

EVEREST RE GROUP LTD
Form 10-Q
August 09, 2013

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

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

FOR THE QUARTERLY PERIOD
ENDED:
June 30, 2013

Commission file number:
1-15731

EVEREST RE GROUP, LTD.
(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

98-0365432
(I.R.S. Employer
Identification No.)

Wessex House – 2nd Floor
45 Reid Street
PO Box HM 845
Hamilton HM DX, Bermuda
441-295-0006

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

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

YES X NO

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

YES X NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 X Accelerated
accelerated filer filer

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Non-accelerated
filer

Smaller
reporting
company

(Do not check if 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 NO X

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

Class	Number of Shares Outstanding At August 1, 2013
Common Shares, \$0.01 par value	48,624,595

EVEREST RE GROUP, LTD

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PART I

ITEM 1. FINANCIAL STATEMENTS

EVEREST RE GROUP, LTD.
CONSOLIDATED BALANCE SHEETS

(Dollars and share amounts in thousands, except par value per share)	June 30, 2013 (unaudited)	December 31, 2012
ASSETS:		
Fixed maturities - available for sale, at market value (amortized cost: 2013, \$12,544,171; 2012, \$12,444,880)	\$ 12,879,955	\$ 13,141,657
Fixed maturities - available for sale, at fair value	18,129	41,470
Equity securities - available for sale, at market value (cost: 2013, \$142,409; 2012, \$131,630)	140,197	143,493
Equity securities - available for sale, at fair value	1,295,816	1,255,557
Short-term investments	727,965	860,379
Other invested assets (cost: 2013, \$526,704; 2012, \$596,590)	526,704	596,590
Cash	439,136	537,050
Total investments and cash	16,027,902	16,576,196
Accrued investment income	125,729	130,209
Premiums receivable	1,455,774	1,237,859
Reinsurance receivables	711,719	659,081
Funds held by reinsureds	239,267	228,375
Deferred acquisition costs	324,306	303,268
Prepaid reinsurance premiums	76,417	71,107
Deferred tax asset	258,132	262,024
Income taxes recoverable	67,300	68,442
Other assets	272,502	241,346
TOTAL ASSETS	\$ 19,559,048	\$ 19,777,907
LIABILITIES:		
Reserve for losses and loss adjustment expenses	\$ 9,843,480	\$ 10,069,055
Future policy benefit reserve	65,541	66,107
Unearned premium reserve	1,444,979	1,322,525
Funds held under reinsurance treaties	2,592	2,755
Commission reserves	56,050	65,533
Other net payable to reinsurers	191,931	162,778
Losses in course of payment	421,002	191,076
Revolving credit borrowings	40,000	-
5.4% Senior notes due 10/15/2014	249,932	249,907
6.6% Long term notes due 5/1/2067	238,359	238,357
Junior subordinated debt securities payable	-	329,897
Accrued interest on debt and borrowings	4,791	4,781
Equity index put option liability	52,101	79,467
Unsettled securities payable	115,362	48,830

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Other liabilities	210,128	213,372
Total liabilities	12,936,248	13,044,440
Commitments and contingencies (Note 8)		
SHAREHOLDERS' EQUITY:		
Preferred shares, par value: \$0.01; 50,000 shares authorized; no shares issued and outstanding	-	-
Common shares, par value: \$0.01; 200,000 shares authorized; (2013) 67,812 and (2012) 67,105 outstanding before treasury shares	678	671
Additional paid-in capital	2,003,166	1,946,439
Accumulated other comprehensive income (loss), net of deferred income tax expense		
(benefit) of \$67,381 at 2013 and \$119,629 at 2012	207,164	537,049
Treasury shares, at cost; 19,224 shares (2013) and 15,687 shares (2012)	(1,813,913)	(1,363,958)
Retained earnings	6,225,705	5,613,266
Total shareholders' equity	6,622,800	6,733,467
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 19,559,048	\$ 19,777,907

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

EVEREST RE GROUP, LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	2013	June 30, 2012 (unaudited)	2013	June 30, 2012 (unaudited)
REVENUES:				
Premiums earned	\$ 1,151,533	\$ 1,037,800	\$ 2,240,292	\$ 2,035,778
Net investment income	148,729	149,329	294,510	301,767
Net realized capital gains (losses):				
Other-than-temporary impairments on fixed maturity securities	-	(466)	(191)	(6,354)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-	-	-
Other net realized capital gains (losses)	33,905	(16,114)	160,831	88,493
Total net realized capital gains (losses)	33,905	(16,580)	160,640	82,139
Net derivative gain (loss)	12,081	(16,306)	27,366	(10,123)
Other income (expense)	8,295	27,812	(592)	21,618
Total revenues	1,354,543	1,182,055	2,722,216	2,431,179
CLAIMS AND EXPENSES:				
Incurred losses and loss adjustment expenses	711,590	607,870	1,304,234	1,210,336
Commission, brokerage, taxes and fees	242,067	265,789	475,113	503,292
Other underwriting expenses	54,901	49,675	107,847	98,170
Corporate expenses	6,168	6,075	11,885	10,736
Interest, fees and bond issue cost amortization expense	17,362	13,244	30,843	26,422
Total claims and expenses	1,032,088	942,653	1,929,922	1,848,956
INCOME (LOSS) BEFORE TAXES	322,455	239,402	792,294	582,223
Income tax expense (benefit)	46,813	24,851	132,309	62,968
NET INCOME (LOSS)	\$ 275,642	\$ 214,551	\$ 659,985	\$ 519,255
Other comprehensive income (loss), net of tax:				
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	(272,540)	5,408	(319,342)	85,535
Less: reclassification adjustment for realized losses (gains) included in net income (loss)	(1,828)	(7,456)	(5,919)	(7,214)
Total URA(D) on securities arising during the period	(274,368)	(2,048)	(325,261)	78,321
Foreign currency translation adjustments	13,751	(24,997)	(7,315)	(9,127)
Pension adjustments	1,345	983	2,691	1,967
Total other comprehensive income (loss), net of tax	(259,272)	(26,062)	(329,885)	71,161

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COMPREHENSIVE INCOME (LOSS)	\$ 16,370	\$ 188,489	\$ 330,100	\$ 590,416
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EARNINGS PER COMMON SHARE:

Basic	\$ 5.60	\$ 4.10	\$ 13.19	\$ 9.81
Diluted	5.56	4.08	13.09	9.79
Dividends declared	0.48	0.48	0.96	0.96

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

EVEREST RE GROUP, LTD.
CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands, except share and dividends per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012 (unaudited)	2013	2012 (unaudited)
COMMON SHARES (shares outstanding):				
Balance, beginning of period	49,965,812	52,624,820	51,417,962	53,735,551
Issued during the period, net	208,935	223,184	707,092	489,882
Treasury shares acquired	(1,586,707)	(990,957)	(3,537,014)	(2,368,386)
Balance, end of period	48,588,040	51,857,047	48,588,040	51,857,047
COMMON SHARES (par value):				
Balance, beginning of period	\$ 676	\$ 667	\$ 671	\$ 665
Issued during the period, net	2	2	7	4
Balance, end of period	678	669	678	669
ADDITIONAL PAID-IN CAPITAL:				
Balance, beginning of period	1,978,966	1,901,322	1,946,439	1,892,988
Share-based compensation plans	24,200	22,991	56,727	31,325
Balance, end of period	2,003,166	1,924,313	2,003,166	1,924,313
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES:				
Balance, beginning of period	466,436	464,201	537,049	366,978
Net increase (decrease) during the period	(259,272)	(26,062)	(329,885)	71,161
Balance, end of period	207,164	438,139	207,164	438,139
RETAINED EARNINGS:				
Balance, beginning of period	5,973,378	5,163,777	5,613,266	4,884,714
Net income (loss)	275,642	214,551	659,985	519,255
Dividends declared (\$0.48 per quarter and \$0.96 year-to-date per share in 2013 and 2012)	(23,315)	(25,129)	(47,546)	(50,770)
Balance, end of period	6,225,705	5,353,199	6,225,705	5,353,199
TREASURY SHARES AT COST:				
Balance, beginning of period	(1,602,590)	(1,198,969)	(1,363,958)	(1,073,970)
Purchase of treasury shares	(211,323)	(100,000)	(449,955)	(224,999)
Balance, end of period	(1,813,913)	(1,298,969)	(1,813,913)	(1,298,969)
TOTAL SHAREHOLDERS' EQUITY, END OF PERIOD	\$ 6,622,800	\$ 6,417,351	\$ 6,622,800	\$ 6,417,351

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

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EVEREST RE GROUP, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	2013	Three Months Ended June 30, 2012 (unaudited)	2013	Six Months Ended June 30, 2012 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	\$ 275,642	\$ 214,551	\$ 659,985	\$ 519,255
Adjustments to reconcile net income to net cash provided by operating activities:				
Decrease (increase) in premiums receivable	(167,239)	70,139	(220,306)	107,410
Decrease (increase) in funds held by reinsureds, net	(16,828)	10,673	(12,244)	8,407
Decrease (increase) in reinsurance receivables	26,758	(33,809)	(65,978)	(13,027)
Decrease (increase) in current income taxes	(25,569)	4,768	1,089	1,459
Decrease (increase) in deferred tax asset	18,071	3,956	55,640	33,961
Decrease (increase) in prepaid reinsurance premiums	(10,354)	3,130	(6,908)	9,123
Increase (decrease) in reserve for losses and loss adjustment expenses	(47,200)	(95,066)	(175,142)	(267,230)
Increase (decrease) in future policy benefit reserve	229	(574)	(567)	(919)
Increase (decrease) in unearned premiums	72,212	(186,162)	126,535	(173,569)
Increase (decrease) in other net payable to reinsurers	25,577	30,025	29,765	26,903
Increase (decrease) in losses in course of payment	81,362	(20,878)	230,135	10,810
Change in equity adjustments in limited partnerships	(18,994)	(15,972)	(36,350)	(28,492)
Change in other assets and liabilities, net	(31,052)	113,547	(74,866)	108,193
Non-cash compensation expense	4,551	7,652	10,165	13,374
Amortization of bond premium (accrual of bond discount)	16,900	16,200	35,507	30,966
Amortization of underwriting discount on senior notes	14	12	27	25
Net realized capital (gains) losses	(33,905)	16,580	(160,640)	(82,139)
Net cash provided by (used in) operating activities	170,175	138,772	395,847	304,510

**CASH FLOWS FROM INVESTING
ACTIVITIES:**

Proceeds from fixed maturities matured/called - available for sale, at market value	706,674	381,216	1,318,718	791,593
Proceeds from fixed maturities matured/called - available for sale, at fair value	4,213	-	7,213	-
Proceeds from fixed maturities sold - available for sale, at market value	376,688	203,240	631,184	421,318
Proceeds from fixed maturities sold - available for sale, at fair value	13,678	1,862	17,342	61,143
Proceeds from equity securities sold - available for sale, at market value	44,194	34,549	45,423	54,792
Proceeds from equity securities sold - available for sale, at fair value	252,594	53,950	358,769	297,606
Distributions from other invested assets	33,846	12,798	117,548	21,017
Cost of fixed maturities acquired - available for sale, at market value	(1,105,870)	(641,902)	(2,122,159)	(1,254,576)
Cost of fixed maturities acquired - available for sale, at fair value	(1,411)	(2,382)	(2,706)	(5,506)
Cost of equity securities acquired - available for sale, at market value	(51,921)	(6,202)	(53,487)	(12,654)
Cost of equity securities acquired - available for sale, at fair value	(121,327)	(79,934)	(243,944)	(193,279)
Cost of other invested assets acquired	(4,617)	(16,680)	(11,301)	(28,592)
Net change in short-term investments	53,629	(5,025)	132,136	(262,730)
Net change in unsettled securities transactions	64,135	(32,856)	55,668	5,966
Net cash provided by (used in) investing activities	264,505	(97,366)	250,404	(103,902)

**CASH FLOWS FROM FINANCING
ACTIVITIES:**

Common shares issued during the period, net	19,651	15,344	46,569	17,955
Purchase of treasury shares	(211,323)	(100,000)	(449,955)	(224,999)
Revolving credit borrowings	40,000	-	40,000	-
Net cost of junior subordinated debt securities maturing	(329,897)	-	(329,897)	-
Dividends paid to shareholders	(23,315)	(25,129)	(47,546)	(50,770)
Net cash provided by (used in) financing activities	(504,884)	(109,785)	(740,829)	(257,814)

**EFFECT OF EXCHANGE RATE
CHANGES ON CASH**

	(14,796)	(4,817)	(3,336)	7,406
Net increase (decrease) in cash	(85,000)	(73,196)	(97,914)	(49,800)
Cash, beginning of period	524,136	472,047	537,050	448,651

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Cash, end of period	\$	439,136	\$ 398,851	\$ 439,136	\$ 398,851
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SUPPLEMENTAL CASH FLOW
INFORMATION:

Income taxes paid (recovered)	\$	47,550	\$ 12,617	\$ 66,738	\$ 23,801
Interest paid		17,280	20,387	23,281	26,085

Non-cash transaction:

Conversion of equity securities - available for sale, at market value,
to fixed

maturity securities - available for sale,
at market value, including accrued

interest at time of conversion	-	92,981	-	92,981
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The accompanying notes are an
integral part of the consolidated
financial statements.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the Three and Six Months Ended June 30, 2013 and 2012

1. GENERAL

Everest Re Group, Ltd. (“Group”), a Bermuda company, through its subsidiaries, principally provides reinsurance and insurance in the U.S., Bermuda and international markets. As used in this document, “Company” means Group and its subsidiaries.

2. BASIS OF PRESENTATION

The unaudited consolidated financial statements of the Company for the three and six months ended June 30, 2013 and 2012 include all adjustments, consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair statement of the results on an interim basis. Certain financial information, which is normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), has been omitted since it is not required for interim reporting purposes. The December 31, 2012 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The results for the three and six months ended June 30, 2013 and 2012 are not necessarily indicative of the results for a full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2012, 2011 and 2010 included in the Company’s most recent Form 10-K filing.

All intercompany accounts and transactions have been eliminated.

Certain reclassifications and format changes have been made to prior period amounts to conform to the current period presentation.

Application of Recently Issued Accounting Standard Changes.

Intangibles-Goodwill or Other. In September 2011, the Financial Accounting Standards Board (“FASB”) amended the authoritative guidance for disclosures on Goodwill Impairment. The amendment allows an entity first to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis in determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for periods beginning after December 15, 2011. The Company implemented this guidance as of January 1, 2012.

Presentation of Comprehensive Income. In June 2011, FASB issued amendments to existing guidance to provide two alternatives for the presentation of comprehensive income. Components of net income and comprehensive income can either be presented within a single, continuous financial statement or be presented in two separate but consecutive financial statements. The Company has chosen to present the components of net income and comprehensive income in a single, continuous financial statement. The guidance is effective for reporting periods beginning after December 15, 2011. The Company implemented this guidance as of January 1, 2012. In February, 2013, the FASB issued an additional amendment for the presentation of amounts reclassified out of accumulated other comprehensive income by component. The Company implemented the proposed guidance as of January 1, 2013.

Common Fair Value Measurement. In May 2011, FASB issued amendments to existing guidance to achieve common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards. The amendments change wording used to describe many GAAP fair value measurement requirements and disclosures.

FASB does not intend for the amendments to cause a change in application of fair value accounting guidance. The guidance is effective for reporting periods beginning after December 15, 2011. The Company implemented this guidance prospectively as of January 1, 2012.

Treatment of Insurance Contract Acquisition Costs. In October 2010, the FASB issued authoritative guidance for the accounting for costs associated with acquiring or renewing insurance contracts. The guidance identifies the incremental direct costs of contract acquisition and costs directly related to acquisition activities that should be capitalized. This guidance is effective for reporting periods beginning after December 15, 2011. The Company implemented this guidance as of January 1, 2012 and determined that \$13,492 thousand of previously deferrable acquisition costs would be expensed during 2012 and 2013, including \$10,876 thousand and \$2,616 thousand expensed during 2012 and in the six months ended June 30, 2013, respectively. No additional expense will be incurred related to this guidance implementation in future periods.

3. INVESTMENTS

The amortized cost, market value and gross unrealized appreciation and depreciation of available for sale, fixed maturity and equity security investments, carried at market value, are as follows for the periods indicated:

(Dollars in thousands)	At June 30, 2013			Market Value
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	
Fixed maturity securities				
U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	\$ 288,613	\$ 6,411	\$ (1,958)	\$ 293,066
Obligations of U.S. states and political subdivisions	1,053,722	50,344	(8,017)	1,096,049
Corporate securities	3,774,268	166,423	(27,371)	3,913,320
Asset-backed securities	140,042	4,830	(406)	144,466
Mortgage-backed securities				
Commercial	290,176	19,934	(1,989)	308,121
Agency residential	2,385,213	40,914	(29,224)	2,396,903
Non-agency residential	5,901	259	(256)	5,904
Foreign government securities	1,785,275	88,509	(23,884)	1,849,900
Foreign corporate securities	2,820,961	97,929	(46,664)	2,872,226
Total fixed maturity securities	\$ 12,544,171	\$ 475,553	\$ (139,769)	\$ 12,879,955
Equity securities	\$ 142,409	\$ 4,106	\$ (6,318)	\$ 140,197

(Dollars in thousands)	At December 31, 2012			Market Value
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	
Fixed maturity securities				
U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	\$ 302,050	\$ 11,079	\$ (1,007)	\$ 312,122
Obligations of U.S. states and political subdivisions	1,214,990	78,097	(1,124)	1,291,963
Corporate securities	3,794,979	247,439	(7,098)	4,035,320
Asset-backed securities	169,615	7,296	(333)	176,578
Mortgage-backed securities				
Commercial	294,596	27,965	(2,473)	320,088
Agency residential	2,091,672	63,794	(3,331)	2,152,135
Non-agency residential	7,660	590	(201)	8,049
Foreign government securities	1,785,738	132,947	(6,457)	1,912,228
Foreign corporate securities	2,783,580	159,632	(10,038)	2,933,174
Total fixed maturity securities	\$ 12,444,880	\$ 728,839	\$ (32,062)	\$ 13,141,657
Equity securities	\$ 131,630	\$ 11,864	\$ (1)	\$ 143,493

The \$1,849,900 thousand of foreign government securities at June 30, 2013 included \$816,908 thousand of European sovereign securities. Approximately 52.1%, 20.2%, 6.5% and 5.3% of European sovereign securities represented securities held in the governments of the United Kingdom, France, Austria and the Netherlands, respectively. No other countries represented more than 5% of the European sovereign securities. The Company held no sovereign securities of Portugal, Italy, Ireland, Greece or Spain at June 30, 2013.

In accordance with FASB guidance, the Company reclassified the non-credit portion of other-than-temporary impairments from retained earnings into accumulated other comprehensive income (loss), on April 1, 2009. The table below presents the pre-tax cumulative unrealized appreciation (depreciation) on those corporate securities, for the periods indicated:

(Dollars in thousands)	At December 31,	
	At June 30, 2013	2012
Pre-tax cumulative unrealized appreciation (depreciation)	\$ 3,376	\$ 4,748

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.

(Dollars in thousands)	At June 30, 2013		At December 31, 2012	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Fixed maturity securities – available for sale:				
Due in one year or less	\$978,756	\$993,082	\$944,446	\$957,775
Due after one year through five years	5,614,941	5,817,795	5,463,158	5,741,258
Due after five years through ten years	2,087,888	2,114,695	2,331,593	2,511,525
Due after ten years	1,041,254	1,098,989	1,142,140	1,274,249
Asset-backed securities	140,042	144,466	169,615	176,578
Mortgage-backed securities:				
Commercial	290,176	308,121	294,596	320,088
Agency residential	2,385,213	2,396,903	2,091,672	2,152,135
Non-agency residential	5,901	5,904	7,660	8,049
Total fixed maturity securities	\$12,544,171	\$12,879,955	\$12,444,880	\$13,141,657

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)	Three Months Ended		Six Months Ended	
	2013	June 30, 2012	2013	June 30, 2012
Increase (decrease) during the period between the market value and cost of investments carried at market value, and deferred taxes thereon:				
Fixed maturity securities	\$(311,674)	\$9,352	\$(359,621)	\$70,739
Fixed maturity securities, other-than-temporary impairment	(1,144)	559	(1,372)	1,461
Equity securities	(12,058)	(12,029)	(14,075)	10,821
Other invested assets	-	-	-	-
Change in unrealized appreciation (depreciation), pre-tax	(324,876)	(2,118)	(375,068)	83,021
Deferred tax benefit (expense)	50,402	53	49,667	(4,724)
Deferred tax benefit (expense), other-than-temporary impairment	106	17	140	24
Change in unrealized appreciation (depreciation), net of deferred taxes, included in shareholders' equity	\$(274,368)	\$(2,048)	\$(325,261)	\$78,321

The Company frequently reviews all of its fixed maturity, available for sale securities for declines in market value and focuses its attention on securities whose fair value has fallen below 80% of their amortized cost at the time of review. The Company then assesses whether the decline in value is temporary or other-than-temporary. In making its assessment, the Company evaluates the current market and interest rate environment as well as specific issuer information. Generally, a change in a security's value caused by a change in the market, interest rate or foreign exchange environment does not constitute an other-than-temporary impairment, but rather a temporary decline in market value. Temporary declines in market value are recorded as unrealized losses in accumulated other comprehensive income (loss). If the Company determines that the decline is other-than-temporary and the Company does not have the intent to sell the security; and it is more likely than not that the Company will not have to sell the security before recovery of its cost basis, the carrying value of the investment is written down to fair value. The fair value adjustment that is credit or foreign exchange related is recorded in net realized capital gains (losses) in the Company's consolidated statements of operations and comprehensive income (loss). The fair value adjustment that is

non-credit related is recorded as a component of other comprehensive income (loss), net of tax, and is included in accumulated other comprehensive income (loss) in the Company's consolidated balance sheets. The Company's assessments are based on the issuers current and expected future financial position, timeliness with respect to interest and/or principal payments, speed of repayments and any applicable credit enhancements or breakeven constant default rates on mortgage-backed and asset-backed securities, as well as relevant information provided by rating agencies, investment advisors and analysts.

The majority of the Company's equity securities available for sale at market value are primarily comprised of mutual fund investments whose underlying securities consist of fixed maturity securities. When a fund's value reflects an unrealized loss, the Company assesses whether the decline in value is temporary or other-than-temporary. In making its assessment, the Company considers the composition of its portfolios and their related markets, reports received from the portfolio managers and discussions with portfolio managers. If the Company determines that the declines are temporary and it has the ability and intent to continue to hold the investments, then the declines are recorded as unrealized losses in accumulated other comprehensive income (loss). If declines are deemed to be other-than-temporary, then the carrying value of the investment is written down to fair value and recorded in net realized capital gains (losses) in the Company's consolidated statements of operations and comprehensive income (loss).

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

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

	Duration of Unrealized Loss at June 30, 2013 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 50,263	\$ (1,260)	\$ 5,979	\$ (698)	\$ 56,242	\$ (1,958)
Obligations of U.S. states and political subdivisions	96,852	(7,802)	5,480	(215)	102,332	(8,017)
Corporate securities	1,043,819	(22,767)	100,852	(4,604)	1,144,671	(27,371)
Asset-backed securities	7,447	(52)	1,150	(354)	8,597	(406)
Mortgage-backed securities						
Commercial	7	-	30,459	(1,989)	30,466	(1,989)
Agency residential	877,507	(27,451)	201,292	(1,773)	1,078,799	(29,224)

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Non-agency residential	2,182	(30)	1,833	(226)	4,015	(256)
Foreign government securities	348,024	(16,432)	78,997	(7,452)	427,021	(23,884)
Foreign corporate securities	829,749	(36,355)	169,708	(10,309)	999,457	(46,664)
Total fixed maturity securities	\$ 3,255,850	\$ (112,149)	\$ 595,750	\$ (27,620)	\$ 3,851,600	\$ (139,769)
Equity securities	123,684	(6,318)	15	-	123,699	(6,318)
Total	\$ 3,379,534	\$ (118,467)	\$ 595,765	\$ (27,620)	\$ 3,975,299	\$ (146,087)

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(Dollars in thousands)	Duration of Unrealized Loss at June 30, 2013 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities						
Due in one year or less	\$ 45,998	\$ (955)	\$ 37,316	\$ (4,093)	\$ 83,314	\$ (5,048)
Due in one year through five years	1,116,155	(24,612)	198,219	(12,155)	1,314,374	(36,767)
Due in five years through ten years	911,332	(38,575)	98,517	(4,921)	1,009,849	(43,496)
Due after ten years	295,222	(20,474)	26,964	(2,109)	322,186	(22,583)
Asset-backed securities	7,447	(52)	1,150	(354)	8,597	(406)
Mortgage-backed securities	879,696	(27,481)	233,584	(3,988)	1,113,280	(31,469)
Total fixed maturity securities	\$ 3,255,850	\$ (112,149)	\$ 595,750	\$ (27,620)	\$ 3,851,600	\$ (139,769)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at June 30, 2013 were \$3,975,299 thousand and \$146,087 thousand, respectively. The market value of securities for the single issuer whose securities comprised the largest unrealized loss position at June 30, 2013, did not exceed 0.7% 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 \$112,149 thousand of unrealized losses related to fixed maturity securities that have been in an unrealized loss position for less than one year were generally comprised of domestic and foreign corporate securities, foreign government securities and agency residential mortgage-backed securities. Of these unrealized losses, \$99,293 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The \$27,620 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to domestic and foreign corporate securities as well as foreign government securities. Of these unrealized losses, \$23,590 thousand related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The gross unrealized depreciation for mortgage-backed securities included \$310 thousand related to sub-prime and alt-A loans. In all instances, there were no projected cash flow shortfalls to recover the full book value of the investments and the related interest obligations. The mortgage-backed securities still have excess credit coverage and are current on interest and principal payments.

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

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

	Duration of Unrealized Loss at December 31, 2012 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 21,468	\$ (430)	\$ 3,386	\$ (577)	\$ 24,854	\$ (1,007)
Obligations of U.S. states and political subdivisions	38,754	(1,073)	5,781	(51)	44,535	(1,124)
Corporate securities	174,665	(2,069)	71,483	(5,029)	246,148	(7,098)
Asset-backed securities	-	-	13,714	(333)	13,714	(333)
Mortgage-backed securities						