

EVEREST RE GROUP LTD  
Form 10-Q  
November 09, 2012

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:  
September 30, 2012

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.

X

Large  
accelerated filer

Accelerated  
filer

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 November 1, 2012
Common Shares, \$0.01 par value	51,709,157

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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)	September 30, 2012 (unaudited)	December 31, 2011
<b>ASSETS:</b>		
Fixed maturities - available for sale, at market value (amortized cost: 2012, \$12,100,746; 2011, \$11,731,173)	\$ 12,846,495	\$ 12,293,524
Fixed maturities - available for sale, at fair value	52,217	113,606
Equity securities - available for sale, at market value (cost: 2012, \$265,563; 2011, \$463,620)	279,375	448,930
Equity securities - available for sale, at fair value	1,301,522	1,249,106
Short-term investments	973,560	685,332
Other invested assets (cost: 2012, \$602,230; 2011, \$558,232)	602,230	558,232
Cash	478,558	448,651
Total investments and cash	16,533,957	15,797,381
Accrued investment income	128,619	130,193
Premiums receivable	1,204,867	1,077,548
Reinsurance receivables	642,612	580,339
Funds held by reinsureds	224,344	267,295
Deferred acquisition costs	296,410	378,026
Prepaid reinsurance premiums	106,869	85,409
Deferred tax asset	260,809	332,783
Income taxes recoverable	20,378	41,623
Other assets	248,608	202,958
<b>TOTAL ASSETS</b>	<b>\$ 19,667,473</b>	<b>\$ 18,893,555</b>
<b>LIABILITIES:</b>		
Reserve for losses and loss adjustment expenses	\$ 9,847,174	\$ 10,123,215
Future policy benefit reserve	65,734	67,187
Unearned premium reserve	1,370,099	1,412,778
Funds held under reinsurance treaties	2,659	2,528
Commission reserves	51,453	55,103
Other net payable to reinsurers	228,641	60,775
5.4% Senior notes due 10/15/2014	249,894	249,858
6.6% Long term notes due 5/1/2067	238,356	238,354
Junior subordinated debt securities payable	329,897	329,897
Accrued interest on debt and borrowings	12,092	4,781
Equity index put option liability	79,148	69,729
Unsettled securities payable	105,869	8,793
Other liabilities	301,085	199,182
Total liabilities	12,882,101	12,822,180

## 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; (2012) 67,024 and (2011) 66,455 outstanding before treasury shares	670	665
Additional paid-in capital	1,935,677	1,892,988
Accumulated other comprehensive income (loss), net of deferred income tax expense (benefit) of \$136,906 at 2012 and \$112,969 at 2011	593,796	366,978
Treasury shares, at cost; 15,316 shares (2012) and 12,719 shares (2011)	(1,323,995 )	(1,073,970 )
Retained earnings	5,579,224	4,884,714
Total shareholders' equity	6,785,372	6,071,375
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 19,667,473</b>	<b>\$ 18,893,555</b>

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

Table of ContentsEVEREST RE GROUP, LTD.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011 (unaudited)	2012	2011 (unaudited)
<b>REVENUES:</b>				
Premiums earned	\$1,009,454	\$1,044,338	\$3,045,232	\$3,095,619
Net investment income	152,024	156,465	453,791	493,788
<b>Net realized capital gains (losses):</b>				
Other-than-temporary impairments on fixed maturity securities	(3,548 )	(1,050 )	(9,902 )	(15,817 )
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-	-	-
Other net realized capital gains (losses)	66,291	(136,621 )	154,784	(114,543 )
Total net realized capital gains (losses)	62,743	(137,671 )	144,882	(130,360 )
Net derivative gain (loss)	703	(23,427 )	(9,420 )	(19,273 )
Other income (expense)	(5,943 )	(14,911 )	15,675	(31,744 )
Total revenues	1,218,981	1,024,794	3,650,160	3,408,030
<b>CLAIMS AND EXPENSES:</b>				
Incurred losses and loss adjustment expenses	603,654	720,711	1,813,990	2,706,276
Commission, brokerage, taxes and fees	221,082	227,969	724,374	701,800
Other underwriting expenses	55,762	49,437	153,932	140,290
Corporate expenses	5,947	4,204	16,683	11,922
Interest, fees and bond issue cost amortization expense	13,331	13,085	39,753	39,199
Total claims and expenses	899,776	1,015,406	2,748,732	3,599,487
<b>INCOME (LOSS) BEFORE TAXES</b>	319,205	9,388	901,428	(191,457 )
Income tax expense (benefit)	68,283	(53,666 )	131,251	(69,929 )
<b>NET INCOME (LOSS)</b>	\$250,922	\$63,054	\$770,177	\$(121,528 )
<b>Other comprehensive income (loss), net of tax :</b>				
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	116,694	(14,536 )	202,229	53,141
Less: reclassification adjustment for realized losses (gains) included in net income (loss)	1,512	(20,420 )	(5,702 )	(949 )
Total URA(D) on securities arising during the period	118,206	(34,956 )	196,527	52,192
Foreign currency translation adjustments	36,252	(23,247 )	27,125	16,258
Pension adjustments	1,199	746	3,166	2,238
Total other comprehensive income (loss), net of tax	155,657	(57,457 )	226,818	70,688
<b>COMPREHENSIVE INCOME (LOSS)</b>	\$406,579	\$5,597	\$996,995	\$(50,840 )
<b>EARNINGS PER COMMON SHARE:</b>				

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Basic	\$4.84	\$1.16	\$14.66	\$(2.24 )
Diluted	4.82	1.16	14.61	(2.24 )
Dividends declared	0.48	0.48	1.44	1.44

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

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

(Dollars in thousands, except share and dividends per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011 (unaudited)	2012	2011 (unaudited)
<b>COMMON SHARES (shares outstanding):</b>				
Balance, beginning of period	51,857,047	54,346,216	53,735,551	54,428,168
Issued during the period, net	79,990	39,446	569,872	385,532
Treasury shares acquired	(229,100 )	(597,006 )	(2,597,486 )	(1,025,044 )
Balance, end of period	51,707,937	53,788,656	51,707,937	53,788,656
<b>COMMON SHARES (par value):</b>				
Balance, beginning of period	\$669	\$664	\$665	\$660
Issued during the period, net	1	-	5	4
Balance, end of period	670	664	670	664
<b>ADDITIONAL PAID-IN CAPITAL:</b>				
Balance, beginning of period	1,924,313	1,878,242	1,892,988	1,863,031
Share-based compensation plans	11,364	6,250	42,689	21,461
Balance, end of period	1,935,677	1,884,492	1,935,677	1,884,492
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES:</b>				
Balance, beginning of period	438,139	460,403	366,978	332,258
Net increase (decrease) during the period	155,657	(57,457 )	226,818	70,688
Balance, end of period	593,796	402,946	593,796	402,946
<b>RETAINED EARNINGS:</b>				
Balance, beginning of period	5,353,199	4,832,340	4,884,714	5,069,048
Net income (loss)	250,922	63,054	770,177	(121,528 )
Dividends declared (\$0.48 per quarter and \$1.44 year-to-date per share in 2012 and 2011)	(24,897 )	(25,936 )	(75,667 )	(78,062 )
Balance, end of period	5,579,224	4,869,458	5,579,224	4,869,458
<b>TREASURY SHARES AT COST:</b>				
Balance, beginning of period	(1,298,969 )	(1,019,091 )	(1,073,970 )	(981,480 )
Purchase of treasury shares	(25,026 )	(46,628 )	(250,025 )	(84,239 )
Balance, end of period	(1,323,995 )	(1,065,719 )	(1,323,995 )	(1,065,719 )
<b>TOTAL SHAREHOLDERS' EQUITY, END OF PERIOD</b>	<b>\$6,785,372</b>	<b>\$6,091,841</b>	<b>\$6,785,372</b>	<b>\$6,091,841</b>

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	2012	Three Months Ended September 30, 2011 (unaudited)	2012	Nine Months Ended September 30, 2011 (unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income (loss)	\$ 250,922	\$ 63,054	\$ 770,177	\$ (121,528 )
Adjustments to reconcile net income to net cash provided by operating activities:				
Decrease (increase) in premiums receivable	(227,333 )	(6,371 )	(119,923 )	(159,868 )
Decrease (increase) in funds held by reinsureds, net	37,682	(22,036 )	46,089	17,452
Decrease (increase) in reinsurance receivables	(22,945 )	89,855	(35,972 )	107,610
Decrease (increase) in current income taxes	19,927	14,638	21,386	7,205
Decrease (increase) in deferred tax asset	14,935	(75,216 )	48,896	(73,558 )
Decrease (increase) in prepaid reinsurance premiums	(27,524 )	10,126	(18,401 )	49,472
Increase (decrease) in reserve for losses and loss adjustment expenses	(138,310 )	(115,014)	(405,540 )	578,371
Increase (decrease) in future policy benefit reserve	(535 )	(638 )	(1,454 )	(1,032 )
Increase (decrease) in unearned premiums	121,344	34,686	(52,225 )	(79,001 )
Increase (decrease) in other net payable to reinsurers	138,239	13,645	165,142	(15,938 )
Change in equity adjustments in limited partnerships	(18,274 )	(16,439 )	(46,766 )	(67,053 )
Change in other assets and liabilities, net	65,247	65,828	184,250	126,791
Non-cash compensation expense	9,452	5,295	22,826	12,953
Amortization of bond premium (accrual of bond discount)	14,829	8,814	45,795	34,384
Amortization of underwriting discount on senior notes	13	12	38	36
Net realized capital (gains) losses	(62,743 )	137,671	(144,882 )	130,360
Net cash provided by (used in) operating activities	174,926	207,910	479,436	546,656
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Proceeds from fixed maturities matured/called - available for sale, at	503,303	537,715	1,294,896	1,348,380

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market value

Proceeds from fixed maturities matured/called - available for sale, at fair value	1,300	-	1,300	12,775
Proceeds from fixed maturities sold - available for sale, at market value	217,983	487,973	639,301	1,355,653
Proceeds from fixed maturities sold - available for sale, at fair value	11,783	12,512	72,926	62,632
Proceeds from equity securities sold - available for sale, at market value	76,000	1	130,792	27,207
Proceeds from equity securities sold - available for sale, at fair value	89,311	61,080	386,917	154,747
Distributions from other invested assets	32,015	15,923	53,032	143,017
Cost of fixed maturities acquired - available for sale, at market value	(889,195 )	(756,432)	(2,143,771)	(2,293,760)
Cost of fixed maturities acquired - available for sale, at fair value	(1,658 )	(9,801 )	(7,164 )	(25,025 )
Cost of equity securities acquired - available for sale, at market value	(7,472 )	(4,772 )	(20,126 )	(120,583 )
Cost of equity securities acquired - available for sale, at fair value	(111,767 )	(342,567)	(305,046 )	(684,867 )
Cost of other invested assets acquired	(21,089 )	(5,730 )	(49,681 )	(57,832 )
Cost of businesses acquired	-	-	-	(63,100 )
Net change in short-term investments	(24,466 )	(51,333 )	(287,196 )	(48,616 )
Net change in unsettled securities transactions	59,991	(11,755 )	65,957	35,446
Net cash provided by (used in) investing activities	(63,961 )	(67,186 )	(167,863 )	(153,926 )

**CASH FLOWS FROM FINANCING  
ACTIVITIES:**

Common shares issued during the period, net	1,913	951	19,868	8,508
Purchase of treasury shares	(25,026 )	(46,628 )	(250,025 )	(84,239 )
Revolving credit borrowings	-	(40,000 )	-	(50,000 )
Dividends paid to shareholders	(24,897 )	(25,936 )	(75,667 )	(78,062 )
Net cash provided by (used in) financing activities	(48,010 )	(111,613)	(305,824 )	(203,793 )

**EFFECT OF EXCHANGE RATE  
CHANGES ON CASH**

Net increase (decrease) in cash	79,707	32,183	29,907	185,298
Cash, beginning of period	398,851	411,523	448,651	258,408
Cash, end of period	\$ 478,558	\$ 443,706	\$ 478,558	\$ 443,706

**SUPPLEMENTAL CASH FLOW  
INFORMATION:**

Income taxes paid (recovered)	\$ 30,662	\$ 6,627	\$ 54,463	\$ (5,919 )
Interest paid	5,851	5,607	31,936	31,385

Non-cash transaction:

Net assets acquired and liabilities assumed from business acquisitions	-	-	-	19,130
Conversion of equity securities - available for sale, at market value, to fixed maturity securities - available for sale, at market value, including accrued interest at time of conversion	-	-	92,981	-

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

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the Three and Nine Months Ended September 30, 2012 and 2011

1. GENERAL

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

2. BASIS OF PRESENTATION

The unaudited consolidated financial statements of the Company for the three and nine months ended September 30, 2012 and 2011 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, 2011 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The results for the three and nine months ended September 30, 2012 and 2011 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, 2011, 2010 and 2009 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.

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.

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**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 will be expensed during 2012 and the first quarter of 2013, including \$2,549 thousand and \$8,790 thousand of previously deferrable acquisition costs expensed in the three and nine months ended September 30, 2012, respectively. If the guidance had been applicable for the prior periods, the Company would have expensed \$4,958 thousand and \$11,405 thousand of deferrable acquisition costs during the three and nine months ended September 30, 2011, respectively.

**Improving Disclosures About Fair Value Measurements.** In January 2010, the FASB amended the authoritative guidance for disclosures on fair value measurements. Effective for interim and annual reporting periods beginning after December 15, 2009, the guidance requires a new separate disclosure for: significant transfers in and out of Level 1 and 2 and the reasons for the transfers; and provided clarification on existing disclosures to include: fair value measurement disclosures by class of assets and liabilities and disclosure on valuation techniques and inputs used to measure fair value that fall in either Level 2 or Level 3. The Company implemented this guidance effective January 1, 2010. Effective for interim and annual reporting periods beginning after December 15, 2010, the guidance requires another new separate disclosure in regards to Level 3 fair value measurements in that, the period activity will present separately information about purchases, sales, issuances and settlements. Comparative disclosures shall be required only for periods ending after initial adoption. The Company implemented this guidance beginning with the third quarter of 2010.

## 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 September 30, 2012		Market Value
		Unrealized Appreciation	Unrealized Depreciation	
Fixed maturity securities				
U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	\$299,691	\$ 12,743	\$ (823 )	\$311,611
Obligations of U.S. states and political subdivisions	1,275,966	90,415	(53 )	1,366,328
Corporate securities	3,629,746	262,117	(7,019 )	3,884,844
Asset-backed securities	190,269	7,878	(381 )	197,766
Mortgage-backed securities				
Commercial	301,225	28,941	(3,643 )	326,523
Agency residential	2,050,526	79,504	(1,840 )	2,128,190
Non-agency residential	10,718	1,082	(190 )	11,610
Foreign government securities	1,741,813	140,982	(6,222 )	1,876,573
Foreign corporate securities	2,600,792	156,725	(14,467 )	2,743,050
Total fixed maturity securities	\$12,100,746	\$ 780,387	\$ (34,638 )	\$12,846,495
Equity securities	\$265,563	\$ 13,814	\$ (2 )	\$279,375



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(Dollars in thousands)	At December 31, 2011			Market Value
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	
Fixed maturity securities				
U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	\$284,514	\$ 16,407	\$ (287 )	\$300,634
Obligations of U.S. states and political subdivisions	1,558,615	102,815	(525 )	1,660,905
Corporate securities	3,495,761	197,914	(27,054 )	3,666,621
Asset-backed securities	186,936	7,020	(550 )	193,406
Mortgage-backed securities				
Commercial	310,387	20,942	(9,902 )	321,427
Agency residential	2,198,937	86,722	(3,066 )	2,282,593
Non-agency residential	53,365	499	(775 )	53,089
Foreign government securities	1,555,707	120,900	(8,389 )	1,668,218
Foreign corporate securities	2,086,951	91,869	(32,189 )	2,146,631
Total fixed maturity securities	\$11,731,173	\$ 645,088	\$ (82,737 )	\$12,293,524
Equity securities	\$463,620	\$ 4,060	\$ (18,750 )	\$448,930

The \$1,876,573 thousand of foreign government securities at September 30, 2012 included \$838,200 thousand of European sovereign securities. Approximately 54.0%, 18.9%, 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 September 30, 2012.

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 September 30, 2012	At December 31, 2011
Pre-tax cumulative unrealized appreciation (depreciation)	\$ 4,992	\$ 2,567

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 September 30, 2012		At December 31, 2011	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Fixed maturity securities – available for sale:				
Due in one year or less	\$894,249	\$906,069	\$494,098	\$494,911
Due after one year through five years	5,257,997	5,537,891	5,052,484	5,268,748
Due after five years through ten years	2,310,643	2,517,076	2,188,080	2,325,142
Due after ten years	1,085,119	1,221,370	1,246,886	1,354,208
Asset-backed securities	190,269	197,766	186,936	193,406
Mortgage-backed securities:				

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Commercial	301,225	326,523	310,387	321,427
Agency residential	2,050,526	2,128,190	2,198,937	2,282,593
Non-agency residential	10,718	11,610	53,365	53,089
Total fixed maturity securities	\$12,100,746	\$12,846,495	\$11,731,173	\$12,293,524

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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		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Increase (decrease) during the period between the market value and cost of investments carried at market value, and deferred taxes thereon:				
Fixed maturity securities	\$ 110,234	\$ 3,902	\$ 180,973	\$ 95,587
Fixed maturity securities, other-than-temporary impairment	964	(1,305 )	2,425	582
Equity securities	17,681	(29,936)	28,502	(21,828)
Other invested assets	-	215	-	(1,515 )
Change in unrealized appreciation (depreciation), pre-tax	128,879	(27,124)	211,900	72,826
Deferred tax benefit (expense)	(10,700 )	(7,880 )	(15,424 )	(20,680)
Deferred tax benefit (expense), other-than-temporary impairment	27	48	51	46
Change in unrealized appreciation (depreciation), net of deferred taxes, included in shareholders' equity	\$ 118,206	\$ (34,956)	\$ 196,527	\$ 52,192

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.

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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 September 30, 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	\$ 639	\$ (6 )	\$ 11,543	\$ (817 )	\$ 12,182	\$ (823 )
Obligations of U.S. states and political subdivisions	-	-	5,779	(53 )	5,779	(53 )
Corporate securities	93,239	(916 )	114,607	(6,103 )	207,846	(7,019 )
Asset-backed securities	2,000	-	14,852	(381 )	16,852	(381 )
Mortgage-backed securities						
Commercial	-	-	50,429	(3,643 )	50,429	(3,643 )
Agency residential	189,960	(1,289 )	23,856	(551 )	213,816	(1,840 )
Non-agency residential	-	-	2,261	(190 )	2,261	(190 )
Foreign government securities	87,969	(1,199 )	72,205	(5,023 )	160,174	(6,222 )
Foreign corporate securities	164,401	(3,263 )	129,403	(11,204 )	293,804	(14,467 )
Total fixed maturity securities	\$ 538,208	\$ (6,673 )	\$ 424,935	\$ (27,965 )	\$ 963,143	\$ (34,638 )
Equity securities	-	-	13	(2 )	13	(2 )
Total	\$ 538,208	\$ (6,673 )	\$ 424,948	\$ (27,967 )	\$ 963,156	\$ (34,640 )

	Duration of Unrealized Loss at September 30, 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	\$ 26,704	\$ (471 )	\$ 52,743	\$ (6,657 )	\$ 79,447	\$ (7,128 )
Due in one year through five years	254,344	(4,112 )	196,928	(13,059 )	451,272	(17,171 )
Due in five years through ten years	59,693	(733 )	59,816	(2,212 )	119,509	(2,945 )
Due after ten years	5,507	(68 )	24,050	(1,272 )	29,557	(1,340 )
Asset-backed securities	2,000	-	14,852	(381 )	16,852	(381 )
Mortgage-backed securities	189,960	(1,289 )	76,546	(4,384 )	266,506	(5,673 )
Total fixed maturity securities	\$ 538,208	\$ (6,673 )	\$ 424,935	\$ (27,965 )	\$ 963,143	\$ (34,638 )

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at September 30, 2012 were \$963,156 thousand and \$34,640 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 September 30, 2012. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market

sector. The \$6,673 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, agency residential mortgage-backed securities and foreign government securities. Of these unrealized losses, \$5,699 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The \$27,965 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, \$22,490 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 \$241 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.

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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, 2011 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	\$-	\$ -	\$ 3,452	\$ (287 )	\$ 3,452	\$ (287 )
Obligations of U.S. states and political subdivisions	-	-	7,518	(525 )	7,518	(525 )
Corporate securities	512,255	(14,962 )	120,064	(12,092 )	632,319	(27,054 )
Asset-backed securities	20,839	(339 )	3,655	(211 )	24,494	(550 )
Mortgage-backed securities						
Commercial	9,292	(1,267 )	54,535	(8,635 )	63,827	(9,902 )
Agency residential	253,171	(2,524 )	43,894	(542 )	297,065	(3,066 )
Non-agency residential	1,542	(19 )	35,679	(756 )	37,221	(775 )
Foreign government securities	39,534	(1,035 )	132,977	(7,354 )	172,511	(8,389 )
Foreign corporate securities	278,949	(12,287 )	259,641	(19,902 )	538,590	(32,189 )
Total fixed maturity securities	\$ 1,115,582	\$ (32,433 )	\$ 661,415	\$ (50,304 )	\$ 1,776,997	\$ (82,737 )
Equity securities	108,939	(8,499 )	204,466	(10,251 )	313,405	(18,750 )
Total	\$ 1,224,521	\$ (40,932 )	\$ 865,881	\$ (60,555 )	\$ 2,090,402	\$ (101,487 )

	Duration of Unrealized Loss at December 31, 2011 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	\$26,581	\$ (326 )	\$ 72,083	\$ (8,953 )	\$ 98,664	\$ (9,279 )
Due in one year through five years	421,995	(12,001 )	256,698	(15,635 )	678,693	(27,636 )
Due in five years through ten years	337,232	(13,019 )	159,476	(8,264 )	496,708	(21,283 )
Due after ten years	44,930	(2,938 )	35,395	(7,308 )	80,325	(10,246 )
Asset-backed securities	20,839	(339 )	3,655	(211 )	24,494	(550 )
Mortgage-backed securities	264,005	(3,810 )	134,108	(9,933 )	398,113	(13,743 )

Total fixed maturity securities	\$1,115,582	\$ (32,433 )	\$ 661,415	\$ (50,304 )	\$ 1,776,997	\$ (82,737 )
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The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at December 31, 2011 were \$2,090,402 thousand and \$101,487 thousand, respectively. There were no unrealized losses on a single issuer that exceeded 0.04% of the market value of the fixed maturity securities at December 31, 2011. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The \$32,433 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. Of these unrealized losses, \$17,207 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The \$50,304 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, \$34,840 thousand related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. All of the unrealized losses related to foreign corporate and foreign government securities are due to temporary currency exchange rate movements as opposed to market value movements. The non-investment grade securities with unrealized losses were mainly comprised of corporate

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and commercial mortgage-backed securities. The gross unrealized depreciation for mortgage-backed securities included \$322 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 unrealized losses related to equity securities represent temporary declines in value of mutual fund investments where the underlying investments are comprised of emerging market debt fixed maturities.

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Fixed maturity securities	\$122,824	\$131,680	\$367,770	\$397,204
Equity securities	13,394	15,794	46,898	40,813
Short-term investments and cash	384	366	911	1,042
Other invested assets				
Limited partnerships	18,571	15,725	47,857	66,700
Other	1,427	(1,520 )	2,453	3,203
Total gross investment income	156,600	162,045	465,889	508,962
Interest debited (credited) and other investment expense	(4,576 )	(5,580 )	(12,098 )	(15,174 )
Total net investment income	\$152,024	\$156,465	\$453,791	\$493,788

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 \$111,715 thousand in limited partnerships at September 30, 2012. 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		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Fixed maturity securities, market value:				
Other-than-temporary impairments	\$ (3,548 )	\$ (1,050 )	\$ (9,902 )	\$ (15,817 )
Gains (losses) from sales				