National Interstate CORP
Form 10-Q
May 01, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2015
OR
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to .
Commission File Number: 000-51130

National Interstate Corporation
(Exact name of registrant as specified in its charter)

Ohio	34-1607394
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3250 Interstate Drive, Richfield, OH	44286-9000
(Address of principal executives offices)	(Zip Code)

(330) 659-8900
(Registrant's telephone number, including area code)

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. þ 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes ¨ No

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

Large Accelerated Filer ¨	Accelerated Filer þ
Non-Accelerated Filer ¨ (Do not check if a smaller reporting company)	Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes þ No

The number of shares outstanding of the registrant’s sole class of common shares as of April 30, 2015 was 19,839,228.

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PART I—FINANCIAL INFORMATION
ITEM 1. Financial Statements
National Interstate Corporation and Subsidiaries
Consolidated Balance Sheets
(In thousands, except per share data)

	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS		
Investments:		
Fixed maturities available-for-sale, at fair value (amortized cost – $973,296 and $945,956, respectively)	$1,006,288	$974,746
Equity securities available-for-sale, at fair value (amortized cost – $79,565 and $76,352, respectively)	88,701	85,228
Other invested assets	47,055	46,786
Total investments	1,142,044	1,106,760
Cash and cash equivalents	64,526	53,583
Accrued investment income	8,441	8,724
Premiums receivable, net of allowance for doubtful accounts of $2,558 and $2,627, respectively	259,915	271,336
Reinsurance recoverable on paid and unpaid losses	190,089	180,332
Prepaid reinsurance premiums	49,673	47,013
Deferred policy acquisition costs	22,456	22,654
Deferred federal income taxes	20,723	23,150
Property and equipment, net	24,425	24,538
Funds held by reinsurer	3,027	4,335
Intangible assets, net	7,721	7,791
Prepaid expenses and other assets	3,561	4,517
Total assets	$1,796,601	$1,754,733
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$907,812	$883,078
Unearned premiums and service fees	300,125	311,255
Long-term debt	12,000	12,000
Amounts withheld or retained for accounts of others	103,944	101,799
Reinsurance balances payable	34,948	31,069
Accounts payable and other liabilities	49,014	33,402
Commissions payable	14,375	15,392
Assessments and fees payable	4,340	4,649
Total liabilities	1,426,558	1,392,644
Shareholders' equity:		
Preferred shares – no par value		
Authorized – 10,000 shares		
Issued – 0 shares	—	—
Common shares – $0.01 par value		
Authorized – 50,000 shares		
Issued – 23,350 shares, including 3,512 and 3,557 shares, respectively, in treasury	234	234
Additional paid-in capital	59,857	59,386
Retained earnings	287,552	283,031

Accumulated other comprehensive income	27,383	24,483
Treasury shares	(4,983)	(5,045)
Total shareholders’ equity	370,043	362,089
Total liabilities and shareholders’ equity	$1,796,601	$1,754,733

See notes to consolidated financial statements.

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National Interstate Corporation and Subsidiaries
Consolidated Statements of Income
(Unaudited)
(In thousands, except per share data)

	Three Months Ended March 31,	
	2015	2014
Revenues:		
Premiums earned	$137,823	$133,503
Net investment income	9,656	8,702
Net realized gains on investments (*)	1,069	2,605
Other	830	760
Total revenues	149,378	145,570
Expenses:		
Losses and loss adjustment expenses	108,781	102,580
Commissions and other underwriting expenses	22,983	22,538
Other operating and general expenses	6,243	5,460
Transaction expenses	—	2,010
Expense on amounts withheld	1,501	1,555
Interest expense	47	74
Total expenses	139,555	134,217
Income before income taxes	9,823	11,353
Provision for income taxes	2,714	3,298
Net income	$7,109	$8,055
Net income per share – basic	$0.36	$0.41
Net income per share – diluted	$0.36	$0.41
Weighted average of common shares outstanding – basic	19,834	19,693
Weighted average of common shares outstanding – diluted	19,881	19,771
Cash dividends per common share	$0.13	$0.12

(*) Consists of the following:		
Net realized gains before impairment losses	$1,084	$2,839
Total losses on securities with impairment charges	—	(45)
Non-credit portion recognized in other comprehensive income	(15)	(189)
Net impairment charges recognized in earnings	(15)	(234)
Net realized gains on investments	$1,069	$2,605

See notes to consolidated financial statements.

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National Interstate Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
(Unaudited)
(Dollars in thousands)

	Three Months Ended March 31,	
	2015	2014
Net income	$7,109	$8,055
Other comprehensive income, before tax:		
Net unrealized holding gains on available-for-sale securities:		
Net unrealized holding gains on securities arising during the period	5,025	9,608
Reclassification adjustment for net realized gains included in net income	(563)	(609)
Total other comprehensive income, before tax	4,462	8,999
Deferred income tax expense on other comprehensive income	1,562	3,149
Other comprehensive income, net of tax	2,900	5,850
Total comprehensive income	$10,009	$13,905

See notes to consolidated financial statements.

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National Interstate Corporation and Subsidiaries
Consolidated Statements of Shareholders' Equity
(Unaudited)
(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at January 1, 2015	$234	$59,386	$283,031	$ 24,483	$(5,045)	$362,089
Net income			7,109			7,109
Other comprehensive income, net of tax				2,900		2,900
Dividends on common stock			(2,588)			(2,588)
Issuance of 44,371 treasury shares upon exercise of options and restricted stock issued, net of forfeitures		298			62	360
Net tax effect from exercise/vesting of stock compensation		(39)				(39)
Stock-based compensation expense		212				212
Balance at March 31, 2015	$234	$59,857	$287,552	$ 27,383	$(4,983)	$370,043
Balance at January 1, 2014	$234	$56,481	$281,518	$ 19,281	$(5,230)	$352,284
Net income			8,055			8,055
Other comprehensive income, net of tax				5,850		5,850
Dividends on common stock			(2,370)			(2,370)
Issuance of 94,287 treasury shares upon exercise of options and restricted stock issued, net of forfeitures		1,663			131	1,794
Net tax effect from exercise/vesting of stock compensation		(21)				(21)
Stock-based compensation expense		229				229
Balance at March 31, 2014	$234	$58,352	$287,203	$ 25,131	$(5,099)	$365,821

See notes to consolidated financial statements.

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National Interstate Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Three Months Ended March 31, 2015	2014
Operating activities		
Net income	$7,109	$8,055
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of bond premiums and discounts	699	1,143
Provision for depreciation and amortization	1,392	968
Net realized gains on investment securities	(1,069)	(2,605)
Deferred federal income taxes	865	1,394
Stock-based compensation expense	212	229
Decrease (increase) in deferred policy acquisition costs, net	198	(1,223)
Increase in reserves for losses and loss adjustment expenses	24,734	11,010
Decrease in premiums receivable	11,421	1,202
(Decrease) increase in unearned premiums and service fees	(11,130)	6,540
Decrease in interest receivable and other assets	2,547	1,058
Increase in prepaid reinsurance premiums	(2,660)	(6,628)
Decrease in accounts payable, commissions and other liabilities and assessments and fees payable	(65)	(5,560)
Increase in amounts withheld or retained for accounts of others	2,145	4,423
(Increase) decrease in reinsurance recoverable	(9,757)	2,243
Increase in reinsurance balances payable	3,879	3,020
Other	(13)	9
Net cash provided by operating activities	30,507	25,278
Investing activities		
Purchases of fixed maturities	(59,048)	(34,016)
Purchases of equity securities	(4,371)	(8,140)
Proceeds from sale of fixed maturities	2,925	7,794
Proceeds from sale of equity securities	1,857	1,369
Proceeds from maturities and redemptions of investments	42,411	24,229
Change in other invested assets, net	125	(614)
Capital expenditures	(1,196)	(1,270)
Net cash used in investing activities	(17,297)	(10,648)
Financing activities		
Net tax effect from exercise/vesting of stock-based compensation	(39)	(21)
Proceeds from the issuance of common shares from treasury	360	1,794
Cash dividends paid on common shares	(2,588)	(2,370)
Net cash used in financing activities	(2,267)	(597)
Net increase in cash and cash equivalents	10,943	14,033
Cash and cash equivalents at beginning of period	53,583	35,684
Cash and cash equivalents at end of period	$64,526	$49,717

See notes to consolidated financial statements.

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NATIONAL INTERSTATE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of National Interstate Corporation (the “Company”) and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and the instructions to Form 10-Q.

The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries, National Interstate Insurance Company (“NIIC”), Vanliner Insurance Company (“VIC”), National Interstate Insurance Company of Hawaii, Inc. (“NIIC-HI”), Hudson Indemnity, Ltd. (“HIL”), Triumphe Casualty Company (“TCC”), Hudson Management Group, Ltd., Vanliner Reinsurance Limited, National Interstate Insurance Agency, Inc. (“NIIA”), American Highways Insurance Agency, Inc., TransProtection Service Company, Explorer RV Insurance Agency, Inc. and Safety, Claims and Litigation Services, LLC. Significant intercompany transactions have been eliminated.

These interim unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The interim financial statements reflect all adjustments which are, in the opinion of management, necessary for the fair presentation of the results for the periods presented. Such adjustments are of a normal recurring nature. Operating results for the three month period ended March 31, 2015 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2015.

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Changes in circumstances could cause actual results to differ materially from those estimates.

2. Recent Accounting Pronouncements

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). The FASB issued ASU 2015-02 to simplify consolidation accounting by reducing the number of consolidation models and to provide more useful information to stakeholders. The ASU affects reporting entities that are required to evaluate whether they should consolidate certain entities. The main provisions affect limited partnerships and similar legal entities as variable interest entities or voting interest entities; the evaluation of fees paid to a decision maker as a variable interest; the effect of fee arrangements on the primary beneficiary determination; and a scope exception for certain investment funds. The updated guidance is effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have a material effect on the Company's results of operations or financial position.

3. Fair Value Measurements

The Company must determine the appropriate level in the fair value hierarchy for each applicable measurement. The fair value hierarchy prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels. It gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s management is responsible for the valuation process and uses data from outside sources (including nationally recognized pricing services and broker/dealers) in establishing fair value.

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Pricing services use a variety of observable inputs to estimate the fair value of fixed maturities that do not trade on a daily basis. These inputs include, but are not limited to, recent reported trades, benchmark yields, issuer spreads, bids or offers, reference data and measures of volatility. Included in the pricing of mortgage-backed securities are estimates of the rate of future prepayments and defaults of principal over the remaining life of the underlying collateral. Inputs from brokers and independent financial institutions include, but are not limited to, yields or spreads of comparable investments which have recent trading activity, credit quality, duration, credit enhancements, collateral value and estimated cash flows based on inputs including delinquency rates, estimated defaults and losses and estimates of the rate of future prepayments. Valuation techniques utilized by pricing services and prices obtained from external sources are reviewed by the Company’s internal and affiliated investment professionals who are familiar with the securities being priced and the markets in which they trade to ensure the fair value determination is representative of an exit price. To validate the appropriateness of the prices obtained, the Company’s internal investment professionals, who report to the Chief Investment Officer, compare the valuation received to independent third party pricing sources and consider widely published indices (as benchmarks), recent trades, changes in interest rates, general economic conditions and the credit quality of the specific issuers. If the Company believes that significant discrepancies exist, the Company will perform additional procedures, which may include specific inquiry of the pricing source, to resolve the discrepancies.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical securities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices within Level 1 that are observable for the security, either directly or indirectly. Level 2 inputs include quoted prices for similar securities in active markets, quoted prices for identical or similar securities that are not active and observable inputs other than quoted prices, such as interest rate and yield curves. Level 3 inputs are unobservable inputs for the asset or liability. Level 1 consists of publicly traded equity securities and highly liquid, direct obligations of the U.S. Government whose fair value is based on quoted prices that are readily and regularly available in an active market. Level 2 primarily consists of financial instruments whose fair value is based on quoted prices in markets that are not active and include U.S. government agency securities, fixed maturity investments and nonredeemable preferred stocks that are not actively traded. Included in Level 2 are $158.9 million of securities, which are valued based upon a non-binding broker quote and validated with other observable market data by management. Level 3 consists of financial instruments that are not traded in an active market, whose fair value is estimated by management based on inputs from independent financial institutions, which include non-binding broker quotes. The Company believes these estimates reflect fair value, but the Company is unable to verify inputs to the valuation methodology. The Company obtained at least one quote or price per instrument from its brokers and pricing services for all Level 3 securities and did not adjust any quotes or prices that it obtained. The Company’s internal and affiliated investment professionals review these broker quotes using any recent trades, if such information is available, or market prices of similar investments. The Company primarily uses the market approach valuation technique for all investments.

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The following table presents the Company’s investment portfolio, categorized by the level within the fair value hierarchy in which the fair value measurements fell as of March 31, 2015:

	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Fixed maturities:				
U.S. Government and government agency obligations	$3,540	$130,802	$—	$134,342
State and local government obligations	—	329,419	2,923	332,342
Residential mortgage-backed securities	—	187,127	—	187,127
Commercial mortgage-backed securities	—	16,407	—	16,407
Corporate obligations	—	196,451	7,150	203,601
Other debt obligations	—	125,666	2,462	128,128
Redeemable preferred stocks	3,844	—	497	4,341
Total fixed maturities	7,384	985,872	13,032	1,006,288
Equity securities:				
Common stocks	61,817	—	2,839	64,656
Nonredeemable preferred stocks	19,001	5,044	—	24,045
Total equity securities	80,818	5,044	2,839	88,701
Total fixed maturities and equity securities	88,202	990,916	15,871	1,094,989
Cash and cash equivalents	64,526	—	—	64,526
Total fixed maturities, equity securities and cash and cash equivalents at fair value	$152,728	$990,916	$15,871	$1,159,515

The following table presents the Company’s investment portfolio, categorized by the level within the fair value hierarchy in which the fair value measurements fell as of December 31, 2014:

	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Fixed maturities:				
U.S. Government and government agency obligations	$2,911	$110,535	$—	$113,446
State and local government obligations	—	338,694	2,887	341,581
Residential mortgage-backed securities	—	192,555	—	192,555
Commercial mortgage-backed securities	—	16,998	—	16,998
Corporate obligations	—	192,314	7,100	199,414
Other debt obligations	—	102,454	3,995	106,449
Redeemable preferred stocks	3,808	—	495	4,303
Total fixed maturities	6,719	953,550	14,477	974,746
Equity securities:				
Common stocks	58,839	—	3,988	62,827
Nonredeemable preferred stocks	16,887	5,514	—	22,401
Total equity securities	75,726	5,514	3,988	85,228
Total fixed maturities and equity securities	82,445	959,064	18,465	1,059,974
Cash and cash equivalents	53,583	—	—	53,583
Total fixed maturities, equity securities and cash and cash equivalents at fair value	$136,028	$959,064	$18,465	$1,113,557

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The previous tables exclude other invested assets of $47.1 million and $46.8 million at March 31, 2015 and December 31, 2014, respectively. Other invested assets include investments in limited partnerships which are accounted for under the equity method. Equity method investments are not reported at fair value.

The Company uses the end of the reporting period as its policy for determining transfers into and out of each level. During the three months ended March 31, 2015, the Company transferred two nonredeemable preferred stocks, with an aggregate value of $0.5 million , from Level 2 to Level 1 due to increases in trading activity.

During the three months ended March 31, 2014, the Company transferred five nonredeemable preferred stocks, with an aggregate value of $4.9 million, from Level 1 to Level 2 due to decreases in trading activity.

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The following tables present a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs for the three months ended March 31, 2015 and 2014. The transfers out of Level 3 during the three months ended March 31, 2015 were due to increases in the availability of market observable inputs. All transfers are reflected in the table at fair value as of the end of the reporting period.

	Three Months Ended March 31, 2015				
	State and Local Government Obligations	Corporate Obligations	Other Debt Obligations	Redeemable Preferred Stock	Common Stock
	(Dollars in thousands)				
Beginning balance at January 1, 2015	$2,887	$7,100	$3,995	$495	$3,988
Total gains or (losses):					
Included in earnings	—	—	—	—	—
Included in other comprehensive income	36	138	(6)	2	(183)
Purchases and issuances	—	—	1,000	—	—
Sales, settlements and redemptions	—	(88)	(2,527)	—	—
Transfers in and/or (out) of Level 3	—	—	—	—	(966)
Ending balance at March 31, 2015	$2,923	$7,150	$2,462	$497	$2,839
The amount of total gains or (losses) for the period included in earnings and attributable to the change in unrealized gains or (losses) relating to assets still held at the reporting date	$—	$—	$—	$—	$—

	Three Months Ended March 31, 2014					
	State and Local Government Obligations	Corporate Obligations	Other Debt Obligations	Redeemable Preferred Stock	Common Stock	Nonredeemable Preferred Stock
	(Dollars in thousands)					
Beginning balance at January 1, 2014	$859	$4,969	$3,311	$487	$1,500	$ 583
Total gains or (losses):						
Included in earnings	—	—	—	—	—	—
Included in other comprehensive income	1	57	2	1	50	—
Purchases and issuances	—	—	—	—	1,500	—
Sales, settlements and redemptions	—	(50)	(35)	—	—	(583)
Transfers in and/or (out) of Level 3	—	—	—	—	—	—
Ending balance at March 31, 2014	$860	$4,976	$3,278	$488	$3,050	$ —
The amount of total gains or (losses) for the period included in earnings and attributable to the change in unrealized gains or (losses) relating to assets still held at the reporting date	$—	$—	$—	$—	$—	$ —

At March 31, 2015, the Company had 15 securities with a fair value of $15.9 million that are included in Level 3, which represented 1.4% of its total investments reported at fair value. The significant unobservable inputs used by the brokers and pricing services in establishing fair values of the Company's Level 3 securities are primarily spreads to U.S. Treasury rates and discounts to comparable securities. The specifics of such spreads and discounts were not made available to the Company. Significant increases (decreases) on spreads to U.S. Treasury rates and discount spreads to comparable securities would result in lower (higher) fair value measurements. Generally, a change in the assumption used for determining a spread is accompanied by market factors that

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warrant an adjustment for the credit risk and liquidity premium of the security. As the total fair value of Level 3 securities is 4.3% of the Company's shareholders' equity at March 31, 2015, any change in unobservable inputs would not have a material impact on the Company's financial position.

4. Investments

The cost or amortized cost and fair value of investments in fixed maturities and equity securities are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
March 31, 2015				
Fixed maturities:				
U.S. Government and government agency obligations	$130,310	$4,044	$(12)	$134,342
State and local government obligations	319,979	12,769	(406)	332,342
Residential mortgage-backed securities	179,694	8,054	(621)	187,127
Commercial mortgage-backed securities	15,413	1,002	(8)	16,407
Corporate obligations	196,421	8,694	(1,514)	203,601
Other debt obligations	127,311	947	(130)	128,128
Redeemable preferred stocks	4,168	176	(3)	4,341
Total fixed maturities	973,296	35,686	(2,694)	1,006,288
Equity securities:				
Common stocks	56,877	9,650	(1,871)	64,656
Nonredeemable preferred stocks	22,688	1,470	(113)	24,045
Total equity securities	79,565	11,120	(1,984)	88,701
Total fixed maturities and equity securities	$1,052,861	$46,806	$(4,678)	$1,094,989
December 31, 2014				
Fixed maturities:				
U.S. Government and government agency obligations	$110,254	$3,206	$(14)	$113,446
State and local government obligations	329,725	12,193	(337)	341,581
Residential mortgage-backed securities	185,346	8,435	(1,226)	192,555
Commercial mortgage-backed securities	16,050	953	(5)	16,998
Corporate obligations	193,702	6,965	(1,253)	199,414
Other debt obligations	106,711	278	(540)	106,449
Redeemable preferred stocks	4,168	140	(5)	4,303
Total fixed maturities	945,956	32,170	(3,380)	974,746
Equity securities:				
Common stocks	54,663	9,643	(1,479)	62,827
Nonredeemable preferred stocks	21,689	963	(251)	22,401
Total equity securities	76,352	10,606	(1,730)	85,228
Total fixed maturities and equity securities	$1,022,308	$42,776	$(5,110)	$1,059,974

The table above excludes other invested assets of $47.1 million and $46.8 million at March 31, 2015 and December 31, 2014, respectively. Other invested assets include investments in limited partnerships which are accounted for under the equity method. Equity method investments are not reported at fair value.

State and local government obligations represented approximately 33.0% of the Company's fixed maturity portfolio at March 31, 2015, with approximately $285.2 million, or 85.8%, of the Company's state and local government obligations held in special revenue obligations, and the remaining amount held in general obligations. The Company's state and local government obligations portfolio is high quality, as 98.8% of such securities were rated investment grade (as determined by nationally recognized agencies) at March 31, 2015. The Company had no state and local government obligations for any state, municipality or political subdivision that comprised 10% or more of the total amortized cost or fair value of such obligations at March 31, 2015.

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The non-credit portion of other-than-temporary impairment charges is included in other comprehensive income. Cumulative non-credit charges taken for securities still owned were $3.3 million at both March 31, 2015 and December 31, 2014.

The amortized cost and fair value of fixed maturities at March 31, 2015, by contractual maturity, are shown below. Other debt obligations, which are primarily comprised of asset-backed securities other than mortgage-backed securities, are categorized based on their average maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The average life of mortgage-backed securities is 3.9 years in the Company’s investment portfolio.

Amortized cost and fair value of the fixed maturities in the Company’s investment portfolio were as follows:

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due in one year or less	$27,856	$28,251
Due after one year through five years	304,376	313,734
Due after five years through ten years	357,867	368,794
Due after ten years	88,090	91,975
	778,189	802,754
Mortgage-backed securities	195,107	203,534
Total	$973,296	$1,006,288

Gains and losses on the sale of investments, including other-than-temporary impairment charges and other invested assets' gains or losses, were as follows:

	Three Months Ended March 31,	
	2015	2014
	(Dollars in thousands)	
Fixed maturity gains	$82	$476
Fixed maturity losses	(23)	(189)
Equity security gains	709	515
Equity security losses	(93)	(46)
Other invested assets, net gains	394	1,849
Net realized gains on investments	$1,069	$2,605

Pre-tax net realized gains on investments of $1.1 million for the three months ended March 31, 2015 were generated from net realized gains associated with the sales or redemptions of securities of $0.7 million and net realized gains associated with other invested assets of $0.4 million. The gains on equity and fixed maturity securities were primarily due to favorable market conditions that increased the value of securities over book value. Pre-tax net realized gains on investments of $2.6 million for the three months ended March 31, 2014 were generated from net realized gains associated with other invested assets of $1.8 million and net realized gains associated with sales or redemptions of securities of $1.0 million. The gains on equity and fixed maturity securities were primarily due to favorable market conditions that increased the value of securities over book value. Offsetting these gains for the three months ended March 31, 2014, were other-than-temporary impairment charges of $0.2 million related to three mortgage-backed securities for which previous impairment charges had been recorded.

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Realized gains (losses) and changes in unrealized appreciation related to fixed maturities, equity securities and other invested assets are as follows: