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

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

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

FOR THE QUARTERLY PERIOD ENDED: June 30, 2013	Commission file number: 1-15731

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

Bermuda (State or other jurisdiction of incorporation or organization)	98-0365432 (I.R.S. Employer Identification No.)

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

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

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

YES X NO

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

YES X NO

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

Large accelerated filer	X	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 August 1, 2013
Common Shares, $0.01 par value	48,624,595

EVEREST RE GROUP, LTD

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PART I

ITEM 1. FINANCIAL STATEMENTS

EVEREST RE GROUP, LTD.
CONSOLIDATED BALANCE SHEETS

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

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

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

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

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

COMPREHENSIVE INCOME (LOSS)	$ 16,370	$ 188,489	$ 330,100	$ 590,416
EARNINGS PER COMMON SHARE:				
Basic	$ 5.60	$ 4.10	$ 13.19	$ 9.81
Diluted	5.56	4.08	13.09	9.79
Dividends declared	0.48	0.48	0.96	0.96

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

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

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

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

EVEREST RE GROUP, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

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

CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from fixed maturities matured/called - available for sale, at market value	706,674	381,216	1,318,718	791,593
Proceeds from fixed maturities matured/called - available for sale, at fair value	4,213	-	7,213	-
Proceeds from fixed maturities sold - available for sale, at market value	376,688	203,240	631,184	421,318
Proceeds from fixed maturities sold - available for sale, at fair value	13,678	1,862	17,342	61,143
Proceeds from equity securities sold - available for sale, at market value	44,194	34,549	45,423	54,792
Proceeds from equity securities sold - available for sale, at fair value	252,594	53,950	358,769	297,606
Distributions from other invested assets	33,846	12,798	117,548	21,017
Cost of fixed maturities acquired - available for sale, at market value	(1,105,870)	(641,902)	(2,122,159)	(1,254,576)
Cost of fixed maturities acquired - available for sale, at fair value	(1,411)	(2,382)	(2,706)	(5,506)
Cost of equity securities acquired - available for sale, at market value	(51,921)	(6,202)	(53,487)	(12,654)
Cost of equity securities acquired - available for sale, at fair value	(121,327)	(79,934)	(243,944)	(193,279)
Cost of other invested assets acquired	(4,617)	(16,680)	(11,301)	(28,592)
Net change in short-term investments	53,629	(5,025)	132,136	(262,730)
Net change in unsettled securities transactions	64,135	(32,856)	55,668	5,966
Net cash provided by (used in) investing activities	264,505	(97,366)	250,404	(103,902)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Common shares issued during the period, net	19,651	15,344	46,569	17,955
Purchase of treasury shares	(211,323)	(100,000)	(449,955)	(224,999)
Revolving credit borrowings	40,000	-	40,000	-
Net cost of junior subordinated debt securities maturing	(329,897)	-	(329,897)	-
Dividends paid to shareholders	(23,315)	(25,129)	(47,546)	(50,770)
Net cash provided by (used in) financing activities	(504,884)	(109,785)	(740,829)	(257,814)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(14,796)	(4,817)	(3,336)	7,406
Net increase (decrease) in cash	(85,000)	(73,196)	(97,914)	(49,800)
Cash, beginning of period	524,136	472,047	537,050	448,651

Cash, end of period	$ 439,136	$ 398,851	$ 439,136	$ 398,851
SUPPLEMENTAL CASH FLOW INFORMATION:				
Income taxes paid (recovered)	$ 47,550	$ 12,617	$ 66,738	$ 23,801
Interest paid	17,280	20,387	23,281	26,085
Non-cash transaction:				
Conversion of equity securities - available for sale, at market value, to fixed				
maturity securities - available for sale, at market value, including accrued				
interest at time of conversion	-	92,981	-	92,981

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

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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

1. GENERAL

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

2. BASIS OF PRESENTATION

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

All intercompany accounts and transactions have been eliminated.

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

Application of Recently Issued Accounting Standard Changes.

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

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

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

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

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

3. INVESTMENTS

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

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

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

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

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

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

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

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

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

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

The Company frequently reviews all of its fixed maturity, available for sale securities for declines in market value and focuses its attention on securities whose fair value has fallen below 80% of their amortized cost at the time of review. The Company then assesses whether the decline in value is temporary or other-than-temporary. In making its assessment, the Company evaluates the current market and interest rate environment as well as specific issuer information. Generally, a change in a security's value caused by a change in the market, interest rate or foreign exchange environment does not constitute an other-than-temporary impairment, but rather a temporary decline in market value. Temporary declines in market value are recorded as unrealized losses in accumulated other comprehensive income (loss). If the Company determines that the decline is other-than-temporary and the Company does not have the intent to sell the security; and it is more likely than not that the Company will not have to sell the security before recovery of its cost basis, the carrying value of the investment is written down to fair value. The fair value adjustment that is credit or foreign exchange related is recorded in net realized capital gains (losses) in the Company's consolidated statements of operations and comprehensive income (loss). The fair value adjustment that is non-credit related is recorded as a component of other comprehensive income (loss), net of tax, and is included in accumulated other comprehensive income (loss) in the Company's consolidated balance sheets. The Company's assessments are based on the issuers current and expected future financial position, timeliness with respect to interest and/or principal payments, speed of repayments and any applicable credit enhancements or breakeven constant default rates on mortgage-backed and asset-backed securities, as well as relevant information provided by rating agencies, investment advisors and analysts.

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

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

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

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

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

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

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

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

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

	Duration of Unrealized Loss at December 31, 2012 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of						
U.S. government agencies and corporations	$ 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	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities						
Due in one year or less	$ 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. The market value of securities for the single issuer whose securities comprised the largest unrealized loss position at December 31, 2012, did not exceed

0.3% of the overall market value of the Company's fixed maturity securities. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The $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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Fixed maturities	$120,253	$120,602	$241,010	$244,946
Equity securities	12,795	16,228	22,536	33,504
Short-term investments and cash	176	358	480	527
Other invested assets				
Limited partnerships	19,585	16,439	37,068	29,286
Other	1,935	(492)	4,256	1,026
Gross investment income before adjustments	154,744	153,135	305,350	309,289
Funds held interest income (expense)	1,847	3,268	6,276	6,381
Future policy benefit reserve income (expense)	(621)	(509)	(1,152)	(1,147)
Gross investment income	155,970	155,894	310,474	314,523
Investment expenses	(7,241)	(6,565)	(15,964)	(12,756)
Net investment income	$148,729	$149,329	$294,510	$301,767

(Some amounts may not reconcile due to rounding.)

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 $101,210 thousand in limited partnerships at June 30, 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Fixed maturity securities, market value:				
Other-than-temporary impairments	$ -	$ (466)	$ (191)	$ (6,354)
Gains (losses) from sales	(304)	2,068	4,573	6,135
Fixed maturity securities, fair value:				
Gains (losses) from sales	148	(180)	90	5,027
Gains (losses) from fair value adjustments	(1,665)	(1,707)	(1,581)	1,325
Equity securities, market value:				
Gains (losses) from sales	2,418	6,308	2,651	6,820
Equity securities, fair value:				
Gains (losses) from sales	16,033	(2,318)	24,052	20,099
Gains (losses) from fair value adjustments	17,275	(20,285)	131,032	49,088
Short-term investments gain (loss)	-	-	14	(1)
Total net realized capital gains (losses)	$ 33,905	$ (16,580)	$ 160,640	$ 82,139

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Proceeds from sales of fixed maturity securities	$390,366	$205,102	$648,526	$482,461
Gross gains from sales	11,208	6,593	18,921	20,482
Gross losses from sales	(11,364)	(4,705)	(14,258)	(9,320)
Proceeds from sales of equity securities	$296,788	$88,499	$404,192	$352,398
Gross gains from sales	23,401	7,662	32,503	35,175
Gross losses from sales	(4,950)	(3,672)	(5,800)	(8,256)

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 June 30, 2013, fair value for these equity index put option contracts was $44,757 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 June 30, 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 37%. 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 June 30, 2013, the present value of these theoretical maximum payouts using a 3% discount factor was $401,748 thousand. Conversely, if the contracts had all expired on June 30, 2013, with the S&P index at $1,606.28 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 June 30, 2013, fair value for this equity index put option contract was $7,343 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 June 30, 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 46%. 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 June 30, 2013, the present value of the theoretical maximum payout using a 3% discount factor and current exchange rate was $41,901 thousand. Conversely, if the contract had expired on June 30, 2013, with the FTSE index at 6,215.50 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 hedging instruments	Location of fair value in balance sheets	At June 30, 2013	At December 31, 2012
Equity index put option contracts	Equity index put option liability	$ 52,101	$ 79,467
Total		$ 52,101	$ 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 hedging instruments	Location of gain (loss) in statements of operations and comprehensive income (loss)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
		2013	2012	2013	2012
Equity index put option contracts	Net derivative gain (loss)	$ 12,081	$ (16,306)	$ 27,366	$ (10,123)
Total		$ 12,081	$ (16,306)	$ 27,366	$ (10,123)

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 June 30, 2013, was $52,101 thousand for which the Company had posted collateral with a market value of $43,143 thousand. If on June 30, 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 June 30, 2013 and December 31, 2012.

The Company internally manages a small public equity portfolio which had a fair value at June 30, 2013 of $148,147 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 June 30, 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 June 30, 2013	
	Contracts based on S & P 500 Index	Contract based on FTSE 100 Index
Equity index	1,606.3	6,215.5
Interest rate	1.66% to 3.98%	2.74%
Time to maturity	3.9 to 17.8 yrs	7.1
Volatility	21.3% to 25.3%	24.2%

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:

		Fair Value Measurement Using:		
(Dollars in thousands)	June 30, 2013	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	$ 293,066	$ -	$ 293,066	$ -
Obligations of U.S. States and political subdivisions	1,096,049	-	1,096,049	-
Corporate securities	3,913,320	-	3,913,320	-
Asset-backed securities	144,466	-	138,449	6,017
Mortgage-backed securities				
Commercial	308,121	-	308,121	-
Agency residential	2,396,903	-	2,396,903	-
Non-agency residential	5,904	-	5,124	780
Foreign government securities	1,849,900	-	1,847,286	2,614
Foreign corporate securities	2,872,226	-	2,860,650	11,576
Total fixed maturities, market value	12,879,955	-	12,858,968	20,987
Fixed maturities, fair value	18,129	-	18,129	-
Equity securities, market value	140,197	123,699	16,498	-
Equity securities, fair value	1,295,816	1,172,913	122,903	-
Liabilities:				
Equity index put option contracts	$ 52,101	$ -	$ -	$ 52,101

There were no transfers between Level 1 and Level 2 for the six months ended June 30, 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:

		Fair Value Measurement Using:		
(Dollars in thousands)	December 31, 2012	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	$ 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:

	Three Months Ended June 30, 2013						Six Months Ended June 30, 2013					
	Asset-backed	Foreign	Foreign	Non-agency	Agency		Asset-backed	Foreign	Foreign	Non-agency	Agency	
(Dollars in thousands)	Securities	Corporate	Government	RMBS	RMBS	Total	Securities	Corporate	Government	RMBS	RMBS	T
Beginning balance	$4,686	$2,279	$-	$407	$-	$7,372	$4,849	$11,913	$-	$426	$34,842	$52,
Total gains or (losses) (realized/unrealized)												
Included in earnings	115	(735)	(112)	34	-	(698)	16	(735)	(112)	91	-	(74
Included in other comprehensive income (loss)	(171)	(520)	(179)	(34)	-	(904)	(361)	(643)	(179)	(27)	-	(1,
Purchases, issuances and settlements	(146)	3,872	516	(133)	-	4,109	(20)	4,615	516	(216)	-	4,8
Transfers in and/or (out) of Level 3	1,533	6,680	2,389	506	-	11,108	1,533	(3,574)	2,389	506	(34,842)	(33
Ending balance	$6,017	$11,576	$2,614	$780	$-	$20,987	$6,017	$11,576	$2,614	$780	$-	$20,
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	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-

(Some amounts may not reconcile due to rounding.)

	Three Months Ended June 30, 2012				Six Months Ended June 30, 2012			
	Asset-backed	Foreign	Non-agency		Asset-backed	Foreign	Non-agency	
(Dollars in thousands)	Securities	Corporate	RMBS	Total	Securities	Corporate	RMBS	Total
Beginning balance	$ 14,680	$ 5,650	$ 469	$ 20,799	$ 16,937	$ 3,044	$ 486	$ 20,467
Total gains or (losses) (realized/unrealized)								
Included in earnings	(1)	(16)	-	(17)	55	(20)	36	71
Included in other comprehensive income (loss)	(7)	(23)	-	(30)	359	126	(2)	483
Purchases, issuances and settlements	1,788	4,755	(1)	6,542	5,461	7,216	(52)	12,625
Transfers in and/or (out) of Level 3	(6,478)	(2,462)	(463)	(9,403)	(12,830)	(2,462)	(463)	(15,755)

Ending balance	$ 9,982	$ 7,904	$ 5	$ 17,891	$ 9,982	$ 7,904	$ 5	$ 17,891
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	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Liabilities:				
Balance, beginning of period	$ 64,181	$ 63,546	$ 79,467	$ 69,729
Total (gains) or losses (realized/unrealized)				
Included in earnings	(12,081)	16,306	(27,366)	10,123
Included in other comprehensive income (loss)	-	-	-	-
Purchases, issuances and settlements	-	-	-	-
Transfers in and/or (out) of Level 3	-	-	-	-
Balance, end of period	$ 52,101	$ 79,851	$ 52,101	$ 79,851
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.)

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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.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share amounts)	2013	2012	2013	2012
Net income (loss) per share:				
Numerator				
Net income (loss)	$ 275,642	$ 214,551	$ 659,985	$ 519,255
Less: dividends declared-common shares and nonvested common shares	(23,315)	(25,129)	(47,546)	(50,770)
Undistributed earnings	252,327	189,422	612,439	468,485
Percentage allocated to common shareholders (1)	99.1 %	99.0 %	99.1 %	99.1 %
	249,979	187,610	607,138	464,367
Add: dividends declared-common shareholders	23,107	24,893	47,126	50,297
Numerator for basic and diluted earnings per common share	$ 273,086	$ 212,503	$ 654,264	$ 514,664
Denominator				
Denominator for basic earnings per weighted-average common shares	48,762	51,855	49,588	52,451
Effect of dilutive securities:				
Options	385	171	399	145
Denominator for diluted earnings per adjusted weighted-average common shares	49,147	52,026	49,987	52,596
Per common share net income (loss)				
Basic	$ 5.60	$ 4.10	$ 13.19	$ 9.81
Diluted	$ 5.56	$ 4.08	$ 13.09	$ 9.79

(1)	Basic weighted-average common shares outstanding	48,762	51,855	49,588	52,451
	Basic weighted-average common shares outstanding and nonvested common	49,220	52,355	50,021	52,916

shares expected to vest				
Percentage allocated to common shareholders	99.1 %	99.0 %	99.1 %	99.1 %

(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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Anti-dilutive options	-	957,400	454	1,707,150

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 June 30, 2013	At December 31, 2012
	$ 144,841	$ 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 June 30, 2013	At December 31, 2012
	$ 29,474	$ 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:

	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
(Dollars in thousands)	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Unrealized appreciation (depreciation) ("URA(D)") on securities - temporary	$ (321,618)	$ 50,116	$ (271,502)	$ (366,663)	$ 48,553	$ (318,110)
URA(D) on securities - OTTI	(1,144)	106	(1,038)	(1,372)	140	(1,232)
Reclassification of net realized losses (gains) included in net income (loss)	(2,114)	286	(1,828)	(7,033)	1,114	(5,919)
Foreign currency translation adjustments	13,950	(199)	13,751	(11,206)	3,891	(7,315)
Benefit plan liability adjustments	-	-	-	-	-	-
Reclassification of benefit plan liability amortization included in net income (loss)	2,070	(725)	1,345	4,140	(1,449)	2,691
Total other comprehensive income (loss)	$ (308,856)	$ 49,584	$ (259,272)	$ (382,134)	$ 52,249	$ (329,885)

	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
(Dollars in thousands)	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
URA(D) on securities - temporary	$ 5,233	$ (401)	$ 4,832	$ 88,161	$ (4,111)	$ 84,050
URA(D) on securities - OTTI	559	17	576	1,461	24	1,485
Reclassification of net realized losses (gains) included in net income (loss)	(7,910)	454	(7,456)	(6,601)	(613)	(7,214)
Foreign currency translation adjustments	(29,229)	4,232	(24,997)	(10,507)	1,380	(9,127)
Benefit plan liability adjustments	-	-	-	-	-	-
Reclassification of benefit plan liability amortization included in net income (loss)	1,513	(530)	983	3,026	(1,059)	1,967
Total other comprehensive income (loss)	$ (29,834)	$ 3,772	$ (26,062)	$ 75,540	$ (4,379)	$ 71,161

The following table presents details of the amounts reclassified from accumulated other comprehensive income ("AOCI") for the periods indicated:

AOCI component	Three months ended June 30, 2013	Six months ended June 30, 2013	Affected line item within the statements of operations and comprehensive income (loss)
(Dollars in thousands)			

URA(D) on securities	$	(2,114)	$ (7,033)	Other net realized capital gains (losses)
		286	1,114	Income tax expense (benefit)
	$	(1,828)	$ (5,919)	Net income (loss)
Benefit plan liability	$	2,070	$ 4,140	Other underwriting expenses
		(725)	(1,449)	Income tax expense (benefit)
	$	1,345	$ 2,691	Net income (loss)

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 June 30, 2013	At December 31, 2012
Beginning balance of URA (D) on securities	$ 603,928	$ 449,579
Current period change in URA (D) of investments - temporary	(324,029)	152,086
Current period change in URA (D) of investments - non-credit OTTI	(1,232)	2,263
Ending balance of URA (D) on securities	278,667	603,928
Beginning balance of foreign currency translation adjustments	(4,368)	(27,066)
Current period change in foreign currency translation adjustments	(7,315)	22,698
Ending balance of foreign currency translation adjustments	(11,683)	(4,368)
Beginning balance of benefit plans	(62,511)	(55,535)
Current period change in benefit plans	2,691	(6,976)
Ending balance of benefit plans	(59,820)	(62,511)
Ending balance of accumulated other comprehensive income (loss)	$ 207,164	$ 537,049

(Some amounts may not reconcile due to rounding.)

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Credit facility fees incurred	$ 280	$ 699	$ 477	$ 1,348

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 June 30, 2013, was $4,649,745 thousand. As of June 30, 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)		At June 30, 2013			At December 31, 2012		
Bank		Commitment	In Use	Date of Expiry	Commitment	In Use	Date of Expiry
Wells Fargo Bank Group Credit Facility	Tranche One	$ 200,000	$ -		$ 200,000	$ -	
	Tranche Two	600,000	497,636	12/31/2013	600,000	463,155	12/31/2013
Total Wells Fargo Bank Group Credit Facility		$ 800,000	$ 497,636		$ 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 June 30, 2013, was $2,071,087 thousand. As of June 30, 2013, Holdings was in compliance with all Holdings Credit Facility covenants.

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. 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.

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

(Dollars in thousands)	At June 30, 2013				At December 31, 2012			
Bank	Commitment	In Use	Date of Loan	Maturity/Expiry Date	Commitment	In Use	Date of Loan	Maturity/Expiry Date
Citibank Holdings Credit Facility	$ 150,000	$ 40,000	5/22/2013	7/24/2013	$ 150,000	$ -		

Total revolving credit borrowings		40,000			-	
Total letters of credit		1,551	12/31/2013		1,551	12/31/2013
Total Citibank Holdings Credit Facility	$ 150,000	$ 41,551		$ 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 June 30, 2013			At December 31, 2012		
Bank	Commitment	In Use	Date of Expiry	Commitment	In Use	Date of Expiry
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
		1,018	8/15/2014		1,104	8/15/2014
		128	8/30/2014		139	8/30/2014
		20,240	12/31/2014		20,838	12/31/2014
		135,942	9/30/2017		145,215	3/31/2017
Total Citibank Bilateral Agreement	$ 300,000	$ 235,179		$ 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 June 30, 2013, the total amount on deposit in trust accounts was $257,948 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.

				June 30, 2013		December 31, 2012	
(Dollars in thousands)	Date Issued	Date Due	Principal Amounts	Consolidated Balance Sheet Amount	Market Value	Consolidated Balance Sheet Amount	Market Value
5.40% Senior notes	10/12/2004	10/15/2014	$ 250,000	$ 249,932	$ 260,000	$ 249,907	$ 266,390

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Interest expense incurred	$ 3,388	$ 3,387	$ 6,775	$ 6,774

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.

	Maturity Date	June 30, 2013	December 31, 2012
Original		Consolidated Balance	Consolidated Balance

(Dollars in thousands)	Date Issued	Principal Amount	Scheduled	Final	Sheet Amount	Market Value	Sheet Amount	Market Value
6.6% Long term subordinated notes	04/26/2007	$ 400,000	05/15/2037	05/01/2067	$ 238,359	$ 244,553	$ 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Interest expense incurred	$ 3,937	$ 3,937	$ 7,874	$ 7,874

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.

				June 30, 2013		December 31, 2012	
(Dollars in thousands)	Date Issued	Date Due	Amount Issued	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	$ 333,225

In accordance with the provisions of the junior subordinated debt securities, Holdings elected to redeem the $329,897 thousand of 6.2% junior subordinated debt securities outstanding on May 24, 2013. As a result of the early redemption, the Company incurred pre-tax expense of $7,282 thousand related to the immediate amortization of the remaining capitalized issuance costs on the trust preferred securities.

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

	Three Months Ended	Six Months Ended

(Dollars in thousands)	June 30, 2013	2012	June 30, 2013	2012
Interest expense incurred	$ 3,068	$ 5,114	$ 8,181	$ 10,227

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

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 business is generally reported within the segment in which the business was first produced, consistent with how the business is managed.

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 June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Gross written premiums	$ 418,367	$ 135,468	$ 853,158	$ 504,950
Net written premiums	418,039	135,321	852,678	503,552
Premiums earned	$ 391,364	$ 321,382	$ 783,980	$ 679,343
Incurred losses and LAE	237,588	196,174	435,746	418,154
Commission and brokerage	85,727	109,927	173,053	201,482
Other underwriting expenses	9,994	10,022	20,528	20,774
Underwriting gain (loss)	$ 58,055	$ 5,259	$ 154,653	$ 38,933

International (Dollars in thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Gross written premiums	$ 348,102	$ 344,241	$ 645,662	$ 621,535
Net written premiums	348,069	344,232	642,051	621,525
Premiums earned	$ 326,070	$ 334,407	$ 638,048	$ 630,524
Incurred losses and LAE	184,329	160,249	345,528	308,421
Commission and brokerage	77,065	81,776	148,509	152,967
Other underwriting expenses	7,667	6,543	15,597	13,283
Underwriting gain (loss)	$ 57,009	$ 85,839	$ 128,414	$ 155,853

Bermuda (Dollars in thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Gross written premiums	$ 177,345	$ 174,051	$ 373,103	$ 362,003
Net written premiums	169,689	174,060	365,512	361,333
Premiums earned	$ 184,817	$ 169,843	$ 370,150	$ 333,744
Incurred losses and LAE	111,620	101,703	203,616	206,893
Commission and brokerage	45,064	45,326	88,715	88,610
Other underwriting expenses	8,767	6,868	16,526	14,375
Underwriting gain (loss)	$ 19,366	$ 15,946	$ 61,293	$ 23,866

Insurance (Dollars in thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Gross written premiums	$ 316,388	$ 255,258	$ 569,069	$ 466,996
Net written premiums	276,829	203,068	502,078	385,133
Premiums earned	$ 249,282	$ 212,168	$ 448,114	$ 392,167
Incurred losses and LAE	178,053	149,744	319,344	276,868
Commission and brokerage	34,211	28,760	64,836	60,233
Other underwriting expenses	28,473	26,242	55,196	49,738
Underwriting gain (loss)	$ 8,545	$ 7,422	$ 8,738	$ 5,328

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Underwriting gain (loss)	$ 142,975	$ 114,466	$ 353,098	$ 223,980
Net investment income	148,729	149,329	294,510	301,767
Net realized capital gains (losses)	33,905	(16,580)	160,640	82,139
Net derivative gain (loss)	12,081	(16,306)	27,366	(10,123)
Corporate expenses	(6,168)	(6,075)	(11,885)	(10,736)
Interest, fee and bond issue cost amortization expense	(17,362)	(13,244)	(30,843)	(26,422)
Other income (expense)	8,295	27,812	(592)	21,618
Income (loss) before taxes	$ 322,455	$ 239,402	$ 792,294	$ 582,223

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
United Kingdom	$ 119,156	$ 104,708	$ 267,143	$ 219,152

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

16. SHARE-BASED COMPENSATION PLANS

For the three months ended June 30, 2013, share-based compensation awards granted were 200 restricted shares, granted on May 15, 2013, with a fair value of $135.805 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	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Service cost	$ 2,728	$ 2,342	$ 5,457	$ 4,684
Interest cost	2,074	1,979	4,148	3,958
Expected return on plan assets	(2,121)	(2,109)	(4,243)	(4,218)
Amortization of prior service cost	12	13	25	26
Amortization of net (income) loss	1,904	1,427	3,808	2,853
Net periodic benefit cost	$ 4,597	$ 3,652	$ 9,195	$ 7,303

Other Benefits	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Service cost	$ 499	$ 370	$ 998	$ 740
Interest cost	277	258	554	516
Amortization of net (income) loss	154	74	308	148
Net periodic benefit cost	$ 930	$ 702	$ 1,860	$ 1,404

The Company did not make any contributions to the qualified pension benefit plan for the three and six months ended June 30, 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 second quarter of 2012, the Company identified an understatement in its deferred tax asset account of $9,257 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 June 30, 2012 financial statements, resulting in an additional $9,257 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 June 30, 2012. The Company also increased its deferred tax asset in its Consolidated Balance Sheets by the same amount. The Company recorded a similar adjustment of $12,417 thousand during the first quarter of 2012, for a total six-month adjustment of $21,674 thousand. The Company believes that the out of period adjustments are immaterial to its June 30, 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 evaluated known recognized and non-recognized subsequent events. The Company does not have any subsequent events to report.

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 and additional capacity from the capital markets is impacting worldwide catastrophe rates.

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 June 30, 2013	Three Months Ended June 30, 2012	Percentage Increase/ (Decrease)	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Percentage Increase/ (Decrease)
Gross written premiums	$1,260.2	$909.0	38.6 %	$2,441.0	$ 1,955.5	24.8 %
Net written premiums	1,212.6	856.7	41.5 %	2,362.3	1,871.5	26.2 %
REVENUES:						
Premiums earned	$1,151.5	$1,037.8	11.0 %	$2,240.3	$ 2,035.8	10.0 %
Net investment income	148.7	149.3	-0.4 %	294.5	301.8	-2.4 %
Net realized capital gains (losses)	33.9	(16.6)	NM	160.6	82.1	95.6 %
Net derivative gain (loss)	12.1	(16.3)	-174.1 %	27.4	(10.1)	NM
Other income (expense)	8.3	27.8	-70.2 %	(0.6)	21.6	-102.7 %
Total revenues	1,354.5	1,182.1	14.6 %	2,722.2	2,431.2	12.0 %
CLAIMS AND EXPENSES:						
Incurred losses and loss adjustment expenses	711.6	607.9	17.1 %	1,304.2	1,210.3	7.8 %
Commission, brokerage, taxes and fees	242.1	265.8	-8.9 %	475.1	503.3	-5.6 %
Other underwriting expenses	54.9	49.7	10.5 %	107.8	98.2	9.9 %
Corporate expenses	6.2	6.1	1.5 %	11.9	10.7	10.7 %
Interest, fees and bond issue cost amortization expense	17.4	13.2	31.1 %	30.8	26.4	16.7 %
Total claims and expenses	1,032.1	942.7	9.5 %	1,929.9	1,849.0	4.4 %
INCOME (LOSS) BEFORE TAXES	322.5	239.4	34.7 %	792.3	582.2	36.1 %
Income tax expense (benefit)	46.8	24.9	88.4 %	132.3	63.0	110.1 %
NET INCOME (LOSS)	$275.6	$214.6	28.5 %	$660.0	$ 519.3	27.1 %
RATIOS:			Point Change			Point Change
Loss ratio	61.8 %	58.6 %	3.2	58.2 %	59.5 %	(1.3)
Commission and brokerage ratio	21.0 %	25.6 %	(4.6)	21.2 %	24.7 %	(3.5)
Other underwriting expense ratio	4.8 %	4.8 %	-	4.8 %	4.8 %	-
Combined ratio	87.6 %	89.0 %	(1.4)	84.2 %	89.0 %	(4.8)

(Dollars in millions, except per share amounts)	At June 30, 2013	At December 31, 2012	Percentage Increase/ (Decrease)
Balance sheet data:			
Total investments and cash	$16,027.9	$ 16,576.2	-3.3 %
Total assets	19,559.0	19,777.9	-1.1 %
Loss and loss adjustment expense reserves	9,843.5	10,069.1	-2.2 %

Total debt	528.3	818.2	-35.4	%
Total liabilities	12,936.2	13,044.4	-0.8	%
Shareholders' equity	6,622.8	6,733.5	-1.6	%
Book value per share	136.31	130.96	4.1	%

(NM, not meaningful.)
(Some amounts may not reconcile due to rounding.)

Revenues. Gross written premiums increased by 38.6% to $1,260.2 million for the three months ended June 30, 2013, compared to $909.0 million for the three months ended June 30, 2012, reflecting a $290.1 million, or 44.4%, increase in our reinsurance business and a $61.1 million increase in our insurance business. The increase in reinsurance premiums was mainly due to the impact of a Florida quota share reinsurance contract as well as new business, increased participations on existing business and higher original rates on subject business. Excluding the large Florida quota share reinsurance contract, gross written premiums increased 10.8% and reinsurance premiums increased 6.8%, quarter over quarter. The increase in insurance premiums was primarily due to the growth in California workers' compensation, crop and non-standard auto business. Gross written premiums increased by 24.8% to $2,441.0 million for the six months ended June 30, 2013, compared to $1,955.5 million for the six months ended June 30, 2012, reflecting a $383.4 million, or 25.8%, increase in our reinsurance business and a $102.1 million increase in our insurance business. The increase in reinsurance premiums was mainly due to the impact of a Florida quota share reinsurance contract as well as new business, increased participations on existing business, and higher original rates on subject business. Excluding the large Florida quota share reinsurance contract, gross written premiums increased 11.8% and reinsurance premiums increased 9.0%, compared to the prior year six-month period. The increase in insurance premiums was primarily due to the growth in California workers' compensation, crop and non-standard auto business.

Net written premiums increased 41.5% to $1,212.6 million for the three months ended June 30, 2013 compared to $856.7 million for the three months ended June 30, 2012, and increased 26.2% to $2,362.3 million for the six months ended June 30, 2013 compared to $1,871.5 million for the six months ended June 30, 2012, which is consistent with the increase in gross written premiums. Premiums earned increased by 11.0% to $1,151.5 million for the three months ended June 30, 2013, compared to $1,037.8 million for the three months ended June 30, 2012, and increased by 10.0% to $2,240.3 million for the six months ended June 30, 2013, compared to $2,035.8 million for the six months ended June 30, 2012. Unlike written premiums, premiums earned were not impacted by the Florida quota share reinsurance contract. The change in premiums earned was comparable to net written premiums, excluding the impact of the Florida quota share reinsurance contract.

Net Investment Income. Net investment income decreased by 0.4% to $148.7 million for the three months ended June 30, 2013 compared with net investment income of $149.3 million for the three months ended June 30, 2012. Net investment income decreased by 2.4% to $294.5 million for the six months ended June 30, 2013 compared with net investment income of $301.8 million for the six months ended June 30, 2012. Net pre-tax investment income, as a percentage of average invested assets, was 3.8% for the three and six months ended June 30, 2013 compared to 3.9% and 4.0% for the three and six months ended June 30, 2012, respectively. 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 $33.9 million and net realized capital losses were $16.6 million for the three months ended June 30, 2013 and 2012, respectively. The $33.9 million was comprised of $18.3 million of net realized capital gains from sales on our fixed maturity and equity securities and $15.6 million of gains from fair value re-measurements. The net realized capital losses of $16.6 million for the three months ended June 30, 2012 were the result of $22.0 million of losses from fair value re-measurements and $0.5 million of other-than-temporary impairments, partially offset by $5.9 million of net realized capital gains from sales on our fixed maturity and equity securities.

Net realized capital gains were $160.6 million and $82.1 million for the six months ended June 30, 2013 and 2012, respectively. The $160.6 million was comprised of $129.5 million of gains from fair value re-measurements and $31.4 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 $82.1 million for the six months ended June 30, 2012 were the result of $50.4 million of gains from fair value re-measurements and $38.1 million of net realized capital gains from sales on our fixed maturity and equity securities, partially offset by $6.4 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 $12.1 million and $27.4 million for the three and six months ended June 30, 2013, respectively, and net derivative losses of $16.3 million and $10.1 million for the three and six months ended June 30, 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 income of $8.3 million and $27.8 million for the three months ended June 30, 2013 and 2012, respectively. We recorded other expense of $0.6 million and other income of $21.6 million for the six months ended June 30, 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.

	Three Months Ended June 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2013						
Attritional (a)	$ 622.6	54.1 %	$ (1.0)	-0.1 %	$ 621.6	54.0 %
Catastrophes	90.0	7.8 %	-	0.0 %	90.0	7.8 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total	$ 712.6	61.9 %	$ (1.0)	-0.1 %	$ 711.6	61.8 %
2012						
Attritional (a)	$ 578.0	55.7 %	$ (0.1)	0.0 %	$ 577.9	55.7 %
Catastrophes	30.0	2.9 %	-	0.0 %	30.0	2.9 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total	$ 608.0	58.6 %	$ (0.1)	0.0 %	$ 607.9	58.6 %
Variance 2013/2012						
Attritional (a)	$ 44.6	(1.6) pts	$ (0.9)	(0.1) pts	$ 43.7	(1.7) pts
Catastrophes	60.0	4.9 pts	-	- pts	60.0	4.9 pts
A&E	-	- pts	-	- pts	-	- pts
Total	$ 104.6	3.3 pts	$ (0.9)	(0.1) pts	$ 103.7	3.2 pts

	Six Months Ended June 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2013						
Attritional (a)	$ 1,215.2	54.2 %	$ (1.0)	0.0 %	$ 1,214.2	54.2 %
Catastrophes	90.0	4.0 %	-	0.0 %	90.0	4.0 %
A&E	-	0.0 %	-	0.0		