

EVEREST RE GROUP LTD
Form 10-Q
May 10, 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:
March 31, 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 May 1, 2013
Common Shares, \$0.01 par value	49,974,358

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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)	March 31, 2013 (unaudited)	December 31, 2012
ASSETS:		
Fixed maturities - available for sale, at market value (amortized cost: 2013, \$12,499,731; 2012, \$12,444,880)	\$ 13,148,334	\$ 13,141,657
Fixed maturities - available for sale, at fair value	36,127	41,470
Equity securities - available for sale, at market value (cost: 2013, \$132,027; 2012, \$131,630)	141,873	143,493
Equity securities - available for sale, at fair value	1,393,774	1,255,557
Short-term investments	781,676	860,379
Other invested assets (cost: 2013, \$536,274; 2012, \$596,590)	536,274	596,590
Cash	524,136	537,050
Total investments and cash	16,562,194	16,576,196
Accrued investment income	124,466	130,209
Premiums receivable	1,286,723	1,237,859
Reinsurance receivables	719,937	659,081
Funds held by reinsureds	221,343	228,375
Deferred acquisition costs	307,091	303,268
Prepaid reinsurance premiums	64,849	71,107
Deferred tax asset	225,881	262,024
Income taxes recoverable	41,825	68,442
Other assets	247,762	241,346
TOTAL ASSETS	\$ 19,802,071	\$ 19,777,907
LIABILITIES:		
Reserve for losses and loss adjustment expenses	\$ 9,843,262	\$ 10,069,055
Future policy benefit reserve	65,311	66,107
Unearned premium reserve	1,370,565	1,322,525
Funds held under reinsurance treaties	2,587	2,755
Commission reserves	52,729	65,533
Other net payable to reinsurers	165,364	162,778
Losses in course of payment	339,756	191,076
5.4% Senior notes due 10/15/2014	249,919	249,907
6.6% Long term notes due 5/1/2067	238,358	238,357
Junior subordinated debt securities payable	329,897	329,897
Accrued interest on debt and borrowings	12,092	4,781
Equity index put option liability	64,181	79,467
Unsettled securities payable	49,962	48,830
Other liabilities	201,222	213,372

Total liabilities	12,985,205	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) 67,604 and (2012) 67,105 outstanding before treasury shares	676	671
Additional paid-in capital	1,978,966	1,946,439
Accumulated other comprehensive income (loss), net of deferred income tax expense		
(benefit) of \$116,965 at 2013 and \$119,629 at 2012	466,436	537,049
Treasury shares, at cost; 17,638 shares (2013) and 15,687 shares (2012)	(1,602,590)	(1,363,958)
Retained earnings	5,973,378	5,613,266
Total shareholders' equity	6,816,866	6,733,467
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 19,802,071	\$ 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)	2013	Three Months Ended March 31, 2012 (unaudited)
REVENUES:		
Premiums earned	\$ 1,088,759	\$ 997,978
Net investment income	145,781	152,438
Net realized capital gains (losses):		
Other-than-temporary impairments on fixed maturity securities	(191)	(5,888)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-
Other net realized capital gains (losses)	126,926	104,607
Total net realized capital gains (losses)	126,735	98,719
Net derivative gain (loss)	15,285	6,183
Other income (expense)	(8,887)	(6,194)
Total revenues	1,367,673	1,249,124
CLAIMS AND EXPENSES:		
Incurred losses and loss adjustment expenses	592,644	602,466
Commission, brokerage, taxes and fees	233,046	237,503
Other underwriting expenses	52,946	48,495
Corporate expenses	5,717	4,661
Interest, fees and bond issue cost amortization expense	13,481	13,178
Total claims and expenses	897,834	906,303
INCOME (LOSS) BEFORE TAXES	469,839	342,821
Income tax expense (benefit)	85,496	38,117
NET INCOME (LOSS)	\$ 384,343	\$ 304,704
Other comprehensive income (loss), net of tax:		
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	(46,802)	80,127
Less: reclassification adjustment for realized losses (gains) included in net income (loss)	(4,091)	242
Total URA(D) on securities arising during the period	(50,893)	80,369
Foreign currency translation adjustments	(21,066)	15,870
Pension adjustments	1,346	984
Total other comprehensive income (loss), net of tax	(70,613)	97,223
COMPREHENSIVE INCOME (LOSS)	\$ 313,730	\$ 401,927
EARNINGS PER COMMON SHARE:		
Basic	\$ 7.56	\$ 5.70

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Diluted	7.50	5.68
Dividends declared	0.48	0.48

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)	2013	Three Months Ended March 31, 2012 (unaudited)
COMMON SHARES (shares outstanding):		
Balance, beginning of period	51,417,962	53,735,551
Issued during the period, net	498,157	266,698
Treasury shares acquired	(1,950,307)	(1,377,429)
Balance, end of period	49,965,812	52,624,820
COMMON SHARES (par value):		
Balance, beginning of period	\$ 671	\$ 665
Issued during the period, net	5	2
Balance, end of period	676	667
ADDITIONAL PAID-IN CAPITAL:		
Balance, beginning of period	1,946,439	1,892,988
Share-based compensation plans	32,527	8,334
Balance, end of period	1,978,966	1,901,322
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES:		
Balance, beginning of period	537,049	366,978
Net increase (decrease) during the period	(70,613)	97,223
Balance, end of period	466,436	464,201
RETAINED EARNINGS:		
Balance, beginning of period	5,613,266	4,884,714
Net income (loss)	384,343	304,704
Dividends declared (\$0.48 per share in 2013 and 2012)	(24,231)	(25,641)
Balance, end of period	5,973,378	5,163,777
TREASURY SHARES AT COST:		
Balance, beginning of period	(1,363,958)	(1,073,970)
Purchase of treasury shares	(238,632)	(124,999)
Balance, end of period	(1,602,590)	(1,198,969)
TOTAL SHAREHOLDERS' EQUITY, END OF PERIOD	\$ 6,816,866	\$ 6,330,998

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

EVEREST RE GROUP, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	2013	Three Months Ended March 31, 2012 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 384,343	\$ 304,704
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease (increase) in premiums receivable	(53,067)	37,271
Decrease (increase) in funds held by reinsureds, net	4,584	(2,266)
Decrease (increase) in reinsurance receivables	(92,736)	20,782
Decrease (increase) in current income taxes	26,658	(3,309)
Decrease (increase) in deferred tax asset	37,569	30,005
Decrease (increase) in prepaid reinsurance premiums	3,446	5,993
Increase (decrease) in reserve for losses and loss adjustment expenses	(127,942)	(172,164)
Increase (decrease) in future policy benefit reserve	(796)	(345)
Increase (decrease) in unearned premiums	54,323	12,593
Increase (decrease) in other net payable to reinsurers	4,188	(3,122)
Increase (decrease) in losses in course of payment	148,773	31,688
Change in equity adjustments in limited partnerships	(17,356)	(12,520)
Change in other assets and liabilities, net	(43,814)	(5,354)
Non-cash compensation expense	5,614	5,722
Amortization of bond premium (accrual of bond discount)	18,607	14,766
Amortization of underwriting discount on senior notes	13	13
Net realized capital (gains) losses	(126,735)	(98,719)
Net cash provided by (used in) operating activities	225,672	165,738
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from fixed maturities matured/called - available for sale, at market value	612,044	410,377
Proceeds from fixed maturities matured/called - available for sale, at fair value	3,000	-
Proceeds from fixed maturities sold - available for sale, at market value	254,496	218,078
Proceeds from fixed maturities sold - available for sale, at fair value	3,664	59,281
Proceeds from equity securities sold - available for sale, at market value	1,229	20,243
Proceeds from equity securities sold - available for sale, at fair value	106,175	243,656
Distributions from other invested assets	83,702	8,219
Cost of fixed maturities acquired - available for sale, at market value	(1,016,289)	(612,674)
Cost of fixed maturities acquired - available for sale, at fair value	(1,295)	(3,124)
Cost of equity securities acquired - available for sale, at market value	(1,566)	(6,452)
Cost of equity securities acquired - available for sale, at fair value	(122,617)	(113,345)
Cost of other invested assets acquired	(6,684)	(11,912)
Net change in short-term investments	78,507	(257,705)
Net change in unsettled securities transactions	(8,467)	38,822
Net cash provided by (used in) investing activities	(14,101)	(6,536)

CASH FLOWS FROM FINANCING ACTIVITIES:

Common shares issued during the period, net	26,918	2,611
Purchase of treasury shares	(238,632)	(124,999)
Dividends paid to shareholders	(24,231)	(25,641)
Net cash provided by (used in) financing activities	(235,945)	(148,029)

EFFECT OF EXCHANGE RATE CHANGES ON CASH

Net increase (decrease) in cash	(12,914)	23,396
Cash, beginning of period	537,050	448,651
Cash, end of period	\$ 524,136	\$ 472,047

SUPPLEMENTAL CASH FLOW INFORMATION:

Income taxes paid (recovered)	\$ 19,188	\$ 11,184
Interest paid	6,001	5,698

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

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 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 months ended March 31, 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 months ended March 31, 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 \$1,827 thousand expensed during 2012 and in the three months ended March 31, 2013, respectively.

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)	Amortized Cost	At March 31, 2013		Market Value
		Unrealized Appreciation	Unrealized Depreciation	
Fixed maturity securities				
U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	\$ 302,681	\$ 11,445	\$ (868)	\$ 313,258
Obligations of U.S. states and political subdivisions	1,100,226	71,375	(2,062)	1,169,539
Corporate securities	3,815,878	240,061	(5,127)	4,050,812
Asset-backed securities	169,426	6,661	(313)	175,774
Mortgage-backed securities				
Commercial	292,128	25,774	(1,353)	316,549
Agency residential	2,216,455	57,478	(8,347)	2,265,586
Non-agency residential	6,462	343	(190)	6,615
Foreign government securities	1,771,167	120,088	(13,094)	1,878,161
Foreign corporate securities	2,825,308	160,348	(13,616)	2,972,040
Total fixed maturity securities	\$ 12,499,731	\$ 693,573	\$ (44,970)	\$ 13,148,334
Equity securities	\$ 132,027	\$ 9,846	\$ -	\$ 141,873
(Dollars in thousands)	Amortized Cost	At December 31, 2012		Market Value
		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 \$1,878,161 thousand of foreign government securities at March 31, 2013 included \$828,709 thousand of European sovereign securities. Approximately 50.0%, 20.6%, 6.9% and 5.2% 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 March 31, 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 March 31, 2013	At December 31, 2012
Pre-tax cumulative unrealized appreciation (depreciation)	\$ 4,520	\$ 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 March 31, 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	\$ 918,844	\$ 931,510	\$ 944,446	\$ 957,775
Due after one year through five years	5,672,641	5,970,842	5,463,158	5,741,258
Due after five years through ten years	2,180,928	2,327,733	2,331,593	2,511,525
Due after ten years	1,042,847	1,153,725	1,142,140	1,274,249
Asset-backed securities	169,426	175,774	169,615	176,578
Mortgage-backed securities:				
Commercial	292,128	316,549	294,596	320,088
Agency residential	2,216,455	2,265,586	2,091,672	2,152,135
Non-agency residential	6,462	6,615	7,660	8,049
Total fixed maturity securities	\$ 12,499,731	\$ 13,148,334	\$ 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 March 31,	
	2013	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	\$(47,947)	\$61,387
Fixed maturity securities, other-than-temporary impairment	(228)	902
Equity securities	(2,017)	22,850
Other invested assets	-	-
Change in unrealized appreciation (depreciation), pre-tax	(50,192)	85,139
Deferred tax benefit (expense)	(735)	(4,777)
Deferred tax benefit (expense), other-than-temporary impairment	34	7
Change in unrealized appreciation (depreciation), net of deferred taxes, included in shareholders' equity	\$(50,893)	\$80,369

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 March 31, 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	\$ 8,024	\$ (191)	\$ 6,030	\$ (677)	\$ 14,054	\$ (868)
Obligations of U.S. states and political subdivisions	67,022	(2,007)	4,930	(55)	71,952	(2,062)
Corporate securities	162,612	(1,602)	55,858	(3,525)	218,470	(5,127)
Asset-backed securities	-	-	1,170	(313)	1,170	(313)
Mortgage-backed securities						
Commercial	-	-	11,044	(1,353)	11,044	(1,353)
Agency residential	727,605	(7,083)	87,113	(1,264)	814,718	(8,347)

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Non-agency residential	-	-	1,998	(190)	1,998	(190)
Foreign government securities	158,124	(4,429)	89,821	(8,665)	247,945	(13,094)
Foreign corporate securities	274,756	(5,506)	109,317	(8,110)	384,073	(13,616)
Total fixed maturity securities	\$ 1,398,143	\$ (20,818)	\$ 367,281	\$ (24,152)	\$ 1,765,424	\$ (44,970)
Equity securities	-	-	15	-	15	-
Total	\$ 1,398,143	\$ (20,818)	\$ 367,296	\$ (24,152)	\$ 1,765,439	\$ (44,970)

(Dollars in thousands)	Duration of Unrealized Loss at March 31, 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	\$ 26,591	\$ (406)	\$ 32,583	\$ (4,555)	\$ 59,174	\$ (4,961)
Due in one year through five years	273,732	(3,575)	173,245	(14,097)	446,977	(17,672)
Due in five years through ten years	230,583	(4,254)	38,456	(1,598)	269,039	(5,852)
Due after ten years	139,632	(5,500)	21,672	(782)	161,304	(6,282)
Asset-backed securities	-	-	1,170	(313)	1,170	(313)
Mortgage-backed securities	727,605	(7,083)	100,155	(2,807)	827,760	(9,890)
Total fixed maturity securities	\$ 1,398,143	\$ (20,818)	\$ 367,281	\$ (24,152)	\$ 1,765,424	\$ (44,970)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at March 31, 2013 were \$1,765,439 thousand and \$44,970 thousand, respectively. There were no unrealized losses on a single issuer that exceeded 0.05% of the market value of the fixed maturity securities at March 31, 2013. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The \$20,818 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 government securities, foreign corporate securities and agency residential mortgage-backed securities. Of these unrealized losses, \$19,116 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The \$24,152 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, \$21,864 thousand related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The non-investment grade securities with unrealized losses were mainly comprised of corporate and commercial mortgage-backed securities. The gross unrealized depreciation for mortgage-backed securities included \$238 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						
Commercial	-	-	50,999	(2,473)	50,999	(2,473)
Agency residential	396,016	(2,215)	67,781	(1,116)	463,797	(3,331)
Non-agency residential	-	-	2,105	(201)	2,105	(201)
Foreign government securities	85,032	(923)	66,329	(5,534)	151,361	(6,457)
Foreign corporate securities	197,029	(2,802)	103,720	(7,236)	300,749	(10,038)
Total fixed maturity securities	\$ 912,964	\$ (9,512)	\$ 385,298	\$ (22,550)	\$ 1,298,262	\$ (32,062)
Equity securities	-	-	13	(1)	13	(1)
Total	\$ 912,964	\$ (9,512)	\$ 385,311	\$ (22,551)	\$ 1,298,275	\$ (32,063)

	Duration of Unrealized Loss at December 31, 2012 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
Fixed maturity securities						
Due in one year or less	\$ 21,909	\$ (502)	\$ 30,177	\$ (3,631)	\$ 52,086	\$ (4,133)
Due in one year through five years	261,625	(3,891)	163,480	(12,748)	425,105	(16,639)
Due in five years through ten years	135,391	(1,409)	37,926	(1,431)	173,317	(2,840)
Due after ten years	98,023	(1,495)	19,116	(617)	117,139	(2,112)
Asset-backed securities	-	-	13,714	(333)	13,714	(333)
Mortgage-backed securities	396,016	(2,215)	120,885	(3,790)	516,901	(6,005)
Total fixed maturity securities	\$ 912,964	\$ (9,512)	\$ 385,298	\$ (22,550)	\$ 1,298,262	\$ (32,062)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at December 31, 2012 were \$1,298,275 thousand and \$32,063 thousand, respectively. There were no unrealized losses on a single issuer that exceeded 0.02% of the market value of the fixed maturity securities at December 31, 2012. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The \$9,512 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, as well as agency residential mortgage-backed securities. Of these unrealized losses, \$7,982 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The \$22,550 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to domestic and foreign corporate securities, foreign government securities and commercial mortgage-backed securities. Of these unrealized losses, \$19,150 thousand related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The non-investment grade securities with unrealized losses were mainly comprised of corporate and commercial mortgage-backed securities. The gross unrealized depreciation for mortgage-backed securities included \$250 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 components of net investment income are presented in the table below for the periods indicated:

(Dollars in thousands)	Three Months Ended March 31,	
	2013	2012
Fixed maturities	\$ 120,757	\$ 124,344
Equity securities	9,741	17,276
Short-term investments and cash	304	169
Other invested assets		
Limited partnerships	17,483	12,847
Other	2,321	1,518
Gross investment income before adjustments	150,606	156,154
Funds held interest income (expense)	4,429	3,113
Future policy benefit reserve income (expense)	(531)	(638)
Gross investment income	154,504	158,629
Investment expenses	(8,723)	(6,191)
Net investment income	\$ 145,781	\$ 152,438

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

The Company had contractual commitments to invest up to an additional \$103,542 thousand in limited partnerships at March 31, 2013. These commitments will be funded when called in accordance with the partnership agreements, which have investment periods that expire, unless extended, through 2016.

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

(Dollars in thousands)	Three Months Ended March 31,	
	2013	2012
Fixed maturity securities, market value:		
Other-than-temporary impairments	\$ (191)	\$ (5,888)
Gains (losses) from sales	4,877	4,067
Fixed maturity securities, fair value:		
Gains (losses) from sales	(58)	5,207
Gains (losses) from fair value adjustments	84	3,032
Equity securities, market value:		
Gains (losses) from sales	233	512
Equity securities, fair value:		
Gains (losses) from sales	8,019	22,417
Gains (losses) from fair value adjustments	113,757	69,373
Short-term investments gain (loss)	14	(1)
Total net realized capital gains (losses)	\$ 126,735	\$ 98,719

The Company recorded as net realized capital gains (losses) in the consolidated statements of operations and comprehensive income (loss) both fair value re-measurements and write-downs in the value of securities deemed to be

impaired on an other-than-temporary basis as displayed in the table above. The Company had no other-than-temporary impaired securities where the impairment had both a credit and non-credit component.

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

(Dollars in thousands)	Three Months Ended March 31,	
	2013	2012
Proceeds from sales of fixed maturity securities	\$ 258,160	\$ 277,359
Gross gains from sales	7,713	13,889
Gross losses from sales	(2,894)	(4,615)
Proceeds from sales of equity securities	\$ 107,404	\$ 263,899
Gross gains from sales	9,102	27,513
Gross losses from sales	(850)	(4,584)

4. DERIVATIVES

The Company sold seven equity index put option contracts, based on two indices, in 2001 and 2005, which remain outstanding. The Company sold these equity index put options as insurance products with the intent of achieving a profit. These equity index put option contracts meet the definition of a derivative under FASB guidance and the Company's position in these equity index put option contracts is unhedged. Accordingly, these equity index put option contracts are carried at fair value in the consolidated balance sheets with changes in fair value recorded in the consolidated statements of operations and comprehensive income (loss).

The Company sold six equity index put option contracts, based on the Standard & Poor's 500 ("S&P 500") index, for total consideration, net of commissions, of \$22,530 thousand. At March 31, 2013, fair value for these equity index put option contracts was \$56,451 thousand. These equity index put option contracts each have a single exercise date, with maturities ranging from 12 to 30 years and strike prices ranging from \$1,141.21 to \$1,540.63. No amounts will be payable under these equity index put option contracts if the S&P 500 index is at, or above, the strike prices on the exercise dates, which fall between June 2017 and March 2031. If the S&P 500 index is lower than the strike price on the applicable exercise date, the amount due would vary proportionately with the percentage by which the index is below the strike price. Based on historical index volatilities and trends and the March 31, 2013 S&P 500 index value, the Company estimates the probability that each equity index put option contract of the S&P 500 index falling below the strike price on the exercise date to be less than 38%. The theoretical maximum payouts under these six equity index put option contracts would occur if on each of the exercise dates the S&P 500 index value were zero. At March 31, 2013, the present value of these theoretical maximum payouts using a 3% discount factor was \$398,798 thousand. Conversely, if the contracts had all expired on March 31, 2013, with the S&P index at \$1,569.19, there would be no settlement amount.

The Company sold one equity index put option contract based on the FTSE 100 index for total consideration, net of commissions, of \$6,706 thousand. At March 31, 2013, fair value for this equity index put option contract was \$7,731 thousand. This equity index put option contract has an exercise date of July 2020 and a strike price of 5,989.75. No amount will be payable under this equity index put option contract if the FTSE 100 index is at, or above, the strike price on the exercise date. If the FTSE 100 index is lower than the strike price on the exercise date, the amount due will vary proportionately with the percentage by which the index is below the strike price. Based on historical index volatilities and trends and the March 31, 2013 FTSE 100 index value, the Company estimates the probability that the equity index put option contract of the FTSE 100 index will fall below the strike price on the exercise date to be less than 43%. The theoretical maximum payout under the equity index put option contract would occur if on the exercise date the FTSE 100 index value was zero. At March 31, 2013, the present value of the theoretical maximum payout using a 3% discount factor and current exchange rate was \$40,035 thousand. Conversely, if the contract had expired

on March 31, 2013, with the FTSE index at 6,411.70 there would be no settlement amount.

The fair value of the equity index put options can be found in the Company's consolidated balance sheets as follows:

(Dollars in thousands)			
Derivatives not designated as	Location of fair value	At	At
hedging instruments	in balance sheets	March 31, 2013	December 31, 2012
Equity index put option contracts	Equity index put option liability	\$ 64,181	\$ 79,467
Total		\$ 64,181	\$ 79,467

The change in fair value of the equity index put option contracts can be found in the Company's statement of operations and comprehensive income (loss) as follows:

(Dollars in thousands)			
Derivatives not designated as	Location of gain (loss) in statements of operations and comprehensive income	For the Three Months Ended March 31,	
hedging instruments	(loss)	2013	2012
Equity index put option contracts	Net derivative gain (loss)	\$ 15,285	\$ 6,183
Total		\$ 15,285	\$ 6,183

The Company's equity index put option contracts contain provisions that require collateralization of the fair value, as calculated by the counterparty, above a specified threshold, which is based on the Company's financial strength ratings (Moody's Investors Service, Inc.) and/or debt ratings (Standard & Poor's Ratings Services). The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on March 31, 2013, was \$64,181 thousand for which the Company had posted collateral with a market value of \$47,691 thousand. If on March 31, 2013, the Company's ratings were such that the collateral threshold was zero, the Company's collateral requirement would increase by \$55,000 thousand.

5. FAIR VALUE

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 March 31, 2013 and December 31, 2012.

The Company internally manages a small public equity portfolio which had a fair value at March 31, 2013 of \$139,032 thousand and all prices were obtained from publically published sources.

Equity securities in U.S. denominated currency are categorized as Level 1, Quoted Prices in Active Markets for Identical Assets, since the securities are actively traded on an exchange and prices are based on quoted prices from the exchange. Equity securities traded on foreign exchanges are categorized as Level 2 due to potential foreign exchange adjustments to fair or market value.

Fixed maturity securities are generally categorized as Level 2, Significant Other Observable Inputs, 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. Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk) are categorized as Level 3, Significant Unobservable Inputs. These securities include broker priced securities and the Company's equity index put option contracts.

As of March 31, 2013 and December 31, 2012, all Level 3 fixed maturity securities, were priced using single non-binding broker quotes since prices for these securities were not provided by normal pricing service companies. 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.

The Company sold seven equity index put option contracts which meet the definition of a derivative. The Company's position in these contracts is unhedged. The Company records the change in fair value of equity index put option contracts in its consolidated statements of operations and comprehensive income (loss).

The fair value was calculated using an industry accepted option pricing model, Black-Scholes, which used the following assumptions:

	At March 31, 2013	
	Contracts based on S & P 500 Index	Contract based on FTSE 100 Index
Equity index	1,569.2	6,411.7
Interest rate	1.20% to 3.38%	2.09%
Time to maturity	4.1 to 18.0 yrs	7.3 yrs
Volatility	21.5% to 25.2%	24.3%

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

(Dollars in thousands)	March 31, 2013	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	\$ 313,258	\$ -	\$ 313,258	\$ -
Obligations of U.S. States and political subdivisions	1,169,539	-	1,169,539	-
Corporate securities	4,050,812	-	4,050,812	-
Asset-backed securities	175,774	-	171,088	4,686
Mortgage-backed securities				
Commercial	316,549	-	316,549	-
Agency residential	2,265,586	-	2,265,586	-
Non-agency residential	6,615	-	6,208	407
Foreign government securities	1,878,161	-	1,878,161	-
Foreign corporate securities	2,972,040	-	2,969,761	2,279
Total fixed maturities, market value	13,148,334	-	13,140,962	7,372
Fixed maturities, fair value	36,127	-	36,127	-
Equity securities, market value	141,873	126,295	15,578	-
Equity securities, fair value	1,393,774	1,255,625	138,149	-
Liabilities:				
Equity index put option contracts	\$ 64,181	\$ -	\$ -	\$ 64,181

There were no transfers between Level 1 and Level 2 for the three months ended March 31, 2013.

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

	December 31, 2012	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 312,122	\$ -	\$ 312,122	\$ -
Obligations of U.S. States and political subdivisions	1,291,963	-	1,291,963	-
Corporate securities	4,035,320	-	4,035,320	-
Asset-backed securities	176,578	-	171,729	4,849
Mortgage-backed securities				
Commercial	320,088	-	320,088	-
Agency residential	2,152,135	-	2,117,293	34,842
Non-agency residential	8,049	-	7,623	426
Foreign government securities	1,912,228	-	1,912,228	-
Foreign corporate securities	2,933,174	-	2,921,261	11,913
Total fixed maturities, market value	13,141,657	-	13,089,627	52,030
Fixed maturities, fair value	41,470	-	41,470	-
Equity securities, market value	143,493	126,395	17,098	-
Equity securities, fair value	1,255,557	1,114,997	140,560	-
Liabilities:				
Equity index put option contracts	\$ 79,467	\$ -	\$ -	\$ 79,467

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

(Dollars in thousands)	Three Months Ended March 31, 2013					Three Months Ended March 31, 2012				
	Asset-backed Securities	Foreign Corporate	Non-agency RMBS	Agency RMBS	Total	Asset-backed Securities	Foreign Corporate	Non-agency RMBS	Agency RMBS	Total
Beginning balance	\$ 4,849	\$ 11,913	\$ 426	\$ 34,842	\$ 52,030	\$ 16,937	\$ 3,044	\$ 486		\$ 20,467
Total gains or (losses) (realized/unrealized)										
Included in earnings	(99)	-	57	-	(42)	56	(4)	36		88
Included in other comprehensive income (loss)	(190)	(123)	7	-	(306)	366	149	(2)		513
Purchases, issuances and settlements	126	743	(83)	-	786	3,673	2,461	(51)		6,083
Transfers in and/or (out) of Level 3	-	(10,254)	-	(34,842)	(45,096)	(6,352)	-	-		(6,352)
Ending balance	\$ 4,686	\$ 2,279	\$ 407	\$ -	\$ 7,372	\$ 14,680	\$ 5,650	\$ 469		\$ 20,799

The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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(Some amounts may not reconcile due to rounding.)

The following table presents the activity under Level 3, fair value measurements using significant unobservable inputs for equity index put option contracts, for the periods indicated:

(Dollars in thousands)	Three Months Ended March 31,	
	2013	2012
Liabilities:		
Balance, beginning of period	\$ 79,467	\$ 69,729
Total (gains) or losses (realized/unrealized)		
Included in earnings	(15,285)	(6,183)
Included in other comprehensive income (loss)	-	-
Purchases, issuances and settlements	-	-
Transfers in and/or (out) of Level 3	-	-
Balance, end of period	\$ 64,181	\$ 63,546

The amount of total gains or losses for the period included in earnings

(or changes in net assets) attributable to the change in unrealized gains or losses relating to liabilities still held at the reporting date

\$ - \$ -

(Some amounts may not reconcile due to rounding.)

6. CAPITAL TRANSACTIONS

On October 14, 2011, the Company renewed its shelf registration statement on Form S-3ASR with the SEC, as a Well Known Seasoned Issuer. This shelf registration statement can be used by Group to register common shares, preferred shares, debt securities, warrants, share purchase contracts and share purchase units; by Holdings to register debt securities and by Everest Re Capital Trust III (“Capital Trust III”) to register trust preferred securities.

7. EARNINGS PER COMMON SHARE

Basic earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share reflect the potential dilution that would occur if options granted under various share-based compensation plans were exercised resulting in the issuance of common shares that would participate in the earnings of the entity.

Net income (loss) per common share has been computed as per below, based upon weighted average common basic and dilutive shares outstanding.

(Dollars in thousands, except per share amounts)	Three Months Ended March 31,	
	2013	2012
Net income (loss) per share:		
Numerator		
Net income (loss)	\$ 384,343	\$ 304,704
Less: dividends declared-common shares and nonvested common shares	(24,231)	(25,641)
Undistributed earnings	360,112	279,063
Percentage allocated to common shareholders (1)	99.2 %	99.2 %
	357,222	276,821
Add: dividends declared-common shareholders	24,019	25,405
Numerator for basic and diluted earnings per common share	\$ 381,241	\$ 302,225
Denominator		
Denominator for basic earnings per weighted-average common shares	50,423	53,047
Effect of dilutive securities:		
Options	399	124
Denominator for diluted earnings per adjusted weighted-average common shares	50,822	53,171
Per common share net income (loss)		
Basic	\$ 7.56	\$ 5.70
Diluted	\$ 7.50	\$ 5.68
(1)		
Basic weighted-average common shares outstanding	50,423	53,047
Basic weighted-average common shares outstanding and nonvested common shares expected to vest	50,831	53,477
Percentage allocated to common shareholders	99.2 %	99.2 %

(Some amounts may not reconcile due to rounding.)

The table below presents the options to purchase common shares that were outstanding, but were not included in the computation of earnings per diluted share as they were anti-dilutive, for the periods indicated:

	Three Months Ended March 31,	
	2013	2012
Anti-dilutive options	454	1,761,350

All outstanding options expire on or between September 18, 2013 and September 19, 2022.

8. 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.

In 1993 and prior, the Company had a business arrangement with The Prudential Insurance Company of America ("The Prudential") wherein, for a fee, the Company accepted settled claim payment obligations of certain property and casualty insurers, and, concurrently, became the owner of the annuity or assignee of the annuity proceeds funded by the property and casualty insurers specifically to fulfill these fully settled obligations. In these circumstances, the Company would be liable if The Prudential, which has an A+ (Superior) financial strength rating from A.M. Best Company ("A.M. Best"), was unable to make the annuity payments. The table below presents the estimated cost to replace all such annuities for which the Company was contingently liable for the periods indicated:

(Dollars in thousands)	At March 31, 2013	At December 31, 2012
	\$ 144,524	\$ 144,628

Prior to its 1995 initial public offering, the Company purchased annuities from an unaffiliated life insurance company with an A+ (Superior) financial strength rating from A.M. Best to settle certain claim liabilities of the company. Should the life insurance company become unable to make the annuity payments, the Company would be liable for those claim liabilities. The table below presents the estimated cost to replace all such annuities for which the Company was contingently liable for the periods indicated:

(Dollars in thousands)	At March 31, 2013	At December 31, 2012
	\$ 28,897	\$ 29,132

9. OTHER COMPREHENSIVE INCOME (LOSS)

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

(Dollars in thousands)	Three Months Ended	
	2013	March 31, 2012
Net income (loss)	\$ 384,343	\$ 304,704
Other comprehensive income (loss), before tax:		
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period		
URA(D) of investments - temporary	(45,045)	82,928
URA(D) of investments - non-credit OTTI	(228)	902
URA(D) on securities arising during the period	(45,273)	83,830
Reclassification adjustment for realized losses (gains) included in net income (loss)	(4,919)	1,309
Total URA(D) on securities arising during the period	(50,192)	85,139
Foreign currency translation adjustments	(25,156)	18,722
Reclassification adjustment for benefit plan amortization included in net income (loss)	2,070	1,513
Total other comprehensive income (loss), before tax	(73,278)	105,374
Income tax benefit (expense) related to items of other comprehensive income (loss):		
Tax benefit (expense) on URA(D) arising during the period		
Tax benefit (expense) on URA(D) of investments - temporary	(1,563)	(3,710)
Tax benefit (expense) on URA(D) of investments - non-credit OTTI	34	7
Tax benefit (expense) on URA(D) on securities arising during the period	(1,529)	(3,703)
Reclassification of tax expense (benefit) on realized losses (gains) included in net income (loss)	828	(1,067)
Total tax benefit (expense) from URA(D) arising during the period	(701)	(4,770)
Tax benefit (expense) from foreign currency translation	4,090	(2,852)
Reclassification of tax expense (benefit) on benefit plan amortization included in net income (loss)	(724)	(529)
Total income tax benefit (expense) related to items of other comprehensive income (loss):	2,665	(8,151)
Other comprehensive income (loss), net of tax	(70,613)	97,223
Comprehensive income (loss)	\$ 313,730	\$ 401,927

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

(Dollars in thousands)	At March 31,	At December
	2013	31, 2012
Beginning balance of URA (D) on securities	\$ 603,928	\$ 449,579
Current period change in URA (D) of investments - temporary	(50,699)	152,086

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Current period change in URA (D) of investments - non-credit OTTI	(194)	2,263
Ending balance of URA (D) on securities	553,035	603,928
Beginning balance of foreign currency translation adjustments	(4,368)	(27,066)
Current period change in foreign currency translation adjustments	(21,066)	22,698
Ending balance of foreign currency translation adjustments	(25,434)	(4,368)
Beginning balance of benefit plans	(62,511)	(55,535)
Current period change in benefit plans	1,346	(6,976)
Ending balance of benefit plans	(61,165)	(62,511)
Ending balance of accumulated other comprehensive income (loss)	\$ 466,436	\$ 537,049

10. CREDIT FACILITIES

The Company has three credit facilities for a total commitment of up to \$1,250,000 thousand, providing for the issuance of letters of credit and/or unsecured revolving credit lines. The following table presents the costs incurred in connection with the three credit facilities for the periods indicated:

(Dollars in thousands)	Three Months Ended	
	2013	March 31, 2012
Credit facility fees incurred	\$ 1,129	\$ 649

The terms and outstanding amounts for each facility are discussed below:

Group Credit Facility

Effective June 22, 2012, Group, Bermuda Re and Everest International entered into a four year, \$800,000 thousand senior credit facility with a syndicate of lenders, which amended and restated in its entirety the July 27, 2007, five year, \$850,000 thousand senior credit facility. Both the June 22, 2012 and July 27, 2007 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 \$4,249,963 thousand plus 25% of consolidated net income for each of Group's fiscal quarters, for which statements are available ending on or after January 1, 2012 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 March 31, 2013, was \$4,574,784 thousand. As of March 31, 2013, 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)	Bank	Commitment	At March 31, 2013		At December 31, 2012		
			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	463,019	12/31/2013	600,000	463,155	12/31/2013
	Total Wells Fargo Bank Group Credit Facility	\$ 800,000	\$ 463,019		\$ 800,000	\$ 463,155	

Holdings Credit Facility

Effective August 15, 2011, Holdings entered into a new three year, \$150,000 thousand unsecured revolving credit facility with a syndicate of lenders, replacing the August 23, 2006 five year senior revolving credit facility. Both the August 15, 2011 and August 23, 2006 revolving credit agreements, which have similar terms, are referred to as the "Holdings Credit Facility". Citibank N.A. is the administrative agent for the Holdings Credit Facility. The Holdings Credit Facility may be used for liquidity and general corporate purposes. The Holdings Credit Facility provides for the borrowing of up to \$150,000 thousand with interest at a rate selected by Holdings equal to either, (1) the Base Rate (as defined below) or (2) a periodic fixed rate equal to the Eurodollar Rate plus an applicable margin. The Base Rate means a fluctuating interest rate per annum in effect from time to time to be equal to the higher of (a) the rate of interest publicly announced by Citibank as its base rate, (b) 0.5% per annum above the Federal Funds Rate or (c) 1% above the one month

LIBOR, in each case plus the applicable margin. The amount of margin and the fees payable for the Holdings Credit Facility depends upon Holdings' senior unsecured debt rating.

The Holdings Credit Facility requires Holdings to maintain a debt to capital ratio of not greater than 0.35 to 1 and Everest Re to maintain its statutory surplus at \$1,875,000 thousand plus 25% of future aggregate net income and 25% of future aggregate capital contributions after December 31, 2010, which at March 31, 2013, was \$2,016,650 thousand. As of March 31, 2013, Holdings was in compliance with all Holdings Credit Facility covenants.

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

(Dollars in thousands)		At March 31, 2013			At December 31, 2012		
		Commitment	In Use	Date of Maturity/Expiry	Commitment	In Use	Date of Maturity/Expiry
Bank							
Citibank							
Holdings Credit Facility	\$ 150,000	\$ -		\$ 150,000	\$ -		
Total revolving credit borrowings		-			-		
Total letters of credit		1,551	12/31/2013		1,551	12/31/2013	
Total Citibank Holdings Credit Facility	\$ 150,000	\$ 1,551		\$ 150,000	\$ 1,551		

Bermuda Re Letter of Credit Facility

Bermuda Re has a \$300,000 thousand letter of credit issuance facility with Citibank N.A. referred to as the "Bermuda Re Letter of Credit Facility", which commitment is reconfirmed annually with updated fees. The Bermuda Re Letter of Credit Facility provides for the issuance of up to \$300,000 thousand of secured letters of credit to collateralize reinsurance obligations as a non-admitted reinsurer. The interest on drawn letters of credit shall be (A) 0.35% per annum of the principal amount of issued standard letters of credit (expiry of 15 months or less) and (B) 0.45% per annum of the principal amount of issued extended tenor letters of credit (expiry maximum of up to 60 months). The commitment fee on undrawn credit shall be 0.15% per annum.

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

(Dollars in thousands)		At March 31, 2013			At December 31, 2012		
		Commitment	In Use	Date of Expiry	Commitment	In Use	Date of Expiry
Bank							
Citibank							
Bilateral Letter of Credit Agreement	\$ 300,000	\$ 3,672	11/24/2013	\$ 300,000	\$ 3,672	11/24/2013	
		74,179	12/31/2013		75,472	12/31/2013	
		1,108	8/15/2014		1,104	8/15/2014	
		139	8/30/2014		139	8/30/2014	
		19,481	12/31/2014		20,838	12/31/2014	

		132,282	6/28/2017	145,215	3/31/2017
Total Citibank Bilateral Agreement	\$ 300,000	\$ 230,861		\$ 300,000	\$ 246,440

11 TRUST AGREEMENTS

Certain subsidiaries of Group have established trust agreements, which effectively use the Company's investments as collateral, as security for assumed losses payable to certain non-affiliated ceding companies. At March 31, 2013, the total amount on deposit in trust accounts was \$213,246 thousand.

12. SENIOR NOTES

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

(Dollars in thousands)	Date Issued	Date Due	Principal Amounts	March 31, 2013		December 31, 2012	
				Consolidated Balance Sheet Amount	Market Value	Consolidated Balance Sheet Amount	Market Value
5.40% Senior notes	10/12/2004	10/15/2014	\$ 250,000	\$ 249,919	\$ 265,768	\$ 249,907	\$ 266,390

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

(Dollars in thousands)	Three Months Ended	
	2013	March 31, 2012
Interest expense incurred	\$ 3,387	\$ 3,387

13. LONG TERM SUBORDINATED NOTES

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

(Dollars in thousands)	Date Issued	Original Principal Amount	Maturity Date		March 31, 2013		December 31, 2012	
			Scheduled	Final	Consolidated Sheet Amount	Market Value	Consolidated Sheet Amount	Market Value
6.6% Long term subordinated notes	04/26/2007	\$ 400,000	05/15/2037	05/01/2067	\$ 238,358	\$ 243,304	\$ 238,357	\$ 242,138

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

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

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

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

(Dollars in thousands)	Three Months Ended	
	2013	March 31, 2012
Interest expense incurred	\$ 3,937	\$ 3,937

14. JUNIOR SUBORDINATED DEBT SECURITIES PAYABLE

The following table displays Holdings' outstanding junior subordinated debt securities due to Everest Re Capital Trust II ("Capital Trust II"), a 100% owned finance subsidiary of Holdings. Fair value is primarily based on the quoted market price of the related trust preferred securities, and as such, these securities are considered Level 2 under the fair value hierarchy.

(Dollars in thousands)	Date Issued	Date Due	Amount Issued	March 31, 2013		December 31, 2012	
				Consolidated Balance Sheet Amount	Fair Value	Consolidated Balance Sheet Amount	Fair Value
6.20% Junior subordinated debt securities	03/29/2004	03/29/2034	\$ 329,897	\$ 329,897	\$ 330,793	\$ 329,897	\$ 333,225

Holdings may redeem the junior subordinated debt securities before their maturity at 100% of their principal amount plus accrued interest as of the date of redemption. The securities may be redeemed, in whole or in part, on one or more occasions at any time on or after March 30, 2009; or at any time, in whole, but not in part, within 90 days of the occurrence and continuation of a determination that the Trust may become subject to tax or the Investment Company Act.

Interest expense incurred in connection with these junior subordinated debt securities is as follows for the periods indicated:

(Dollars in thousands)	Three Months Ended	
	March 31, 2013	March 31, 2012
Interest expense incurred	\$ 5,113	\$ 5,113

Holdings considers that the mechanisms and obligations relating to the trust preferred securities, taken together, constitute a full and unconditional guarantee by Holdings of Capital Trust II's payment obligations with respect to their trust preferred securities.

Capital Trust II will redeem all of the outstanding trust preferred securities when the junior subordinated debt securities are paid at maturity on March 29, 2034. The Company may elect to redeem the junior subordinated debt securities, in whole or in part, at any time on or after March 30, 2009. If such an early redemption occurs, the outstanding trust preferred securities would also be proportionately redeemed.

There are certain regulatory and contractual restrictions on the ability of Holdings' operating subsidiaries to transfer funds to Holdings in the form of cash dividends, loans or advances. The insurance laws of the State of Delaware, where Holdings' direct insurance subsidiaries are domiciled, require regulatory approval before those subsidiaries can pay dividends or make loans or advances to Holdings that exceed certain statutory thresholds. In addition, the terms of Holdings Credit Facility (discussed in Note 10) require Everest Re, Holdings' principal insurance subsidiary, to maintain a certain statutory surplus level as measured at the end of each fiscal year. At December 31, 2012, \$2,272,346 thousand of the \$3,068,916 thousand in net assets of Holdings' consolidated subsidiaries were subject to the foregoing regulatory restrictions.

15. SEGMENT REPORTING

The U.S. Reinsurance operation writes property and casualty reinsurance and specialty lines of business, including Marine, Aviation, Surety and Accident and Health (“A&H”) business, on both a treaty and facultative basis, through reinsurance brokers, as well as directly with ceding companies primarily within the U.S. The International operation writes non-U.S. property and casualty reinsurance through Everest Re’s branches in Canada and Singapore and through offices in Brazil, Miami and New Jersey. The Bermuda operation provides reinsurance and insurance to worldwide property and casualty markets through brokers and directly with ceding companies from its Bermuda office and reinsurance to the United Kingdom and European markets through its UK branch and Ireland Re. The Insurance operation writes property and casualty insurance, including medical stop loss insurance, directly and through general agents, brokers and surplus lines brokers within the U.S. and Canada.

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

Underwriting results include earned premium less losses and loss adjustment expenses (“LAE”) incurred, commission and brokerage expenses and other underwriting expenses. We measure our underwriting results using ratios, in particular loss, commission and brokerage and other underwriting expense ratios, which, respectively, divide incurred losses, commissions and brokerage and other underwriting expenses by premiums earned. We utilize inter-affiliate reinsurance, although such reinsurance does not materially impact segment results, as business is generally reported within the segment in which the business was first produced.

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

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

U.S. Reinsurance (Dollars in thousands)	Three Months Ended March 31,	
	2013	2012
Gross written premiums	\$ 434,791	\$ 369,482
Net written premiums	434,639	368,231
Premiums earned	\$ 392,616	\$ 357,961
Incurred losses and LAE	198,158	221,980
Commission and brokerage	87,326	91,555
Other underwriting expenses	10,534	10,752
Underwriting gain (loss)	\$ 96,598	\$ 33,674

International (Dollars in thousands)	Three Months Ended March 31,	
	2013	2012
Gross written premiums	\$ 297,560	\$ 277,294
Net written premiums	293,982	277,293
Premiums earned	\$ 311,978	\$ 296,117
Incurred losses and LAE	161,199	148,172

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Commission and brokerage	71,444	71,191
Other underwriting expenses	7,930	6,740
Underwriting gain (loss)	\$ 71,405	\$ 70,014

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Bermuda (Dollars in thousands)	Three Months Ended March 31,	
	2013	2012
Gross written premiums	\$ 195,758	\$ 187,952
Net written premiums	195,823	187,273
Premiums earned	\$ 185,333	\$ 163,901
Incurred losses and LAE	91,996	105,190
Commission and brokerage	43,651	43,284
Other underwriting expenses	7,759	7,507
Underwriting gain (loss)	\$ 41,927	\$ 7,920

Insurance (Dollars in thousands)	Three Months Ended March 31,	
	2013	2012
Gross written premiums	\$ 252,681	\$ 211,738
Net written premiums	225,249	182,065
Premiums earned	\$ 198,832	\$ 179,999
Incurred losses and LAE	141,291	127,124
Commission and brokerage	30,625	31,473
Other underwriting expenses	26,723	23,496
Underwriting gain (loss)	\$ 193	\$ (2,094)

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

(Dollars in thousands)	Three Months Ended March 31,	
	2013	2012
Underwriting gain (loss)	\$ 210,123	\$ 109,514
Net investment income	145,781	152,438
Net realized capital gains (losses)	126,735	98,719
Net derivative gain (loss)	15,285	6,183
Corporate expenses	(5,717)	(4,661)
Interest, fee and bond issue cost amortization expense	(13,481)	(13,178)
Other income (expense)	(8,887)	(6,194)
Income (loss) before taxes	\$ 469,839	\$ 342,821

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

(Dollars in thousands)	Three Months Ended March 31,	
	2013	2012
United Kingdom	\$ 147,987	\$ 114,444

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

16. SHARE-BASED COMPENSATION PLANS

For the three months ended March 31, 2013, share-based compensation awards granted were 190,687 restricted shares, granted on February 20, 2013, with a fair value of \$122.7550 per share.

17. RETIREMENT BENEFITS

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

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

Pension Benefits (Dollars in thousands)	Three Months Ended March 31,	
	2013	2012
Service cost	\$ 2,729	\$ 2,342
Interest cost	2,074	1,979
Expected return on plan assets	(2,122)	(2,109)
Amortization of prior service cost	13	13
Amortization of net (income) loss	1,904	1,426
Net periodic benefit cost	\$ 4,598	\$ 3,651

Other Benefits (Dollars in thousands)	Three Months Ended March 31,	
	2013	2012
Service cost	499	\$ 370
Interest cost	277	258
Amortization of net (income) loss	154	74
Net periodic benefit cost	\$ 930	\$ 702

The Company did not make any contributions to the qualified pension benefit plan for the three months ended March 31, 2013 and 2012.

18. RELATED-PARTY TRANSACTIONS

During the normal course of business, the Company, through its affiliates, engages in reinsurance and brokerage and commission business transactions with companies controlled by or affiliated with one or more of its outside directors. Such transactions, individually and in the aggregate, are not material to the Company's financial condition, results of operations and cash flows.

19. INCOME TAXES

The Company is domiciled in Bermuda and has significant subsidiaries and/or branches in Canada, Ireland, Singapore, the United Kingdom, and the United States. The Company's Bermuda domiciled subsidiaries are exempt from income taxation under Bermuda law until 2035. Pre-tax income generated by Group's non-Bermuda subsidiaries and the UK branch of Bermuda is subject to applicable federal, foreign, state and local taxes on corporations. Company subsidiaries domiciled in the US, as well as, the Canadian and Singapore branches of Everest Re generate US pre-tax income (loss). Foreign domiciled subsidiaries, including the UK branch of Bermuda Re, generate non-US pre-tax income (loss). Fluctuations in US and non-US pre-tax income (loss) primarily result from the impact of catastrophe losses and realized investment gains (losses) on each subsidiary and branch.

The Company generally will use the estimated annual effective tax rate approach for calculating its tax provision for interim periods as prescribed by ASC 740-270, Interim Reporting. Under the estimated annual effective tax rate approach, the estimated annual effective tax rate is applied to the interim year-to-date pre-tax income to determine the

income tax expense or benefit for the year-to-date period. The tax expense or benefit for a quarter represents the difference between the year-to-date tax expense or benefit for the current year-to-date period less such amount for the immediately preceding year-to-date period. Management considers the impact of all known events in its estimation of the Company's annual pre-tax income and effective tax rate.

During the first quarter of 2012, the Company identified an understatement in its deferred tax asset account of \$12,417 thousand. The understatement resulted from differences between filed and recorded amounts that had accumulated over several prior periods. The Company corrected this understatement in its March 31, 2012 financial statements, resulting in an additional \$12,417 thousand income tax benefit included in the income tax expense (benefit) caption in the Consolidated Statements of Operations and Comprehensive Income (Loss) and increased net income for the same amount for the quarter ended March 31, 2012. The Company also increased its Deferred tax asset in its Consolidated Balance Sheets by the same amount. The Company believes that this out of period adjustment is immaterial to its March 31, 2012 financial statements and to all prior periods. As such, the Company has not restated any prior period amounts.

20. SUBSEQUENT EVENTS

The Company has announced that on May 24, 2013, it will redeem at par value the \$329,897 thousand of 6.2% junior subordinated debt securities that were due to mature on May 29, 2034. Available funds primarily will be used for the redemption.

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

Industry Conditions.

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

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

Worldwide insurance and reinsurance market conditions continued to be very competitive, particularly in the casualty lines of business. Generally, there was ample insurance and reinsurance capacity relative to demand. Competition and its effect on rates, terms and conditions vary widely by market and coverage yet continued to be most prevalent in the U.S. casualty insurance and reinsurance markets.

However, during the fourth quarter of 2012, the industry sustained significant losses from Superstorm Sandy and also sustained significant losses during 2011 from Australian floods, the New Zealand earthquake, the earthquake and tsunami in Japan, storms in the U.S., and the Thailand floods. It is too early to determine the longer term impact on market conditions as a result of these events. While the 2011 events have resulted in meaningful rate increases for catastrophe coverages in some global catastrophe prone regions, particularly areas impacted by these losses, whether the magnitude of these 2012 and 2011 losses is sufficient to increase rates and improve market conditions for other lines of business remains to be seen.

Overall, we believe that current marketplace conditions, particularly for catastrophe coverages, provide profit opportunities for us given our strong ratings, distribution system, reputation and expertise. We continue to employ our strategy of targeting business that offers the greatest profit potential, while maintaining balance and diversification in our overall portfolio.

Financial Summary.

We monitor and evaluate our overall performance based upon financial results. The following table displays a summary of the consolidated net income (loss), ratios and shareholders' equity for the periods indicated.

(Dollars in millions)	Three Months Ended		Percentage Increase/ (Decrease)
	2013	March 31, 2012	
Gross written premiums	\$ 1,180.8	\$ 1,046.5	12.8 %
Net written premiums	1,149.7	1,014.9	13.3 %
REVENUES:			
Premiums earned	\$ 1,088.8	\$ 998.0	9.1 %
Net investment income	145.8	152.4	-4.4 %
Net realized capital gains (losses)	126.7	98.7	28.4 %
Net derivative gain (loss)	15.3	6.2	147.2 %
Other income (expense)	(8.9)	(6.2)	43.5 %
Total revenues	1,367.7	1,249.1	9.5 %
CLAIMS AND EXPENSES:			
Incurred losses and loss adjustment expenses	592.6	602.5	-1.6 %
Commission, brokerage, taxes and fees	233.0	237.5	-1.9 %
Other underwriting expenses	52.9	48.5	9.2 %
Corporate expenses	5.7	4.7	22.7 %
Interest, fees and bond issue cost amortization expense	13.5	13.2	2.3 %
Total claims and expenses	897.8	906.3	-0.9 %
INCOME (LOSS) BEFORE TAXES	469.8	342.8	37.1 %
Income tax expense (benefit)	85.5	38.1	124.3 %
NET INCOME (LOSS)	\$ 384.3	\$ 304.7	26.1 %
RATIOS:			
Loss ratio	54.4 %	60.4 %	(6.0)
Commission and brokerage ratio	21.4 %	23.8 %	(2.4)
Other underwriting expense ratio	4.9 %	4.8 %	0.1
Combined ratio	80.7 %	89.0 %	(8.3)
Balance sheet data:			
	At	At	Percentage
(Dollars in millions, except per share amounts)	March 31, 2013	December 31, 2012	Increase/ (Decrease)
Total investments and cash	\$ 16,562.2	\$ 16,576.2	-0.1 %
Total assets	19,802.1	19,777.9	0.1 %
Loss and loss adjustment expense reserves	9,843.3	10,069.1	-2.2 %
Total debt	818.2	818.2	0.0 %
Total liabilities	12,985.2	13,044.4	-0.5 %
Shareholders' equity	6,816.9	6,733.5	1.2 %
Book value per share	136.43	130.96	4.2 %

(Some amounts may not reconcile due to rounding.)

Revenues. Gross written premiums increased by 12.8% to \$1,180.8 million for the three months ended March 31, 2013, compared to \$1,046.5 million for the three months ended March 31, 2012, reflecting a \$93.4 million increase in our reinsurance business and a \$40.9 million increase in our insurance business. The increase in reinsurance premiums was due to new business, increased participations on existing business, and higher original rates on subject business. The increase in insurance premiums was primarily due to the growth in California workers' compensation, crop and non-standard auto business. Eliminating the effects of reinstatement premiums, which were higher in 2012 due to a higher level of catastrophe losses, and foreign currency fluctuations, gross written premiums were up 14% year over year. Net written

premiums increased 13.3% to \$1,149.7 million for the three months ended March 31, 2013 compared to \$1,014.9 million for the three months ended March 31, 2012, which is consistent with the increase in gross written premiums. Premiums earned increased by 9.1% to \$1,088.8 million for the three months ended March 31, 2013, compared to \$998.0 million for the three months ended March 31, 2012. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

Net Investment Income. Net investment income decreased by 4.4% to \$145.8 million for the three months ended March 31, 2013 compared with net investment income of \$152.4 million for the three months ended March 31, 2012. Net pre-tax investment income, as a percentage of average invested assets, was 3.7% for the three months ended March 31, 2013 compared to 4.0% for the three months ended March 31, 2012. The decline in income and yield was primarily the result of lower reinvestment rates for the fixed income portfolios, partially offset by an increase in our limited partnership income.

Net Realized Capital Gains (Losses). Net realized capital gains were \$126.7 million and \$98.7 million for the three months ended March 31, 2013 and 2012, respectively. The \$126.7 million was comprised of \$113.8 million of gains from fair value re-measurements and \$13.1 million of net realized capital gains from sales on our fixed maturity and equity securities, which were partially offset by \$0.2 million of other-than-temporary impairments. The net realized capital gains of \$98.7 million for the three months ended March 31, 2012 were the result of \$72.4 million of gains from fair value re-measurements and \$32.2 million of net realized capital gains from sales on our fixed maturity and equity securities which was partially offset by \$5.9 million of other-than-temporary impairments.

Net Derivative Gain (Loss). In 2005 and prior, we sold seven equity index put option contracts, which remain outstanding. These contracts meet the definition of a derivative in accordance with FASB guidance and as such, are fair valued each quarter with the change recorded as net derivative gain or loss in the consolidated statements of operations and comprehensive income (loss). As a result of these adjustments in value, we recognized net derivative gains of \$15.3 million and \$6.2 million for the three months ended March 31, 2013 and 2012, respectively. The change in the fair value of these equity index put option contracts is indicative of the change in the equity markets and interest rates over the same periods.

Other Income (Expense). We recorded other expense of \$8.9 million and \$6.2 million for the three months ended March 31, 2013 and 2012, respectively. The changes were primarily the result of fluctuations in foreign currency exchange rates for the corresponding periods.

Claims and Expenses.

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

(Dollars in millions)	Current Year	Three Months Ended March 31,		Total Incurred	Ratio %/ Pt Change
		Ratio %/ Pt Change	Prior Years		
2013					
Attritional (a)	\$ 592.6	54.4 %	\$ -	0.0 %	\$ 592.6 54.4 %
Catastrophes	-	0.0 %	-	0.0 %	- 0.0 %
A&E	-	0.0 %	-	0.0 %	- 0.0 %
Total	\$ 592.6	54.4 %	\$ -	0.0 %	\$ 592.6 54.4 %
2012					
Attritional (a)	\$ 572.6	57.4 %	\$ (0.3)	0.0 %	\$ 572.3 57.4 %
Catastrophes	30.0	3.0 %	-	0.0 %	30.0 3.0 %
A&E	-	0.0 %	0.1	0.0 %	0.1 0.0 %
Total	\$ 602.6	60.4 %	\$ (0.2)	0.0 %	\$ 602.5 60.4 %
Variance 2013/2012					
Attritional (a)	\$ 20.0	(3.0) pts	\$ 0.3	- pts	\$ 20.3 (3.0) pts
Catastrophes	(30.0)	(3.0) pts	-	- pts	(30.0) (3.0) pts
A&E	-	- pts	(0.1)	- pts	(0.1) - pts
Total	\$ (10.0)	(6.0) pts	\$ 0.2	- pts	\$ (9.9) (6.0) pts

(a) Attritional losses exclude catastrophe and Asbestos and Environmental ("A&E") losses.

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased by 1.6% to \$592.6 million for the three months ended March 31, 2013 compared to \$602.5 million for the three months ended March 31, 2012, representing 6.0 loss ratio points. Current year catastrophe losses were lower by \$30.0 million, or 3.0 points, period over period. There were no current year catastrophe losses for the three months ended March 31, 2013. The \$30.0 million of current year catastrophe losses for the three months ended March 31, 2012 related to U.S. tornadoes (\$30.0 million). Despite the increase in current year attritional losses of \$20.0 million due primarily to increased premium production, the attritional loss ratio declined by 3.0 points. This decrease in the attritional loss ratio was due, in part, to a large marine loss in 2012. In addition, the shift in the mix of business towards excess of loss business has resulted in lower attritional losses.

Commission, Brokerage, Taxes and Fees. Commission, brokerage, taxes and fees decreased by 1.9% to \$233.0 million for the three months ended March 31, 2013 compared to \$237.5 million for the three months ended March 31 2012. The decrease is due primarily to an increase in excess of loss business which carries a lower commission than pro rata business.

Other Underwriting Expenses. Other underwriting expenses were \$52.9 million and \$48.5 million for the three months ended March 31, 2013 and 2012, respectively. The increase in other underwriting expenses for the three months ended March 31, 2013 compared to March 31, 2012 was mainly due to higher compensation expenses.

Corporate Expenses. Corporate expenses, which are general operating expenses that are not allocated to segments, were \$5.7 million and \$4.7 million for the three months ended March 31, 2013 and 2012, respectively. The increases in corporate expenses were mainly due to higher compensation expense.

Interest, Fees and Bond Issue Cost Amortization Expense. Interest, fees and other bond amortization expense was \$13.5 million and \$13.2 million for the three months ended March 31, 2013 and 2012, respectively. The increase was primarily due to higher fees associated with the new Group Credit Facility effective in June, 2012.

Income Tax Expense (Benefit). We had income tax expenses of \$85.5 million and \$38.1 million for the three months ended March 31, 2013 and 2012, respectively. Our income tax is primarily a function of the statutory tax rates and corresponding pre-tax income in the jurisdictions where we operate, coupled with the impact from tax-preferenced investment income. Variations in our effective tax rate generally result from changes in the relative levels of pre-tax income among jurisdictions with different tax rates. The increase in tax expense was mainly due to the increase in taxable income resulting from higher underwriting income and net realized capital gains in 2013. The 2012 income tax expense also reflects tax benefits of \$12.4 million realized due to corrections of understatements in the deferred tax asset account.

Net Income (Loss).

Our net income was \$384.3 million and \$304.7 million for the three months ended March 31, 2013 and 2012, respectively. The increase was primarily driven by the financial component fluctuations explained above.

Ratios.

Our combined ratio decreased by 8.3 points to 80.7% for the three months ended March 31, 2013 compared to 89.0% for the three months ended March 31, 2012. The loss ratio component decreased 6.0 points for the three months ended March 31, 2013 over the same period last year primarily due to the decline in catastrophe losses in 2013 compared to 2012 and the shift towards excess of loss business which generally results in a lower loss ratio than pro rata business. The commission and brokerage ratio component slightly decreased over the same period last year due to an increase in excess of loss business which carries a lower commission than pro rata business. The other underwriting expense ratio component increased slightly from the same period last year due to higher compensation costs.

Shareholders' Equity.

Shareholders' equity increased by \$83.4 million to \$6,816.9 million at March 31, 2013 from \$6,733.5 million at December 31, 2012, principally as a result of \$384.3 million of net income, share-based compensation transactions of \$32.5 million and \$1.3 million of net benefit plan obligation adjustments, partially offset by repurchases of 2.0 million common shares for \$238.6 million, \$50.9 million of unrealized depreciation on investments, net of tax, \$24.2 million of shareholder dividends and \$21.1 million of net foreign currency translation adjustments.

Consolidated Investment Results

Net Investment Income.

Net investment income decreased by 4.4% to \$145.8 million for the three months ended March 31, 2013 compared to \$152.4 million for the three months ended March 31, 2012, primarily due to declines in income from our fixed maturities, reflective of declining reinvestment rates, and equities, due to the partial liquidation of some mutual funds, partially offset by an increase in income from our limited partnership investments.

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

(Dollars in millions)	Three Months Ended March 31,	
	2013	2012
Fixed maturities	\$ 120.8	\$ 124.3
Equity securities	9.7	17.3
Short-term investments and cash	0.3	0.2
Other invested assets		
Limited partnerships	17.5	12.8
Other	2.3	1.5
Gross investment income before adjustments	150.6	156.2
Funds held interest income (expense)	4.4	3.1
Future policy benefit reserve income (expense)	(0.5)	(0.6)
Gross investment income	154.5	158.6
Investment expenses	(8.7)	(6.2)
Net investment income	\$ 145.8	\$ 152.4

(Some amounts may not reconcile due to rounding.)

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

	At March 31, 2013	At December 31, 2012
Imbedded pre-tax yield of cash and invested assets	3.4%	3.5%
Imbedded after-tax yield of cash and invested assets	2.9%	3.0%

	Three Months Ended March 31,	
	2013	2012
Annualized pre-tax yield on average cash and invested assets	3.7%	4.0%
Annualized after-tax yield on average cash and invested assets	3.1%	3.4%

Net Realized Capital Gains (Losses).

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

(Dollars in millions)	Three Months Ended March 31,		
	2013	2012	Variance
Gains (losses) from sales:			
Fixed maturity securities, market value:			
Gains	\$ 7.6	\$ 8.5	\$ (0.9)
Losses	(2.7)	(4.4)	1.7
Total	4.9	4.1	0.8
Fixed maturity securities, fair value:			
Gains	0.1	5.4	(5.3)
Losses	(0.2)	(0.2)	-
Total	(0.1)	5.2	(5.3)
Equity securities, market value:			
Gains	0.2	0.5	(0.3)
Losses	-	-	-
Total	0.2	0.5	(0.3)
Equity securities, fair value:			
Gains	8.9	27.0	(18.1)
Losses	(0.9)	(4.6)	3.7
Total	8.0	22.4	(14.4)
Total net realized capital gains (losses) from sales:			
Gains	16.8	41.4	(24.6)
Losses	(3.7)	(9.2)	5.5
Total	13.1	32.2	(19.1)
Other-than-temporary impairments:	(0.2)	(5.9)	5.7
Gains (losses) from fair value adjustments:			
Fixed maturities, fair value	0.1	3.0	(2.9)
Equity securities, fair value	113.8	69.4	44.4
Total	113.8	72.4	41.5
Total net realized capital gains (losses)	\$ 126.7	\$ 98.7	\$ 28.0

(Some amounts may not reconcile due to rounding.)

Net realized capital gains were \$126.7 million for the three months ended March 31 2013 compared to net realized capital gains of \$98.7 million for the three months ended March 31, 2012. For the three months ended March 31, 2013, we recorded \$113.8 million of net realized capital gains due to fair value re-measurements on fixed maturity and equity securities and \$13.1 million of net realized capital gains from sales of fixed maturity and equity securities, partially offset by \$0.2 million of other-than-temporary impairments. The fixed maturity and equity sales for the three months ended March 31, 2013 related primarily to adjusting the portfolios for overall market changes and individual credit shifts along with maintaining a balanced foreign currency exposure. For the three months ended March 31,

2012, we recorded \$72.4 million of net realized capital gains due to fair value re-measurements on fixed maturity and equity securities and \$32.2 million of net realized capital gains from sales of fixed maturity and equity securities, partially offset by \$5.9 million of other-than-temporary impairments.

Segment Results.

The U.S. Reinsurance operation writes property and casualty reinsurance and specialty lines of business, including Marine, Aviation, Surety and Accident & Health (“A&H”) business, on both a treaty and facultative basis, through reinsurance brokers, as well as directly with ceding companies primarily within the U.S. The International operation writes non-U.S. property and casualty reinsurance through Everest Re’s branches in Canada and Singapore and through offices in Brazil, Miami and New Jersey. The Bermuda operation provides reinsurance and insurance to worldwide property and casualty markets through brokers and directly with ceding companies from its Bermuda office and reinsurance to the United Kingdom and European markets through its UK branch and Ireland Re. The Insurance operation writes property and casualty insurance, including medical stop loss insurance, directly and through general agents, brokers and surplus lines brokers within the U.S. and Canada.

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

Underwriting results include earned premium less losses and LAE incurred, commission and brokerage expenses and other underwriting expenses. We measure our underwriting results using ratios, in particular loss, commission and brokerage and other underwriting expense ratios, which respectively, divide incurred losses, commissions and brokerage and other underwriting expenses by premiums earned. We utilize inter-affiliate reinsurance, although such reinsurance does not materially impact segment results, as business is generally reported within the segment in which the business was first produced.

Our loss and LAE reserves are our best estimate of our ultimate liability for unpaid claims. We re-evaluate our estimates on an ongoing basis, including all prior period reserves, taking into consideration all available information and, in particular, recently reported loss claim experience and trends related to prior periods. Such re-evaluations are recorded in incurred losses in the period in which re-evaluation is made.

The following discusses the underwriting results for each of our segments for the periods indicated.

U.S. Reinsurance.

The following table presents the underwriting results and ratios for the U.S. Reinsurance segment for the periods indicated.

(Dollars in millions)	Three Months Ended March 31,			
	2013	2012	Variance	% Change
Gross written premiums	\$ 434.8	\$ 369.5	\$ 65.3	17.7 %
Net written premiums	434.6	368.2	66.4	18.0 %
Premiums earned	\$ 392.6	\$ 358.0	\$ 34.7	9.7 %
Incurred losses and LAE	198.2	222.0	(23.8)	-10.7 %
Commission and brokerage	87.3	91.6	(4.2)	-4.6 %
Other underwriting expenses	10.5	10.8	(0.2)	-2.0 %
Underwriting gain (loss)	\$ 96.6	\$ 33.7	\$ 62.9	186.9 %
				Point Chg
Loss ratio	50.5 %	62.0 %		(11.5)
Commission and brokerage ratio	22.2 %	25.6 %		(3.4)
Other underwriting expense ratio	2.7 %	3.0 %		(0.3)
Combined ratio	75.4 %	90.6 %		(15.2)

(Some amounts may not reconcile due to rounding.)

Premiums. Gross written premiums increased by 17.7% to \$434.8 million for the three months ended March 31, 2013 from \$369.5 million for the three months ended March 31, 2012, primarily due to new business opportunities, particularly for contracts with catastrophe exposed risks, as well as higher subject premium on casualty quota share business as rates began to rise in these markets. Net written premiums increased 18.0% to \$434.6 million for the three months ended March 31, 2013 compared to \$368.2 million for the three months ended March 31, 2012, which is in line with the increase in gross written premiums. Premiums earned increased by 9.7% to \$392.6 million for the three months ended March 31, 2013 compared to \$358.0 million for the three months ended March 31, 2012. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

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

(Dollars in millions)	Three Months Ended March 31,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2013						
Attritional	\$ 186.1	47.4 %	\$ (1.5)	-0.4 %	\$ 184.6	47.0 %
Catastrophes	-	0.0 %	13.6	3.5 %	13.6	3.5 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	\$ 186.1	47.4 %	\$ 12.1	3.1 %	\$ 198.2	50.5 %

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2012

Attritional	\$ 194.6	54.4 %	\$ 2.1	0.6 %	\$ 196.7	55.0 %
Catastrophes	30.0	8.4 %	(4.9)	-1.4 %	25.1	7.0 %
A&E	-	0.0 %	0.1	0.0 %	0.1	0.0 %
Total segment	\$ 224.6	62.7 %	\$ (2.6)	-0.8 %	\$ 222.0	62.0 %

Variance 2013/2012

Attritional	\$ (8.5)	(7.0) pts	\$ (3.6)	(1.0) pts	\$ (12.1)	(8.0) pts
Catastrophes	(30.0)	(8.4) pts	18.5	4.9 pts	(11.5)	(3.5) pts
A&E	-	- pts	(0.1)	- pts	(0.1)	- pts
Total segment	\$ (38.5)	(15.3) pts	\$ 14.7	3.9 pts	\$ (23.8)	(11.5) pts

(Some amounts may not reconcile due to rounding.)

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Incurred losses decreased by 10.7% to \$198.2 million for the three months ended March 31, 2013 compared to \$222.0 million for the three months ended March 31, 2012, primarily as a result of lower catastrophe losses (3.5 points) and lower attritional losses (8.0 points). There were no current year catastrophe losses in the three months ended March 31, 2013, compared to \$30.0 million of current year catastrophe losses for the three months ended March 31, 2012, which related to U.S. tornadoes. Attritional losses were negatively impacted by a large marine loss in 2012. The remainder of the favorable variance, year over year, is due to a shift in business to excess of loss contracts which generally have lower attritional losses than pro rata contracts.

Segment Expenses. Commission and brokerage expenses decreased by 4.6% to \$87.3 million for the three months ended March 31, 2013 compared to \$91.6 million for the three months ended March 31, 2012. This variance was primarily due to the shift in mix of business towards excess of loss contracts which generally carry lower commission expense than pro rata contracts. Segment other underwriting expenses decreased slightly to \$10.5 for the three months ended March 31, 2013 from \$10.8 million for the three months ended March 31, 2012.

International.

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

(Dollars in millions)	Three Months Ended March 31,			
	2013	2012	Variance	% Change
Gross written premiums	\$ 297.6	\$ 277.3	\$ 20.3	7.3 %
Net written premiums	294.0	277.3	16.7	6.0 %
Premiums earned	\$ 312.0	\$ 296.1	\$ 15.9	5.4 %
Incurred losses and LAE	161.2	148.2	13.0	8.8 %
Commission and brokerage	71.4	71.2	0.3	0.4 %
Other underwriting expenses	7.9	6.7	1.2	17.7 %
Underwriting gain (loss)	\$ 71.4	\$ 70.0	\$ 1.4	2.0 %
				Point Chg
Loss ratio	51.7 %	50.0 %		1.7
Commission and brokerage ratio	22.9 %	24.0 %		(1.1)
Other underwriting expense ratio	2.5 %	2.4 %		0.1
Combined ratio	77.1 %	76.4 %		0.7

(Some amounts may not reconcile due to rounding.)

Premiums. Gross written premiums increased by 7.3% to \$297.6 million for the three months ended March 31, 2013 compared to \$277.3 million for the three months ended March 31, 2012, primarily due to an increase in new business and higher premium rates on renewals, particularly for contracts with catastrophe exposed risks. Net written premiums increased by 6.0% to \$294.0 million for the three months ended March 31, 2013 compared to \$277.3 million for the three months ended March 31, 2012, principally as a result of the increase in gross written premiums. Premiums earned increased 5.4% to \$312.0 million for the three months ended March 31, 2013 compared to \$296.1 million for the three months ended March 31, 2012. The change in premiums earned is comparable to the change in net written premiums.

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

(Dollars in millions)	Current Year	Three Months Ended March 31,		Total Incurred	Ratio %/ Pt Change
		Ratio %/ Pt Change	Prior Years		
2013					
Attritional	\$ 164.4	52.7 %	\$ (1.3)	-0.4 %	\$ 163.1 52.3 %
Catastrophes	-	0.0 %	(1.9)	-0.6 %	(1.9) -0.6 %
Total segment	\$ 164.4	52.7 %	\$ (3.2)	-1.0 %	\$ 161.2 51.7 %
2012					
Attritional	\$ 148.6	50.1 %	\$ (2.8)	-0.9 %	\$ 145.8 49.2 %
Catastrophes	-	0.0 %	2.3	0.8 %	2.3 0.8 %
Total segment	\$ 148.6	50.1 %	\$ (0.5)	-0.1 %	\$ 148.2 50.0 %
Variance 2013/2012					
Attritional	\$ 15.8	2.6 pts	\$ 1.5	0.5 pts	\$ 17.3 3.1 pts
Catastrophes	-	- pts	(4.2)	(1.4) pts	(4.2) (1.4) pts
Total segment	\$ 15.8	2.6 pts	\$ (2.7)	(0.9) pts	\$ 13.0 1.7 pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE increased by 8.8% to \$161.2 million for the three months ended March 31, 2013 compared to \$148.2 million for the three months ended March 31, 2012, representing 1.7 loss ratio points. There were no current year catastrophe losses for the three months ended March 31, 2013 and 2012, respectively. Current years' attritional losses increased by \$15.8 million primarily due to the increase in premiums earned.

Segment Expenses. Commission and brokerage increased slightly to \$71.4 million for the three months ended March 31, 2013 compared to \$71.2 million for the three months ended March 31, 2012 driven by the rise in premium but the commission ratio was down from 24.0% to 22.9% due to a shift in the business mix towards excess of loss, which generally has a lower commission expense. Segment other underwriting expenses increased to \$7.9 million for the three months ended March 31, 2013 compared to \$6.7 million for the same period in 2012. The increase relates to higher compensation expenses.

Bermuda.

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

(Dollars in millions)	Three Months Ended March 31,			
	2013	2012	Variance	% Change
Gross written premiums	\$ 195.8	\$ 188.0	\$ 7.8	4.2 %
Net written premiums	195.8	187.3	8.6	4.6 %
Premiums earned	\$ 185.3	\$ 163.9	\$ 21.4	13.1 %
Incurred losses and LAE	92.0	105.2	(13.2)	-12.5 %
Commission and brokerage	43.7	43.3	0.4	0.8 %
Other underwriting expenses	7.8	7.5	0.3	3.4 %

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Underwriting gain (loss)	\$ 41.9	\$ 7.9	\$ 34.0	NM
				Point Chg
Loss ratio	49.6 %	64.2 %		(14.6)
Commission and brokerage ratio	23.6 %	26.4 %		(2.8)
Other underwriting expense ratio	4.2 %	4.6 %		(0.4)
Combined ratio	77.4 %	95.2 %		(17.8)

(NM, not meaningful.)

(Some amounts may not reconcile due to rounding.)

Premiums. Gross written premiums increased 4.2% to \$195.8 million for the three months ended March 31, 2013 compared to \$188.0 million for the three months ended March 31, 2012, primarily due to continued growth of new business and increased premium on existing business written in our Bermuda and Ireland offices. Net written premiums increased 4.6% to \$195.8 million for the three months ended March 31, 2013 compared to \$187.3 million for the three months ended March 31, 2012, in line with the increase in gross written premiums. Premiums earned increased 13.1% to \$185.3 million for the three months ended March 31, 2013 compared to \$163.9 million for the three months ended March 31, 2012. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

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

(Dollars in millions)	Current Year	Three Months Ended March 31,		Total Incurred	Ratio %/ Pt Change	
		Ratio %/ Pt Change	Prior Years			
2013						
Attritional	\$ 103.6	55.9 %	\$ -	0.0 %	\$ 103.6	55.9 %
Catastrophes	-	0.0 %	(11.6)	-6.3 %	(11.6)	-6.3 %
Total segment	\$ 103.6	55.9 %	\$ (11.6)	-6.3 %	\$ 92.0	49.6 %
2012						
Attritional	\$ 102.3	62.5 %	\$ 0.4	0.2 %	\$ 102.7	62.7 %
Catastrophes	-	0.0 %	2.5	1.5 %	2.5	1.5 %
Total segment	\$ 102.3	62.5 %	\$ 2.9	1.7 %	\$ 105.2	64.2 %
Variance 2013/2012						
Attritional	\$ 1.3	(6.6) pts	\$ (0.4)	(0.2) pts	\$ 0.9	(6.8) pts
Catastrophes	-	- pts	(14.1)	(7.8) pts	(14.1)	(7.8) pts
Total segment	\$ 1.3	(6.6) pts	\$ (14.5)	(8.0) pts	\$ (13.2)	(14.6) pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased by 12.5% to \$92.0 million for the three months ended March 31, 2013 compared to \$105.2 million for the three months ended March 31, 2012. The decrease was principally due to a \$14.1 million (7.8 points) decrease in prior years' catastrophe losses. There were no current year catastrophe losses for the three months ended March 31, 2013 and 2012, respectively. The current year attritional losses increased by \$1.3 million but the current year attritional loss ratio declined by 6.6 points. This is primarily due to a shift in the mix of business to excess of loss contracts, which generally have lower attritional losses than pro rata contracts.

Segment Expenses. Commission and brokerage increased slightly to \$43.7 million for the three months ended March 31, 2013 compared to \$43.3 million for the three months ended March 31, 2012 primarily due to higher premiums in 2013, but the overall commission ratio decreased 2.8 points from 26.4% to 23.6% as a result of the shift in the mix of business to excess of loss contracts which generally have lower commission expense than pro rata contracts. Segment other underwriting expenses increased slightly to \$7.8 million for the three months ended March 31, 2013 compared to \$7.5 million for the same period in 2012. The increase is primarily attributable to higher premiums earned in 2013.

Insurance.

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

(Dollars in millions)	Three Months Ended March 31,			
	2013	2012	Variance	% Change
Gross written premiums	\$ 252.7	\$ 211.7	\$ 40.9	19.3 %
Net written premiums	225.2	182.1	43.2	23.7 %
Premiums earned	\$ 198.8	\$ 180.0	\$ 18.8	10.5 %
Incurred losses and LAE	141.3	127.1	14.2	11.1 %
Commission and brokerage	30.6	31.5	(0.8)	-2.7 %
Other underwriting expenses	26.7	23.5	3.2	13.7 %
Underwriting gain (loss)	\$ 0.2	\$ (2.1)	\$ 2.3	-109.2 %
				Point Chg
Loss ratio	71.1 %	70.6 %		0.5
Commission and brokerage ratio	15.4 %	17.5 %		(2.1)
Other underwriting expense ratio	13.4 %	13.1 %		0.3
Combined ratio	99.9 %	101.2 %		(1.3)

(Some amounts may not reconcile due to rounding.)

Premiums. Gross written premiums increased by 19.3% to \$252.7 million for the three months ended March 31, 2013 compared to \$211.7 million for the three months ended March 31, 2012. This increase was primarily driven by California workers' compensation, crop and non-standard auto business. Net written premiums increased 23.7% to \$225.2 million for the three months ended March 31, 2013 compared to \$182.1 million for the three months ended March 31, 2012, which is consistent with the change in gross written premiums. Premiums earned increased 10.5% to \$198.8 million for the three months ended March 31, 2013 compared to \$180.0 million for the three months ended March 31, 2012. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

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

(Dollars in millions)	Three Months Ended March 31,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2013						
Attrititional	\$ 138.5	69.7 %	\$ 2.8	1.4 %	\$ 141.3	71.1 %
Catastrophes	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	\$ 138.5	69.7 %	\$ 2.8	1.4 %	\$ 141.3	71.1 %
2012						
Attrititional	\$ 127.1	70.6 %	\$ -	0.0 %	\$ 127.1	70.6 %
Catastrophes	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	\$ 127.1	70.6 %	\$ -	0.0 %	\$ 127.1	70.6 %

Variance 2013/2012

Attritional	\$	11.4	(0.9) pts	\$	2.8	1.4 pts	\$	14.2	0.5 pts
Catastrophes		-	- pts		-	- pts		-	- pts
Total segment	\$	11.4	(0.9) pts	\$	2.8	1.4 pts	\$	14.2	0.5 pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE increased by 11.1% to \$141.3 million for the three months ended March 31, 2013 compared to \$127.1 million for the three months ended March 31, 2012. There were no current year catastrophe losses for the three months ended March 31, 2013 and 2012, respectively. The variance was mainly due to prior year loss development of \$2.8 million, or 1.4 points, primarily due to losses on the crop business from 2012's severe conditions and its impact on this book and the increase in premiums earned. The current year attritional loss ratio is showing improvement, primarily due to California workers' compensation business and the benefit of compounding rate increases.

Segment Expenses Commission and brokerage decreased by 2.7% to \$30.6 million for the three months ended March 31, 2013 compared to \$31.5 million for the three months ended March 31, 2012, driven by growth in direct distribution business, which has lower acquisition costs. Segment other underwriting expenses increased to \$26.7 million for the three months ended March 31, 2013 compared to \$23.5 million for the same period in 2012. This increase is primarily the result of increased premiums and compensation costs.

FINANCIAL CONDITION

Cash and Invested Assets. Aggregate invested assets, including cash and short-term investments, were \$16,562.2 million at March 31, 2013, a decrease of \$14.0 million compared to \$16,576.2 million at December 31, 2012. This decrease was primarily the result of \$238.6 million paid for share repurchases, \$70.6 million due to fluctuations in foreign currencies, \$50.2 million of unrealized depreciation, \$24.2 million paid out in dividends to shareholders and \$8.5 million of unsettled securities, partially offset by \$225.7 million of cash flows from operations, \$113.8 million in fair value re-measurements and \$17.5 million in equity adjustments of our limited partnership investments.

Our principal investment objectives are to ensure funds are available to meet our insurance and reinsurance obligations and to maximize after-tax investment income while maintaining a high quality diversified investment portfolio. Considering these objectives, we view our investment portfolio as having two components: 1) the investments needed to satisfy outstanding liabilities (our core fixed maturities portfolio) and 2) investments funded by our shareholders' equity.

For the portion needed to satisfy global outstanding liabilities, we generally invest in taxable and tax-preferenced fixed income securities with an average credit quality of Aa3. For the U.S. portion of this portfolio, our mix of taxable and tax-preferenced investments is adjusted periodically, consistent with our current and projected U.S. operating results, market conditions and our tax position. This global fixed maturity securities portfolio is externally managed by an independent, professional investment manager using portfolio guidelines approved by internal management.

Our global portfolio included \$1,878.2 million of foreign government securities at March 31, 2013, of which \$828.7 million were European sovereign securities. Approximately 50.0%, 20.6%, 6.9% and 5.2% 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. We held no sovereign securities of Portugal, Italy, Ireland, Greece or Spain at March 31, 2013.

Over the past several years, we have expanded the allocation of our investments funded by shareholders' equity to include: 1) a greater percentage of publicly traded equity securities, 2) emerging market fixed maturities through mutual fund structures, as well as individual holdings, 3) high yield fixed maturities, 4) bank loan securities and 5) private equity limited partnership investments. The objective of this portfolio diversification is to enhance the risk-adjusted total return of the investment portfolio by allocating a prudent portion of the portfolio to higher return asset classes, which are also less subject to changes in value with movements in interest rates. We limit our allocation to these asset classes because of 1) the potential for volatility in their values and 2) the impact of these investments on regulatory and rating agency capital adequacy models. We use investment managers experienced in these markets and adjust our allocation to these investments based upon market conditions. At March 31, 2013, the market value of investments in these investment market sectors, carried at both market and fair value, approximated 64.9% of shareholders' equity.

The Company's limited partnership investments are comprised of limited partnerships that invest in private equities. Generally, the limited partnerships are reported on a quarter lag. We receive annual audited financial statements for all of the limited partnerships which are prepared using fair value accounting in accordance with FASB guidance. For the quarterly reports, the Company's staff performs reviews of the financial reports for any unusual changes in carrying value. If the Company becomes aware of a significant decline in value during the lag reporting period, the loss will be recorded in the period in which the Company identifies the decline.

The tables below summarize the composition and characteristics of our investment portfolio as of the dates indicated.

(Dollars in millions)	At March 31, 2013		At December 31, 2012	
Fixed maturities, market value	\$ 13,148.3	79.4 %	\$ 13,141.7	79.3 %
Fixed maturities, fair value	36.1	0.2 %	41.5	0.2 %
Equity securities, market value	141.9	0.9 %	143.5	0.9 %
Equity securities, fair value	1,393.8	8.4 %	1,255.6	7.6 %
Short-term investments	781.7	4.7 %	860.4	5.2 %
Other invested assets	536.3	3.2 %	596.6	3.6 %
Cash	524.1	3.2 %	537.1	3.2 %
Total investments and cash	\$ 16,562.2	100.0 %	\$ 16,576.2	100.0 %

(Some amounts may not reconcile due to rounding.)

	At March 31, 2013	At December 31, 2012
Fixed income portfolio duration (years)	3.2	3.0
Fixed income composite credit quality	Aa3	Aa3
Imbedded end of period yield, pre-tax	3.4%	3.5%
Imbedded end of period yield, after-tax	2.9%	3.0%

The following table provides a comparison of our total return by asset class relative to broadly accepted industry benchmarks for the periods indicated.

	Three Months Ended March 31, 2013	Twelve Months Ended December 31, 2012
Fixed income portfolio total return	0.5%	4.8%
Barclay's Capital - U.S. aggregate index	-0.1%	4.2%
Common equity portfolio total return	8.8%	13.8%
S&P 500 index	10.6%	16.0%
Other invested asset portfolio total return	5.4%	16.0%

The pre-tax equivalent total return for the bond portfolio was approximately 0.5% and 5.0%, respectively, at March 31, 2013 and December 31, 2012. The pre-tax equivalent return adjusts the yield on tax-exempt bonds to the fully taxable equivalent.

Our fixed income and equity portfolios have different compositions than the benchmark indexes. Our fixed income portfolios have a shorter duration because we align our investment portfolio with our liabilities. We also hold foreign securities to match our foreign liabilities while the index is comprised of only U.S. securities. Our equity portfolios reflect an emphasis on dividend yield and growth equities, while the index is comprised of the largest 500 equities by market capitalization.

Reinsurance Receivables.

Reinsurance receivables for both paid and recoverable on unpaid losses totaled \$719.9 million at March 31, 2013 and \$659.1 million at December 31, 2012. At March 31, 2013, \$175.2 million, or 24.3%, was receivable from C.V. Starr (Bermuda); \$122.1 million, or 17.0%, was receivable from Federal Crop Insurance Company; \$80.6 million, or 11.2%, was receivable from XL Reinsurance America; \$56.6 million, or 7.9%, was receivable from Berkley Insurance Company; and \$49.4 million, or 6.9%, was receivable from Transatlantic Reinsurance Company. The receivable from C.V. Starr is fully collateralized by a trust agreement. No other retrocessionaire accounted for more than 5% of our receivables.

Loss and LAE Reserves. Gross loss and LAE reserves totaled \$9,843.3 million at March 31, 2013 and \$10,069.1 million at December 31, 2012.

The following tables summarize gross outstanding loss and LAE reserves by segment, classified by case reserves and IBNR reserves, for the periods indicated.

(Dollars in millions)	At March 31, 2013			
	Case Reserves	IBNR Reserves	Total Reserves	% of Total
U.S. Reinsurance	\$ 1,661.7	\$ 1,923.5	\$ 3,585.2	36.4 %
International	1,072.6	713.0	1,785.6	18.2 %
Bermuda	804.8	1,128.5	1,933.3	19.6 %
Insurance	996.8	1,109.4	2,106.2	21.4 %
Total excluding A&E	4,536.0	4,874.5	9,410.5	95.6 %
A&E	254.9	177.9	432.8	4.4 %
Total including A&E	\$ 4,790.9	\$ 5,052.4	\$ 9,843.3	100.0 %

(Some amounts may not reconcile due to rounding.)

(Dollars in millions)	At December 31, 2012			
	Case Reserves	IBNR Reserves	Total Reserves	% of Total
U.S. Reinsurance	\$ 1,538.6	\$ 2,082.6	\$ 3,621.2	36.0 %
International	1,121.5	695.3	1,816.8	18.0 %
Bermuda	826.1	1,135.9	1,962.0	19.5 %
Insurance	1,098.1	1,128.1	2,226.2	22.1 %
Total excluding A&E	4,584.3	5,041.9	9,626.2	95.6 %
A&E	265.8	177.1	442.9	4.4 %
Total including A&E	\$ 4,850.1	\$ 5,219.0	\$ 10,069.1	100.0 %

(Some amounts may not reconcile due to rounding.)

Changes in premiums earned and business mix, reserve re-estimations, catastrophe losses and changes in catastrophe loss reserves and claim settlement activity all impact loss and LAE reserves by segment and in total.

Our loss and LAE reserves represent our best estimate of our ultimate liability for unpaid claims. We continuously re-evaluate our reserves, including re-estimates of prior period reserves, taking into consideration all available information and, in particular, newly reported loss and claim experience. Changes in reserves resulting from such re-evaluations are reflected in incurred losses in the period when the re-evaluation is made. Our analytical methods

and processes operate at multiple levels including individual contracts, groupings of like contracts, classes and lines of business, internal business units, segments, legal entities, and in the aggregate. In order to set appropriate reserves, we make qualitative and quantitative analyses and judgments at these various levels. Additionally, the attribution of reserves, changes in reserves and incurred losses among accident years requires qualitative and quantitative adjustments and allocations at these various levels. We utilize actuarial science, business expertise and management judgment in a manner intended to ensure the accuracy and consistency of our reserving practices. Nevertheless, our reserves are estimates, which are subject to variation, which may be significant.

There can be no assurance that reserves for, and losses from, claim obligations will not increase in the future, possibly by a material amount. However, we believe that our existing reserves and reserving methodologies lessen the probability that any such increase would have a material adverse effect on our financial condition, results of operations or cash flows. In this context, we note that over the past 10 years, our calendar year operations have been affected by effects from prior period reserve re-estimates, ranging from a favorable \$30.9 million in 2010, representing 0.4% of the net prior period reserves for the year in which the adjustment was made, to an unfavorable \$249.4 million in 2004, representing 4.8% of the net prior period reserves for the year in which the adjustment was made.

Asbestos and Environmental Exposures. A&E exposures represent a separate exposure group for monitoring and evaluating reserve adequacy. The following table summarizes incurred losses and outstanding loss reserves with respect to A&E reserves on both a gross and net of retrocessions basis for the periods indicated.

(Dollars in millions)	Three Months Ended	
	2013	March 31, 2012
Gross Basis:		
Beginning of period reserves	\$ 442.8	\$ 499.9
Incurred losses	-	0.1
Paid losses	(10.0)	(13.6)
End of period reserves	\$ 432.8	\$ 486.5
Net Basis:		
Beginning of period reserves	\$ 425.7	\$ 480.2
Incurred losses	-	0.1
Paid losses	(9.6)	(12.7)
End of period reserves	\$ 416.1	\$ 467.6

(Some amounts may not reconcile due to rounding.)

At March 31, 2013, the gross reserves for A&E losses were comprised of \$131.8 million representing case reserves reported by ceding companies, \$87.0 million representing additional case reserves established by us on assumed reinsurance claims, \$36.1 million representing case reserves established by us on direct excess insurance claims, including Mt. McKinley, and \$177.9 million representing IBNR reserves.

With respect to asbestos only, at March 31, 2013, we had gross asbestos loss reserves of \$413.7 million, or 95.6%, of total A&E reserves, of which \$331.5 million was for assumed business and \$82.1 million was for direct business.

Industry analysts use the “survival ratio” to compare the A&E reserves among companies with such liabilities. The survival ratio is typically calculated by dividing a company’s current net reserves by the three year average of annual paid losses. Hence, the survival ratio equals the number of years that it would take to exhaust the current reserves if future loss payments were to continue at historical levels. Using this measurement, our net three year asbestos survival ratio was 7.0 years at March 31, 2013. These metrics can be skewed by individual large settlements occurring in the prior three years and therefore, may not be indicative of the timing of future payments.

Because the survival ratio was developed as a comparative measure of reserve strength and does not indicate absolute reserve adequacy, we consider, but do not rely on, the survival ratio when evaluating our reserves. In particular, we note that year to year loss payment variability can be material. This is due, in part, to our orientation to negotiated settlements, particularly on our Mt. McKinley exposures, which significantly reduces the credibility and utility of this

measure as an analytical tool. In the first quarter of 2013, we made no asbestos net claim payments to Mt McKinley high profile claimants where the claim was either closed or a settlement had been reached. Such payments, which are non-repetitive, distort downward our three year survival ratio. Adjusting for such settlements, recognizing that total settlements are generally considered fully reserved to an agreed settlement, we consider that our adjusted asbestos survival ratio for net unsettled claims is 8.1 years, which is better than prevailing industry norms.

Shareholders' Equity. Our shareholders' equity increased to \$6,816.9 million as of March 31, 2013 from \$6,733.5 million as of December 31, 2012. This increase was the result of \$384.3 million of net income, share-based compensation transactions of \$32.5 million and \$1.3 million of net benefit plan obligation adjustments, partially offset by repurchases of 2.0 million common shares for \$238.6 million, \$50.9 million of unrealized depreciation on investments, net of tax, \$24.2 million of shareholder dividends and \$21.1 million of net foreign currency translation adjustments.

LIQUIDITY AND CAPITAL RESOURCES

Capital. Our business operations are in part dependent on our financial strength and financial strength ratings, and the market's perception of our financial strength, as measured by shareholders' equity, which was \$6,816.9 million at March 31, 2013 and \$6,733.5 million at December 31, 2012. On March 13, 2009, Everest Re and Everest National, wholly-owned indirect subsidiaries of the Company, received notification of a one level ratings downgrade by Standard & Poor's. On April 7, 2010, Standard & Poor's upgraded the Company's debt ratings one level. On March 25, 2013, Moody's downgraded the Company and its subsidiaries, including the senior debt of Everest Reinsurance Holdings, Inc., by one level. While Moody's believes that our profitability, fixed charge coverage and market position are very good, the rating agency concluded that our business franchise and diversity and predictability of earnings position us more appropriately with peers at the adjusted rating level. We continue to possess significant financial flexibility and access to the debt and equity markets as a result of our perceived financial strength, as evidenced by the financial strength ratings as assigned by independent rating agencies.

From time to time, we have used open market share repurchases to adjust our capital position and enhance long term expected returns to our shareholders. On July 21, 2008, our existing authorization to purchase up to 5 million of our shares was amended to authorize the purchase of up to 10 million shares. On February 24, 2010, our existing authorization to purchase up to 10 million of our shares was amended to authorize the purchase of up to 15 million shares. On February 22, 2012, our existing authorization to purchase up to 15 million of our shares was amended to authorize the purchase of up to 20 million shares. As of March 31, 2013, we had repurchased 17.6 million shares under this authorization.

On October 14, 2011, we renewed our shelf registration statement on Form S-3ASR with the Securities and Exchange Commission ("SEC"), as a Well Known Seasoned Issuer. This shelf registration statement can be used by Group to register common shares, preferred shares, debt securities, warrants, share purchase contracts and share purchase units; by Holdings to register debt securities and by Everest Re Capital Trust III ("Capital Trust III") to register trust preferred securities.

Liquidity. Our principal investment objectives are to ensure funds are available to meet our insurance and reinsurance obligations and to maximize after-tax investment income while maintaining a high quality diversified investment portfolio. Considering these objectives, we view our investment portfolio as having two components: 1) the investments needed to satisfy outstanding liabilities (our core fixed maturities portfolio) and 2) investments funded by our shareholders' equity.

For the portion needed to satisfy global outstanding liabilities, we generally invest in taxable and tax-preferenced fixed income securities with an average credit quality of Aa3. For the U.S. portion of this portfolio, our mix of taxable and tax-preferenced investments is adjusted periodically, consistent with our current and projected U.S. operating results, market conditions and our tax position. This global fixed maturity securities portfolio is externally managed by an independent, professional investment manager using portfolio guidelines approved by internal management.

Over the past several years, we have expanded the allocation of our investments funded by shareholders' equity to include: 1) a greater percentage of publicly traded equity securities, 2) emerging market fixed maturities through mutual fund structures as well as individual holdings, 3) high yield fixed maturities, 4) bank loan securities and 5) private equity limited partnership investments. The objective of this portfolio diversification is to enhance the risk-adjusted total return of the investment portfolio by allocating a prudent portion of the portfolio to higher return asset classes, which are also less subject to changes in value with movements in interest rates. We limit our allocation to these asset classes because of 1) the potential for volatility in their values and 2) the impact of these investments on regulatory and rating agency capital adequacy models. We use investment managers experienced in these markets and adjust our allocation to these investments based upon market conditions. At March 31, 2013, the market value of investments in these investment market sectors, carried at both market and fair value, approximated 64.9% of shareholders' equity.

Our liquidity requirements are generally met from positive cash flow from operations. Positive cash flow results from reinsurance and insurance premiums being collected prior to disbursements for claims, which disbursements generally take place over an extended period after the collection of premiums, sometimes a period of many years. Collected premiums are generally invested, prior to their use in such disbursements, and investment income provides additional funding for loss payments. Our net cash flows from operating activities were \$225.7 million and \$165.7 million for the three months ended March 31, 2013 and 2012, respectively. Additionally, these cash flows reflected a net tax payment of \$19.2 million and \$11.2 million for the three months ended March 31, 2013 and 2012, respectively; net catastrophe loss payments of \$117.6 million and \$163.9 million for the three months ended March 31, 2013 and 2012, respectively; and net A&E payments of \$9.6 million and \$12.7 million for the three months ended March 31, 2013 and 2012, respectively.

If disbursements for claims and benefits, policy acquisition costs and other operating expenses were to exceed premium inflows, cash flow from reinsurance and insurance operations would be negative. The effect on cash flow from insurance operations would be partially offset by cash flow from investment income. Additionally, cash inflows from investment maturities and dispositions, both short-term investments and longer term maturities are available to supplement other operating cash flows.

As the timing of payments for claims and benefits cannot be predicted with certainty, we maintain portfolios of long term invested assets with varying maturities, along with short-term investments that provide additional liquidity for payment of claims. At March 31, 2013 and December 31, 2012, we held cash and short-term investments of \$1,305.8 million and \$1,397.4 million, respectively. All of our short-term investments are readily marketable and can be converted to cash. In addition to these cash and short-term investments, at March 31, 2013, we had \$931.5 million of available for sale fixed maturity securities maturing within one year or less, \$5,970.8 million maturing within one to five years and \$3,481.5 million maturing after five years. Our \$1,535.6 million of equity securities are comprised primarily of publicly traded securities that can be easily liquidated. We believe that these fixed maturity and equity securities, in conjunction with the short-term investments and positive cash flow from operations, provide ample sources of liquidity for the expected payment of losses in the near future. We do not anticipate selling securities or using available credit facilities to pay losses and LAE but have the ability to do so. Sales of securities might result in realized capital gains or losses. At March 31, 2013 we had \$658.4 million of net pre-tax unrealized appreciation, comprised of \$703.4 million of pre-tax unrealized appreciation and \$45.0 million of pre-tax unrealized depreciation.

Management expects annual positive cash flow from operations, which in general reflects the strength of overall pricing, to persist over the near term, absent any unusual catastrophe activity. In the intermediate and long term, our cash flow from operations will be impacted to the extent by which competitive pressures affect overall pricing in our markets and by which our premium receipts are impacted from our strategy of emphasizing underwriting profitability over premium volume.

Effective June 22, 2012, Group, Bermuda Re and Everest International entered into a four year, \$800.0 million senior credit facility with a syndicate of lenders, which amended and restated in its entirety the July 27, 2007, five year, \$850.0 million senior credit facility. Both the June 22, 2012 and July 27, 2007 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 \$200.0 million 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 \$600.0 million 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 \$4,250.0 million plus 25% of consolidated net income for each of Group’s fiscal quarters, for which statements are available ending on or after January 1, 2012 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 March 31, 2013, was \$4,574.8 million. As of March 31, 2013, the Company was in compliance with all Group Credit Facility covenants.

At March 31, 2013, the Group Credit Facility had no outstanding letters of credit under tranche one and \$463.0 million outstanding letters of credit under tranche two. At December 31, 2012, the Group Credit Facility had no outstanding letters of credit under tranche one and \$463.2 million outstanding letters of credit under tranche two.

Effective August 15, 2011, Holdings entered into a new three year, \$150.0 million unsecured revolving credit facility with a syndicate of lenders, replacing the August 23, 2006 five year senior revolving credit facility. Both the August 15, 2011 and August 23, 2006 revolving credit agreements, which have similar terms, are referred to as the “Holdings Credit Facility”. Citibank N.A. is the administrative agent for the Holdings Credit Facility. The Holdings Credit Facility may be used for liquidity and general corporate purposes. The Holdings Credit Facility provides for the borrowing of up to \$150.0 million with interest at a rate selected by Holdings equal to either, (1) the Base Rate (as defined below) or (2) a periodic fixed rate equal to the Eurodollar Rate plus an applicable margin. The Base Rate means a fluctuating interest rate per annum in effect from time to time to be equal to the higher of (a) the rate of interest publicly announced by Citibank as its base rate, (b) 0.5% per annum above the Federal Funds Rate or (c) 1% above the one month LIBOR, in each case plus the applicable margin. The amount of margin and the fees payable for the Holdings Credit Facility depends upon Holdings’ senior unsecured debt rating.

The Holdings Credit Facility requires Holdings to maintain a debt to capital ratio of not greater than 0.35 to 1 and Everest Re to maintain its statutory surplus at \$1,875.0 million plus 25% of future aggregate net income and 25% of future aggregate capital contributions after December 31, 2010, which at March 31, 2013, was \$2,016.7 million. As of March 31, 2013, Holdings was in compliance with all Holdings Credit Facility covenants.

At March 31, 2013 and December 31, 2012, the Company had no outstanding short-term borrowings from the Holdings Credit Facility revolving credit line. At March 31, 2013 and December 31, 2012, the Holdings Credit Facility had outstanding letters of credit of \$1.6 million.

Costs incurred in connection with the Group Credit Facility and the Holdings Credit Facility were \$0.9 million and \$0.6 million for March 31, 2013 and 2012, respectively.

Market Sensitive Instruments.

The SEC's Financial Reporting Release #48 requires registrants to clarify and expand upon the existing financial statement disclosure requirements for derivative financial instruments, derivative commodity instruments and other financial instruments (collectively, "market sensitive instruments"). We do not generally enter into market sensitive instruments for trading purposes.

Our current investment strategy seeks to maximize after-tax income through a high quality, diversified, taxable and tax-preferenced fixed maturity portfolio, while maintaining an adequate level of liquidity. Our mix of taxable and tax-preferenced investments is adjusted periodically, consistent with our current and projected operating results, market conditions and our tax position. The fixed maturity securities in the investment portfolio are comprised of non-trading available for sale securities. Additionally, we have invested in equity securities. We have also written a small number of equity index put option contracts.

The overall investment strategy considers the scope of present and anticipated Company operations. In particular, estimates of the financial impact resulting from non-investment asset and liability transactions, together with our capital structure and other factors, are used to develop a net liability analysis. This analysis includes estimated payout characteristics for which our investments provide liquidity. This analysis is considered in the development of specific investment strategies for asset allocation, duration and credit quality. The change in overall market sensitive risk exposure principally reflects the asset changes that took place during the period.

Interest Rate Risk. Our \$16.6 billion investment portfolio, at March 31, 2013, is principally comprised of fixed maturity securities, which are generally subject to interest rate risk and some foreign currency exchange rate risk, and some equity securities, which are subject to price fluctuations and some foreign exchange rate risk. The overall economic impact of the foreign exchange risks on the investment portfolio is partially mitigated by changes in the dollar value of foreign currency denominated liabilities and their associated income statement impact.

Interest rate risk is the potential change in value of the fixed maturity securities portfolio, including short-term investments, from a change in market interest rates. In a declining interest rate environment, it includes prepayment risk on the \$2,588.8 million of mortgage-backed securities in the \$13,184.5 million fixed maturity portfolio. Prepayment risk results from potential accelerated principal payments that shorten the average life and thus the expected yield of the security.

The table below displays the potential impact of market value fluctuations and after-tax unrealized appreciation on our fixed maturity portfolio (including \$781.7 million of short-term investments) for the period indicated based on upward and downward parallel and immediate 100 and 200 basis point shifts in interest rates. For legal entities with a U.S. dollar functional currency, this modeling was performed on each security individually. To generate appropriate price estimates on mortgage-backed securities, changes in prepayment expectations under different interest rate environments were taken into account. For legal entities with a non-U.S. dollar functional currency, the effective duration of the involved portfolio of securities was used as a proxy for the market value change under the various interest rate change scenarios.

	Impact of Interest Rate Shift in Basis Points				
	At March 31, 2013				
	-200	-100	0	100	200
(Dollars in millions)					
Total Market/Fair Value	\$ 14,705.2	\$ 14,342.2	\$ 13,966.1	\$ 13,563.0	\$ 13,142.3
Market/Fair Value Change from Base (%)	5.3 %	2.7 %	0.0 %	-2.9 %	-5.9 %
Change in Unrealized Appreciation					

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After-tax from Base (\$)	\$ 620.7	\$ 315.8	\$ -	\$ (338.5)	\$ (691.4)
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We had \$9,843.3 million and \$10,069.1 million of gross reserves for losses and LAE as of March 31, 2013 and December 31, 2012, respectively. These amounts are recorded at their nominal value, as opposed to present value, which would reflect a discount adjustment to reflect the time value of money. Since losses are paid out over a period of time, the present value of the reserves is less than the nominal value. As interest rates rise, the present value of the reserves decreases and, conversely, as interest rates decline, the

present value increases. These movements are the opposite of the interest rate impacts on the fair value of investments. While the difference between present value and nominal value is not reflected in our financial statements, our financial results will include investment income over time from the investment portfolio until the claims are paid. Our loss and loss reserve obligations have an expected duration of approximately 3.7 years, which is reasonably consistent with our fixed income portfolio. If we were to discount our loss and LAE reserves, net of ceded reserves, the discount would be approximately \$1.2 billion resulting in a discounted reserve balance of approximately \$8.1 billion, representing approximately 57.7% of the value of the fixed maturity investment portfolio funds.

Equity Risk. Equity risk is the potential change in fair and/or market value of the common stock, preferred stock and mutual fund portfolios arising from changing prices. Our equity investments consist of a diversified portfolio of individual securities and mutual funds, which invest principally in high quality common and preferred stocks that are traded on the major exchanges, and mutual fund investments in emerging market debt. The primary objective of the equity portfolio is to obtain greater total return relative to our core bonds over time through market appreciation and income.

The table below displays the impact on fair/market value and after-tax change in fair/market value of a 10% and 20% change in equity prices up and down for the period indicated.

(Dollars in millions)	Impact of Percentage Change in Equity Fair/Market Values				
	At March 31, 2013				
	-20%	-10%	0%	10%	20%
Fair/Market Value of the Equity Portfolio	\$ 1,228.5	\$ 1,382.1	\$ 1,535.6	\$ 1,689.2	\$ 1,842.8
After-tax Change in Fair/Market Value	\$ (245.7)	\$ (122.9)	\$ -	\$ 122.9	\$ 245.7

Foreign Currency Risk. Foreign currency risk is the potential change in value, income and cash flow arising from adverse changes in foreign currency exchange rates. Each of our non-U.S./Bermuda (“foreign”) operations maintains capital in the currency of the country of its geographic location consistent with local regulatory guidelines. Each foreign operation may conduct business in its local currency, as well as the currency of other countries in which it operates. The primary foreign currency exposures for these foreign operations are the Canadian Dollar, the Singapore Dollar, the British Pound Sterling and the Euro. We mitigate foreign exchange exposure by generally matching the currency and duration of our assets to our corresponding operating liabilities. In accordance with FASB guidance, we translate the assets, liabilities and income of non-U.S. dollar functional currency legal entities to the U.S. dollar. This translation amount is reported as a component of other comprehensive income. As of March 31, 2013, there has been no material change in exposure to foreign exchange rates as compared to December 31, 2012.

Equity Index Put Option Contracts. Although not considered material in the context of our aggregate exposure to market sensitive instruments, we have issued six equity index put option contracts based on the Standard & Poor’s 500 (“S&P 500”) index and one equity index put option contract based on the FTSE 100 index, that are market sensitive and sufficiently unique to warrant supplemental disclosure.

We sold six equity index put option contracts, based on the S&P 500 index, for total consideration, net of commissions, of \$22.5 million. At March 31, 2013, fair value for these equity index put option contracts was \$56.5 million. These equity index put option contracts each have a single exercise date, with maturities ranging from 12 to 30 years and strike prices ranging from \$1,141.21 to \$1,540.63. The S&P 500 index value at March 31, 2013 was \$1,569.19. No amounts will be payable under these equity index put option contracts if the S&P 500 index is at, or above, the strike prices on the exercise dates, which fall between June 2017 and March 2031. If the S&P 500 index is lower than the strike price on the applicable exercise date, the amount due would vary proportionately with the percentage by which the index is below the strike price. Based on historical index volatilities and trends and the March 31, 2013 S&P 500 index value, we estimate the probability that each equity index put option contract of the

S&P 500 index falling below the strike price on the exercise date to be less than 38%. The theoretical maximum payouts under these six equity index put option contracts would occur if on each of the exercise dates the S&P 500 index value were zero. At March 31, 2013, the present value of these theoretical maximum payouts using a 3% discount factor was \$398.8 million. Conversely, if the contracts had all expired on March 31, 2013, with the S&P index at \$1,569.19, there would be no settlement amount.

We sold one equity index put option contract based on the FTSE 100 index for total consideration, net of commissions, of \$6.7 million. At March 31, 2013, fair value for this equity index put option contract was \$7.7 million. This equity index put option contract has an exercise date of July 2020 and a strike price of 5,989.75. The FTSE 100 index value at March 31, 2013 was 6,411.70. No amount will be payable under this equity index put option contract if the FTSE 100 index is at, or above, the strike price on the exercise date. If the FTSE 100 index is lower than the strike price on the exercise date, the amount due will vary proportionately with the percentage by which the index is below the strike price. Based on historical index volatilities and trends and the March 31, 2013 FTSE 100 index value, we estimate the probability that the equity index put option contract of the FTSE 100 index will fall below the strike price on the exercise date to be less than 43%. The theoretical maximum payout under the equity index put option contract would occur if on the exercise date the FTSE 100 index value was zero. At March 31, 2013, the present value of the theoretical maximum payout using a 3% discount factor and current exchange rate was \$40.0 million. Conversely, if the contract had expired on March 31, 2013, with the FTSE index at 6,411.70, there would be no settlement amount.

Because the equity index put option contracts meet the definition of a derivative, we report the fair value of these instruments in our consolidated balance sheets as a liability and record any changes to fair value in our consolidated statements of operations and comprehensive income (loss) as a net derivative gain (loss). Our financial statements reflect fair values for our obligations on these equity index put option contracts at March 31, 2013, of \$64.2 million; even though it may not be likely that the ultimate settlement of these transactions would require a payment that would exceed the initial consideration received, or any payment at all.

As there is no active market for these instruments, the determination of their fair value is based on an industry accepted option pricing model, which requires estimates and assumptions, including those regarding volatility and expected rates of return.

The table below displays the impact of potential movements in interest rates and the equity indices, which are the principal factors affecting fair value of these instruments, looking forward from the fair value for the period indicated. As these are estimates, there can be no assurance regarding future market performance. The asymmetrical results of the interest rate and S&P 500 and FTSE 100 indices shift reflect that the liability cannot fall below zero whereas it can increase to its theoretical maximum.

(Dollars in millions)	Equity Indices Put Options Obligation – Sensitivity Analysis				
	At March 31, 2013				
Interest Rate Shift in Basis Points:	-200	-100	0	100	200
Total Fair Value	\$ 106.6	\$ 82.9	\$ 64.2	\$ 49.6	\$ 38.3
Fair Value Change from Base (%)	-66.1 %	-29.1 %	0.0 %	22.7 %	40.4 %
Equity Indices Shift in Points (S&P 500/FTSE 100):	-500/-2000	-250/-1000	0	250/1000	500/2000
Total Fair Value	\$ 122.2	\$ 88.1	\$ 64.2	\$ 47.5	\$ 35.7
Fair Value Change from Base (%)	-90.4 %	-37.3 %	0.0 %	26.0 %	44.4 %
Combined Interest Rate / Equity Indices Shift (S&P 500/FTSE 100):	-200/ -500/-2000	-100/ -250/-1000	0/0	100/ 250/1000	200/ 500/2000
Total Fair Value	\$ 182.7	\$ 110.8	\$ 64.2	\$ 35.8	\$ 19.2
Fair Value Change from Base (%)	-184.7				