual maturity. Mortgage-backed securities are generally more likely to be prepaid than other fixed maturity securities. As the stated maturity of such securities may not be indicative of actual maturities, the totals for mortgage-backed and asset-backed securities are shown separately.

	At December 31, 2018		At December 31, 2017	
(Dollars in thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value
Fixed maturity securities – available for sale				
Due in one year or less	$ 40,691	$ 35,276	$ 40,403	$ 37,385
Due after one year through five years	644,121	622,190	717,788	706,919
Due after five years through ten years	213,888	206,931	111,409	113,205
Due after ten years	38,720	38,510	20,247	23,893
Asset-backed securities	32,543	32,298	66,287	66,041
Mortgage-backed securities				
Commercial	27,356	27,071	20,867	20,662
Agency residential	199,591	196,332	202,534	200,532
Non-agency residential	18	18	182	184
Total fixed maturity securities	$ 1,196,928	$ 1,158,626	$ 1,179,717	$ 1,168,821

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

(Dollars in thousands)	Years Ended December 31, 2018	2017
Increase (decrease) during the period between the market value and cost		
of investments carried at market value:		
Fixed maturity securities	$ (27,389)	$ 24,457
Fixed maturity securities, other-than-temporary impairment	(16)	(13)
Change in unrealized appreciation (depreciation),		
included in shareholders' equity	$ (27,405)	$ 24,444

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 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 balance sheets.

The Company's assessments are based on the issuers' current and expected future financial position, timeliness with respect to interest and/or principal payments, speed of repayments and any applicable credit enhancements or breakeven constant default rates on mortgage-backed and asset-backed securities, as well as relevant information provided by rating agencies, investment advisors and analysts.

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

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

	Duration of Unrealized Loss at December 31, 2018 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of						
U.S. government agencies and corporations	$ -	$ -	$ 39,526	$ (630)	$ 39,526	$ (630)
U.S. corporate securities	235,634	(4,039)	149,626	(5,638)	385,260	(9,677)
Asset-backed securities	10,035	(53)	17,648	(227)	27,683	(280)
Mortgage-backed securities						
Commercial	10,746	(74)	7,514	(323)	18,260	(397)
Agency residential	19,334	(142)	129,258	(3,688)	148,592	(3,830)
Non-agency residential	5	-	-	-	5	-
Foreign government securities	42,865	(1,356)	12,389	(3,091)	55,254	(4,447)
Foreign corporate securities	201,483	(9,952)	72,801	(13,344)	274,284	(23,296)
Total fixed maturity securities	$ 520,102	$ (15,616)	$ 428,762	$ (26,941)	$ 948,864	$ (42,557)

	Duration of Unrealized Loss at December 31, 2018 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities						
Due in one year or less	$ 2,627	$ (72)	$ 32,134	$ (5,356)	$ 34,761	$ (5,428)
Due in one year through five years	291,393	(6,548)	228,778	(16,367)	520,171	(22,915)
Due in five years through ten years	164,026	(6,815)	13,430	(980)	177,456	(7,795)
Due after ten years	21,936	(1,912)	-	-	21,936	(1,912)
Asset-backed securities	10,035	(53)	17,648	(227)	27,683	(280)
Mortgage-backed securities	30,085	(216)	136,772	(4,011)	166,857	(4,227)
Total fixed maturity securities	$ 520,102	$ (15,616)	$ 428,762	$ (26,941)	$ 948,864	$ (42,557)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at December 31, 2018 were $948,864 thousand and $42,557 thousand, respectively. The market value of securities for the single issuer (the UK government) whose securities comprised the largest unrealized loss position at December 31, 2018, did not exceed 4.2% 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 $15,616 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 foreign corporate and government securities and domestic corporate securities. All of these unrealized losses were related to securities that were rated investment grade by at least one nationally recognized statistical rating agency. The $26,941 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to foreign corporate securities, foreign government securities, domestic corporate securities and agency residential mortgage-backed securities. Of these unrealized losses, $25,945 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating agency. There was no gross unrealized depreciation for mortgage-backed securities related to sub-prime and alt-A loans. In all instances, there were no projected cash flow shortfalls to recover the full book value of the investments and the related interest obligations. The mortgage-backed securities still have excess credit coverage and are current on interest and principal payments.

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

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

	Duration of Unrealized Loss at December 31, 2017 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of						
U.S. government agencies and corporations	$ 296,886	$ (2,102)	$ -	$ -	$ 296,886	$ (2,102)
U.S. corporate securities	141,770	(758)	43,451	(1,415)	185,221	(2,173)
Asset-backed securities	40,978	(173)	17,704	(89)	58,682	(262)
Mortgage-backed securities						
Commercial	3,391	(19)	6,241	(192)	9,632	(211)
Agency residential	81,625	(477)	101,958	(2,218)	183,583	(2,695)
Non-agency residential	-	-	12	-	12	-
Foreign government securities	629	-	26,560	(4,153)	27,189	(4,153)
Foreign corporate securities	13,971	(48)	77,485	(9,178)	91,456	(9,226)
Total fixed maturity securities	$ 579,250	$ (3,577)	$ 273,411	$ (17,245)	$ 852,661	$ (20,822)

	Duration of Unrealized Loss at December 31, 2017 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities						
Due in one year or less	$ 4,658	$ (3)	$ 23,481	$ (3,132)	$ 28,139	$ (3,135)
Due in one year through five years	414,068	(2,687)	116,802	(11,177)	530,870	(13,864)
Due in five years through ten years	34,530	(218)	5,290	(388)	39,820	(606)
Due after ten years	-	-	1,923	(49)	1,923	(49)
Asset-backed securities	40,978	(173)	17,704	(89)	58,682	(262)
Mortgage-backed securities	85,016	(496)	108,211	(2,410)	193,227	(2,906)
Total fixed maturity securities	$ 579,250	$ (3,577)	$ 273,411	$ (17,245)	$ 852,661	$ (20,822)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at December 31, 2017 were $852,661 thousand and $20,822 thousand, respectively. The market value of securities for the single issuer (the United States government) whose securities comprised the largest unrealized loss position at December 31, 2017, did not exceed 25.4% of the overall market value of the Company's fixed maturity securities. The market value of the securities for the issuer with the second largest unrealized loss comprised less than 1.1% 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 $3,577 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 U.S. government agencies and corporations, domestic corporate securities and agency residential mortgage-backed securities. All of these unrealized losses were related to securities that were rated investment grade by at least one nationally recognized statistical rating agency. The $17,245 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to foreign corporate securities, foreign government securities, agency residential mortgage-backed securities and domestic corporate securities. Of these unrealized losses, $16,625 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's other invested assets at December 31, 2018 and 2017 included $5,684 thousand and $7,897 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.

The Company's other invested assets, at fair value, as of December 31, 2018 and 2017 were comprised of 9,719,971 shares of Group Stock. The fair value of the Group Stock was $2,116,621 thousand and $2,150,641 thousand at December 31, 2018 and 2017, respectively.

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

	Years Ended December 31,	
(Dollars in thousands)	2018	2017
Fixed maturity securities	$ 31,770	$ 26,056
Short-term investments and cash	56	(15)
Other invested assets		
Dividends from Parent	51,516	49,085
Limited partnership	(1,609)	(1,583)
Other	204	278
Gross investment income	81,937	73,821
Investment expenses	(777)	(661)
Net investment income	$ 81,160	$ 73,160

The Company records results from its limited partnership investment on the equity method of accounting with changes in value reported through net investment income. Due to the timing of receiving financial information from this partnership, the results are generally reported on a quarter lag. If the Company determines there has been a significant decline in value of the 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 $102 thousand in a limited partnership at December 31, 2018. The commitment will be funded when called in accordance with the partnership agreement, which had an investment period that expired in 2012, for new investments. Following the investment period, these capital commitments may be called by the partnerships for follow-on investments, management fees and operating expenses.

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

	Years Ended December 31,	
(Dollars in thousands)	2018	2017
Fixed maturity securities, market value:		
Gains (losses) from dispositions	$ (9,711)	$ (13,448)
Other invested assets; fair value:		
Gains (losses) from fair value adjustments	(34,020)	47,239
Total net realized capital gains (losses)	$ (43,731)	$ 33,791

The Company recorded as net realized capital gains (losses) in the statement of operations and comprehensive income (loss) for 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 maturities and sales of fixed maturity securities, are presented in the table below for the periods indicated:

	Years Ended December 31,	
(Dollars in thousands)	2018	2017
Proceeds from maturities of fixed maturity securities	$ 108,262	$ 98,988
Gross losses from maturities (foreign exchange)	(9,828)	(13,833)
Proceeds from sales of fixed maturity securities	$ 353,251	$ 27,262
Gross gains from sales	117	385

3. RESERVE FOR LOSSES AND LAE

Reserves for losses and LAE.

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

	At December 31,	
(Dollars in thousands)	2018	2017
Gross reserves at January 1	$ 649,160	$ 494,968
Less reinsurance recoverables	(34,533)	(30,407)
Net reserves at January 1	614,627	464,561
Incurred related to:		
Current year	256,270	207,202
Prior years	(17,844)	(4,414)
Total incurred losses and LAE	238,426	202,788
Paid related to:		
Current year	26,936	20,646
Prior years	92,734	77,966
Total paid losses and LAE	119,670	98,612
Foreign exchange/translation adjustment	(23,764)	45,890
Net reserves at December 31	709,619	614,627
Plus reinsurance recoverables	31,449	34,533
Gross reserves at December 31	$ 741,068	$ 649,160

Prior years' reserves decreased by $17,844 thousand and $4,414 thousand for the years ended December 31, 2018 and 2017, respectively. The changes in both 2018 and 2017 were primarily due to loss development under the affiliated quota share agreements.

The following is information about incurred and paid claims development as of December 31, 2018, net of reinsurance, as well as cumulative claim frequency and the total of incurred but not reported liabilities (IBNR) plus expected development on reported claims included within the net incurred claims amounts. The Company's loss activity has been disaggregated into casualty and property business. The casualty and property segregation results in groups that have homogeneous loss development characteristics and are large enough to represent credible trends. Generally, casualty claims take longer to be reported and settled, resulting in longer payout patterns and increased volatility. Property claims on the other hand, tend to be reported and settled quicker and therefore tend to exhibit less volatility. The property business is more exposed to catastrophe losses, which can result in year over year fluctuations in incurred claims depending on the frequency and severity of catastrophes claims in any one accident year.

The information about incurred and paid claims development for the years ended December 31, 2012 to December 31, 2017 is presented as supplementary information.

These tables present seven years of incurred and paid claims development as it is impracticable to retrospectively create the tables for ten years. For the years prior to 2012, the total of IBNR plus expected development on reported claims was not prepared on an accident year basis. The Company calculated these

IBNR amounts in the aggregate as of prior year end points in time. As a result of not being able to present the information prior to 2012, prospectively an additional year will be added to the tables each reporting year until a ten year table is presented.

The Cumulative Number of Reported Claims is not shown as it is impracticable to provide the information. The loss activity includes pro rata contracts for which ceding companies provide only summary information via a bordereau. This summary information does not include the number of reported claims underlying the paid and reported losses. Therefore, it is not possible to provide this information.

The following tables present the ultimate loss and ALAE and the paid loss and ALAE, net of reinsurance for casualty and property, as well as the average annual percentage payout of incurred claims by age, net of reinsurance for each of our disclosed lines of business.

Casualty Business

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of reinsurance Years Ended December 31,							Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
Accident Year	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018		
(Dollars in thousands)									
2012	$ 64,941	$ 63,483	$ 63,168	$ 61,214	$ 62,988	$ 67,243	$ 66,755	14,496	N/A
2013		60,622	62,708	61,159	64,294	67,345	65,152	17,086	N/A
2014			56,607	62,892	68,193	70,534	69,375	24,099	N/A
2015				95,696	92,525	90,310	89,343	27,580	N/A
2016					94,827	99,624	99,763	36,034	N/A
2017						117,636	130,752	83,249	N/A
2018							164,896	140,169	N/A
							$ 686,036		

(Some amounts may not reconcile due to rounding.)

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance Years Ended December 31,						
Accident Year	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018
(Dollars in thousands)							
2012	$ 4,843	$ 10,535	$ 17,027	$ 21,031	$ 26,293	$ 32,181	$ 36,442
2013		6,348	11,824	15,263	20,526	25,919	30,962
2014			4,396	7,298	12,121	17,982	24,017
2015				5,461	25,226	33,008	40,448
2016					20,978	31,027	39,331
2017						10,537	25,006
2018							11,456
							$ 207,662
All outstanding liabilities prior to 2012, net of reinsurance							97,109
Liabilities for claims and claim adjustment expenses, net of reinsurance							$ 575,484

(Some amounts may not reconcile due to rounding.)

	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (unaudited)						
Years	1	2	3	4	5	6	7
Casualty	9.3%	11.2%	7.9%	7.8%	8.3%	8.3%	6.4%

Property Business

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of reinsurance Years Ended December 31,							Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
Accident Year	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018		
(Dollars in thousands)									
2012	$ 51,119	$ 44,019	$ 38,698	$ 36,746	$ 35,934	$ 35,824	$ 35,485	36	N/A
2013		56,404	43,485	33,646	31,902	30,805	30,652	122	N/A
2014			44,731	40,082	37,744	35,784	34,970	388	N/A
2015				46,125	43,524	39,469	40,205	2,065	N/A
2016					52,623	45,754	45,719	5,081	N/A
2017						79,153	67,882	21,055	N/A
2018							82,360	40,650	N/A
							$ 337,273		

(Some amounts may not reconcile due to rounding.)

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance Years Ended December 31,						
Accident Year	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018
(Dollars in thousands)							
2012	$ 12,410	$ 24,941	$ 29,870	$ 32,195	$ 33,296	$ 33,883	$ 34,350
2013		10,668	23,222	26,960	28,849	29,522	29,730
2014			11,472	25,767	30,786	32,779	33,556
2015				11,084	25,120	30,782	35,037
2016					8,125	24,360	33,705
2017						10,074	30,242
2018							15,480
							$ 212,099
All outstanding liabilities prior to 2012, net of reinsurance							8,961
Liabilities for claims and claim adjustment expenses, net of reinsurance							$ 134,135

(Some amounts may not reconcile due to rounding.)

	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (unaudited)						
Years	1	2	3	4	5	6	7
Property	23.5%	35.2%	15.3%	7.4%	2.5%	1.2%	1.3%

Reconciliation of the Disclosure of Incurred and Paid Claims Development to the Liability for Unpaid Claims and Claim Adjustment Expenses

The reconciliation of the net incurred and paid claims development tables to the liability for claims and claim adjustment expenses in the consolidated statement of financial position is as follows.

(Dollars in thousands)	December 31, 2018
Net outstanding liabilities	
Casualty	$ 575,484
Property	134,135
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	709,619
Reinsurance recoverable on unpaid claims	
Casualty	30,952
Property	497
Total reinsurance recoverable on unpaid claims	31,449
Insurance lines other than short-duration	-
Unallocated claims adjustment expenses	-
Other	-
	-
Total gross liability for unpaid claims and claim adjustment expense	$ 741,068

(Some amounts may not reconcile due to rounding.)

Reserving Methodology

The Company maintains reserves equal to our estimated ultimate liability for losses and loss adjustment expense (LAE) for reported and unreported claims. Because reserves are based on estimates of ultimate losses and LAE by underwriting or accident year, the Company uses a variety of statistical and actuarial techniques to monitor reserve adequacy over time, evaluate new information as it becomes known, and adjust reserves whenever an adjustment appears warranted. The Company considers many factors when setting reserves including: (1) exposure base and projected ultimate premium; (2) expected loss ratios by product and class of business, which are developed collaboratively by underwriters and actuaries; (3) actuarial methodologies which analyze loss reporting and payment experience, reports from ceding companies and historical trends, such as reserving patterns, loss payments, and product mix; (4) current legal interpretations of coverage and liability; and (5) economic conditions. Insurance and reinsurance loss and LAE reserves represent the Company's best estimate of its ultimate liability. Actual loss and LAE ultimately paid may deviate, perhaps substantially, from such reserves. Net income (gain or loss) will be impacted in a period in which the change in estimated ultimate loss and LAE is recorded.

Reserving for reinsurance requires evaluation of loss information received from ceding companies. Ceding companies report losses in many forms depending on the type of contract and the agreed or contractual reporting requirements. Generally, pro rata contracts require the submission of a monthly/quarterly account, which includes premium and loss activity for the period with corresponding reserves as established by the ceding company. This information is recorded into the Company's records. For certain pro rata contracts, the Company may require a detailed loss report for claims that exceed a certain dollar threshold or relate to a particular type of loss. Excess of loss and facultative contracts generally require individual loss reporting with precautionary notices provided when a loss reaches a significant percentage of the attachment point of the contract or when certain causes of loss or types of injury occur. Experienced claims staff handles individual loss reports and supporting claim information. Based on evaluation of a claim, the Company may establish additional case reserves in addition to the case reserves reported by the ceding company. To ensure ceding companies are submitting required and accurate data, the Company performs various reviews of ceding companies, particularly larger ceding companies.

The company segments reserves into exposure groupings for actuarial analysis. The Company assigns business to exposure groupings so that the underlying exposures have reasonably homogeneous loss development characteristics and are large enough to facilitate credible estimation of ultimate losses. The

Company periodically reviews its exposure groupings and may change groupings over time as business changes. One of the key selection characteristics for the exposure groupings is the historical duration of the claims settlement process. Business in which claims are reported and settled relatively quickly are commonly referred to as short tail lines, principally property lines. On the other hand, casualty claims tend to take longer to be reported and settled and casualty lines are generally referred to as long tail lines. Estimates of ultimate losses for shorter tail lines, with the exception of loss estimates for large catastrophic events, generally exhibit less volatility than those for the longer tail lines.

The Company uses a variety of actuarial methodologies, such as the expected loss ratio method, chain ladder methods, and Bornhuetter-Ferguson methods, supplemented by judgment where appropriate, to estimate ultimate loss and LAE for each exposure group.

Expected Loss Ratio Method: The expected loss ratio method uses earned premium times an expected loss ratio to calculate ultimate losses for a given underwriting or accident year. This method relies entirely on expectation to project ultimate losses with no consideration given to actual losses. As such, it may be appropriate for an immature underwriting or accident year where few, if any, losses have been reported or paid, but less appropriate for a more mature year.

Chain Ladder Method: Chain ladder methods use a standard loss development triangle to project ultimate losses. Age-to-age development factors are selected for each development period and combined to calculate age-to-ultimate development factors which are then applied to paid or reported losses to project ultimate losses. This method relies entirely on actual paid or reported losses to project ultimate losses. No other factors such as changes in pricing or other expectations are taken into account. It is most appropriate for groups with homogeneous, stable experience where past development patterns are expected to continue in the future. It is least appropriate for groups which have changed significantly over time or which are more volatile.

Bornhuetter-Ferguson Method: The Bornhuetter-Ferguson method is a combination of the expected loss ratio method and the chain ladder method. Ultimate losses are projected based partly on actual paid or reported losses and partly on expectation. Incurred but not reported (IBNR) reserves are calculated using earned premium, an a priori loss ratio, and selected age-to-age development factors and added to actual reported (paid) losses to determine ultimate losses. It is more responsive to actual reported or paid development than the expected loss ratio method but less responsive than the chain ladder method. The reliability of the method depends on the accuracy of the selected a priori loss ratio.

Although the Company uses similar actuarial methods for both short tail and long tail lines, the faster reporting of experience for the short tail lines allows the Company to have greater confidence in its estimates of ultimate losses for short tail lines at an earlier stage than for long tail lines. As a result, the Company utilizes, as well, exposure-based methods to estimate its ultimate losses for longer tail lines, especially for immature underwriting or accident years. For both short and long tail lines, the Company supplements these general approaches with analytically based judgments.

Key actuarial assumptions contain no explicit provisions for reserve uncertainty nor does the Company supplement the actuarially determined reserves for uncertainty.

Carried reserves at each reporting date are the Company's best estimate of ultimate unpaid losses and LAE at that date. The Company completes detailed reserve studies for each exposure group annually. The completed annual reserve studies are "rolled-forward" for each accounting period until the subsequent reserve study is completed. Analyzing the roll-forward process involves comparing actual reported losses to expected losses based on the most recent reserve study. The Company analyzes significant variances between actual and expected losses and post adjustments to its reserves as warranted.

4. 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. The Company made no such adjustments at December 31, 2018 and 2017.

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

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

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

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

- 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, are categorized as Level 1, Quoted Prices in Active Markets for Identical Assets, since the securities are shares of the Company's parent, which are actively traded on an exchange and the price is based on a quoted price.

The following tables present the fair value measurement levels for all assets, which the Company has recorded at fair value (fair and market values) as of the periods indicated:

		Fair Value Measurement Using:		
(Dollars in thousands)	December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$ 51,375	$ -	$ 51,375	$ -
U.S. corporate securities	481,620	-	481,620	-
Asset-backed securities	32,298	-	32,298	-
Mortgage-backed securities				
Commercial	27,071	-	27,071	-
Agency residential	196,332	-	196,332	-
Non-agency residential	18	-	18	-
Foreign government securities	64,618	-	64,618	-
Foreign corporate securities	305,294	-	305,294	-
Total fixed maturities, market value	$ 1,158,626	$ -	$ 1,158,626	$ -
Other invested assets, fair value	$ 2,116,621	2,116,621	$ -	-

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

(Dollars in thousands)	December 31, 2017	Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	$ 296,886	$ -	$ 296,886	$ -
U.S. corporate securities	344,117	-	344,117	-
Asset-backed securities	66,041	-	66,041	-
Mortgage-backed securities				
Commercial	20,662	-	20,662	-
Agency residential	200,532	-	200,532	-
Non-agency residential	184	-	184	-
Foreign government securities	65,856	-	65,856	-
Foreign corporate securities	174,543	-	174,543	-
Total fixed maturities, market value	$ 1,168,821	$ -	$ 1,168,821	$ -
Other invested assets, fair value	2,150,641	2,150,641	-	-

There were no net transfers from level 3, fair value measurements using significant unobservable inputs for the years ended December 31, 2018 and 2017.

5. CREDIT FACILITY

Group Credit Facility

Effective May 26, 2016, Group, Bermuda Re and Everest International entered into a five year, $800,000 thousand senior credit facility with a syndicate of lenders, which amended and restated in its entirety the June 22, 2012, four year, $800,000 thousand senior credit facility. Both the May 26, 2016 and June 22, 2012 senior credit facilities, which have similar terms, are referred to as the “Group Credit Facility”. Wells Fargo Corporation (“Wells Fargo Bank”) is the administrative agent for the Group Credit Facility, which consists of two tranches. Tranche one provides up to $200,000 thousand of unsecured revolving credit for liquidity and general corporate purposes, and for the issuance of unsecured standby letters of credit. The interest on the revolving loans shall, at the Company’s option, be either (1) the Base Rate (as defined below) or (2) an adjusted London Interbank Offered Rate (“LIBOR”) plus a margin. The Base Rate is the higher of (a) the prime commercial lending rate established by Wells Fargo Bank, (b) the Federal Funds Rate plus 0.5% per annum or (c) the one month LIBOR Rate plus 1.0% per annum. The amount of margin and the fees payable for the Group Credit Facility depends on Group’s senior unsecured debt rating. Tranche two exclusively provides up to $600,000 thousand for the issuance of standby letters of credit on a collateralized basis.

The Group Credit Facility requires Group to maintain a debt to capital ratio of not greater than 0.35 to 1 and to maintain a minimum net worth. Minimum net worth is an amount equal to the sum of $5,370,979 thousand plus 25% of consolidated net income for each of Group’s fiscal quarters, for which statements are available ending on or after March 31, 2016 and for which consolidated net income is positive, plus 25% of any increase in consolidated net worth during such period attributable to the issuance of ordinary and preferred shares, which at December 31, 2018, was $5,994,924 thousand. As of December 31, 2018, the Company was in compliance with all Group Credit Facility covenants.

The following table summarizes the outstanding letters of credit and/or borrowings for the periods indicated:

(Dollars in thousands)		At December 31, 2018			At December 31, 2017		
Bank		Commitment	In Use	Date of Expiry	Commitment	In Use	Date of Expiry
Wells Fargo Bank Group Credit Facility	Tranche One	$ 200,000	$ -		$ 200,000	$ -	
	Tranche Two	600,000	558,818	12/31/2019	600,000	538,214	12/31/2018
Total Wells Fargo Bank Group Credit Facility		$ 800,000	$ 558,818		$ 800,000	$ 538,214	

<u>Everest International Credit Facility</u>

Effective November 9, 2018, Everest International renewed its credit facility with Lloyds Bank plc ("Everest International Credit Facility"). The current renewal of the Everest International Credit Facility has a four year term and provides up to £30,000 thousand for the issuance of standby letters of credit on a collateralized basis. The Company pays a commitment fee of 0.1% per annum on the average daily amount of the remainder of (1) the aggregate amount available under the facility and (2) the aggregate amount of drawings outstanding under the facility. The Company pays a credit commission fee of 0.35% per annum on drawings outstanding under the facility.

The Everest International Credit Facility requires Group to maintain a debt to capital ratio of not greater than 0.35 to 1 and to maintain a minimum net worth. Minimum net worth is an amount equal to the sum of $5,326,009 thousand (70% of consolidated net worth as of December 31, 2015), plus 25% of consolidated net income for each of Group's fiscal quarters, for which statements are available ending on or after January 1, 2015 and for which net income is positive, plus 25% of any increase in consolidated net worth of Group during such period attributable to the issuance of ordinary and preferred shares, which at December 31, 2018, was $5,985,672 thousand. As of December 31, 2018, the Company was in compliance with all Everest International Credit Facility requirements.

The following table summarizes the outstanding letters of credit for the periods indicated:

(Dollars in thousands)	At December 31, 2018			At December 31, 2017		
Bank	Commitment	In Use	Date of Expiry	Commitment	In Use	Date of Expiry
Lloyd's Bank plc	£ 30,000	£ 26,000	12/31/2022	£ 145,000	£ -	
Total Lloyd's Bank Credit Facility	£ 30,000	£ 26,000		£ 145,000	£ -	

6. INCOME TAXES

Under Bermuda law, no income or capital gains taxes are imposed on Group and its Bermuda subsidiaries. The Minister of Finance of Bermuda has assured Group and its Bermuda subsidiaries that, pursuant to The Exempted Undertakings Tax Protection Amendment Act of 2011, they will be exempt until 2035 from imposition of any such taxes.

The provision for income taxes in the statement of operations and comprehensive income (loss) has been determined by reference to the applicable tax laws of jurisdictions in which the income of Everest International is subject to tax. It reflects the permanent differences between financial and taxable income. The significant components of the provision are as follows for the periods indicated:

	Years Ended December 31,	
(Dollars in thousands)	2018	2017
Current foreign tax expense (benefit)	$ 21	$ -
Total income tax expense (benefit)	$ 21	$ -

The weighted average expected tax provision has been calculated using the pre-tax income (loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. Reconciliation of the difference between the provision for income taxes and the expected tax provision at the weighted average tax rate for the periods indicated is provided below:

	Years Ended December 31,	
(Dollars in thousands)	2018	2017
Expected tax provision at applicable statutory rates		
Withholding tax	$ 21	$ -
Interest on Federal Excise Tax Refund	-	-
Total income tax provision	$ 21	$ -

7. REINSURANCE

The Company engages in reinsurance transactions with Everest Re, Bermuda Re, Ireland Re and Ireland Insurance, primarily driven by enterprise risk and capital management considerations under which business is assumed or ceded at market rates and terms. All of the Company's business is derived from inter-affiliate reinsurance agreements. All of the Company's retrocessions are with an affiliate.

Premiums written and earned and incurred losses and LAE are comprised of the following for the periods indicated:

	Years Ended December 31,	
(Dollars in thousands)	2018	2017
Written premiums:		
Assumed	$ 397,425	$ 329,139
Ceded	(364)	(536)
Net written premiums	$ 397,061	$ 328,603
Premiums earned:		
Assumed	$ 356,862	$ 279,833
Ceded	(364)	(536)
Net premiums earned	$ 356,498	$ 279,297
Incurred losses and LAE:		
Assumed	$ 236,957	$ 202,494
Ceded	1,469	294
Net incurred losses and LAE	$ 238,426	$ 202,788

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 and euros in thousands)

Coverage Period	Ceding Company	Percent Ceded	Assuming Company	Type of Business		Single Occurrence Limit	Aggregate Limit
01/01/2004-12/31/2005	Everest Re	2.5%	Everest International	property / casualty business		-	-
01/01/2006-12/31/2006	Everest Re	2.0%	Everest International	property business		12,500	-
01/01/2006-12/31/2007	Everest Re	3.5%	Everest International	casualty business		-	-
01/01/2007-12/31/2007	Everest Re	2.5%	Everest International	property business		13,000	-
01/01/2008-12/31/2008	Everest Re	4.0%	Everest International	property / casualty business		13,000	27,500
01/01/2009-12/31/2009	Everest Re	8.0%	Everest International	property / casualty business		27,300	59,100
01/01/2009-12/31/2009	Everest International	100.0%	Ireland Re	property / casualty business		-	-
01/01/2004-12/31/2005	Bermuda Re- U.K. Branch	25.0%	Everest International	property / casualty business		-	-
01/01/2006-12/31/2008	Bermuda Re- U.K. Branch	30.0%	Everest International	property business		120,000	-
01/01/2009-12/31/2009	Bermuda Re- U.K. Branch	50.0%	Everest International	property business	€	100,000	-
01/01/2010-12/31/2011	Bermuda Re- U.K. Branch	50.0%	Everest International	property / casualty business	€	80,000	-
01/01/2012-12/31/2012	Bermuda Re- U.K. Branch	50.0%	Everest International	property / casualty business	€	70,000	-
01/01/2013-12/31/2015	Bermuda Re- U.K. Branch	59.5%	Everest International	property business	£	41,650	-
01/01/2016-	Bermuda Re- U.K. Branch	50.0%	Everest International	property business	£	35,000	-
01/01/2011-12/31/2013	Ireland Re	50.0%	Everest International	property / casualty business	€	37,500	-
01/01/2014-12/31/2016	Ireland Re	50.0%	Everest International	property business	€	40,000	-
01/01/2017-	Ireland Re	60.0%	Everest International	property business	€	78,000	-
11/15/2017-12/31/2018	Ireland Insurance	50.0%	Everest International	property business		50,000	100,000

The following table summarizes the premiums and losses assumed and ceded by the Company from and to its affiliates for the periods indicated:

Everest Re, Bermuda Re and Ireland Re	Years Ended December 31,	
(Dollars in thousands)	2018	2017
Assumed written premiums	$ 397,425	$ 329,139
Assumed earned premiums	356,862	279,833
Assumed losses and LAE	236,957	202,494

Ireland Re	Years Ended December 31,	
(Dollars in thousands)	2018	2017
Ceded written premiums	$ 364	$ 536
Ceded earned premiums	364	536
Ceded losses and LAE	(1,469)	(294)

8. COMPREHENSIVE INCOME (LOSS)

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

	Years Ended December 31,					
	2018			2017		
(Dollars in thousands)	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Unrealized appreciation (depreciation) ("URA(D)") on securities - temporary	$ (37,100)	$ -	$ (37,100)	$ 11,009	$ -	$ 11,009
URA(D) on securities - OTTI	(16)	-	(16)	(13)	-	(13)
Reclassification of net realized losses (gains) included in net income (loss)	9,711	-	9,711	13,448	-	13,448
Total other comprehensive income (loss)	$ (27,405)	$ -	$ (27,405)	$ 24,444	$ -	$ 24,444

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

AOCI component	Years Ended December 31, 2018	2017	Affected line item within the statements of operations and comprehensive income (loss)
(Dollars in thousands)			
URA(D) on securities	$ 9,711	$ 13,448	Other net realized capital gains (losses)
	-	-	Income tax expense (benefit)
	$ 9,711	$ 13,448	Net income (loss)

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

(Dollars in thousands)	Years Ended December 31, 2018	2017
Beginning balance of URA (D) on securities	$ (10,895)	$ (35,339)
Current period change in URA (D) of investments - temporary	(27,389)	24,457
Current period change in URA (D) of investments - non-credit OTTI	(16)	(13)
Ending balance of URA (D) on securities	$ (38,300)	$ (10,895)

9. DIVIDEND RESTRICTIONS AND STATUTORY FINANCIAL INFORMATION

Dividend Restrictions.
Under Bermuda law, Everest International is prohibited from declaring or making payment of a dividend if it fails to meet its minimum solvency margin or minimum liquidity ratio. Prior approval of the Bermuda Monetary Authority is required if Everest International's dividend payments would reduce its prior year-end total statutory capital and surplus by 25% or more.

Statutory Financial Information.
Everest International prepares its statutory financial statements in conformity with accounting principles set forth in Bermuda in The Insurance Act 1978, amendments thereto and related regulations. The statutory capital and surplus of Everest International was $2,676,701 thousand and $2,847,294 thousand at December 31, 2018 and 2017, respectively. The statutory net income (loss) of Everest International was $88,172 thousand and $84,492 thousand for the years ended December 31, 2018 and 2017, respectively.

Capital Restrictions.
Everest International is subject to the BSCR administered by the BMA. No regulatory action is taken if an insurer's capital and surplus is equal to or in excess of their enhanced capital requirement determined by the BSCR model. In addition, the BMA has established a target capital level for each insurer, which is 120% of the enhanced capital requirement.

The regulatory targeted capital and the actual statutory capital for Everest International was as follows:

(Dollars in thousands)	Everest International (1) At December 31, 2018	2017
Regulatory targeted capital	$ 845,274	$ 815,236
Actual capital	2,676,701	2,847,294

(1) Regulatory targeted capital represents the target capital level from the applicable year's BSCR calculation.

10. 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.

11. RELATED-PARTY TRANSACTIONS

As part of a capital restructuring plan to support an expansion of international business associated with the Lloyd's of London syndicate, Everest International entered into multiple capital transactions with affiliated entities in December, 2015.

The Company authorized a new preferred stock class. The preferred stock has a par value of $1,000 thousand and has an annual dividend rate of 1.55%. The preferred stock has no voting rights. The Company issued 100 shares of the newly authorized preferred stock to Group. The $100,000 thousand of par value for the issued preferred stock was reclassified from additional paid in capital for common stock, previously issued to Group.

Also, the Company issued 1,923.214 shares of preferred stock to Everest International Preferred Holdings, a Bermuda based company and direct subsidiary of Group, in exchange for 9,719,971 Common Shares of Group valued at $1,773,214 and $150,000 thousand of fixed maturity securities. Everest International has classified the Common shares of Group as Other Invested Assets, at fair value, in its Consolidated Balance Sheets.

Additionally, Everest International issued 500,000 shares of its common stock to its parent company, Group, in exchange for $49,841 thousand of fixed maturity securities.

The Company engages in reinsurance transactions with Everest Re, Bermuda Re, Ireland Re and Ireland Insurance under which business is assumed, and Ireland Re, under which business is ceded. See also Note 7.

Everest Global Services, Inc. ("Everest Global"), an affiliate of Everest International, provides centralized management and home office services, through a management agreement. 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 Everest International from services provided by Everest Global for the periods indicated.

	Years Ended December 31,	
(Dollars in thousands)	2018	2017
Expenses incurred	$ 762	$ 603

12. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 29, 2019, the date the financial statements were available to be issued, and has determined that there were no subsequent events requiring adjustment or disclosure to the financial statements.