EVEREST RE GROUP LTD
Form 10-Q
August 09, 2016
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:	Commission file number:
June 30, 2016	1-15731

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

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

Seon Place – 4th Floor
141 Front Street
PO Box HM 845
Hamilton HM 19, 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 (Do not check if smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES 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, 2016
Common Shares, $0.01 par value	41,888,224

EVEREST RE GROUP, LTD

Table of Contents
Form 10-Q

EVEREST RE GROUP, LTD.
CONSOLIDATED BALANCE SHEETS

(Dollars and share amounts in thousands, except par value per share)	June 30, 2016 (unaudited)	December 31, 2015
ASSETS:		
Fixed maturities - available for sale, at market value (amortized cost: 2016, $13,631,263; 2015, $13,276,206)	$14,058,965	$13,357,294
Fixed maturities - available for sale, at fair value	-	2,102
Equity securities - available for sale, at market value (cost: 2016, $124,699; 2015, $122,271)	118,740	108,940
Equity securities - available for sale, at fair value	1,104,430	1,337,733
Short-term investments	531,511	799,684
Other invested assets (cost: 2016, $1,216,171; 2015, $786,994)	1,216,171	786,994
Cash	429,287	283,658
Total investments and cash	17,459,104	16,676,405
Accrued investment income	96,772	100,942
Premiums receivable	1,461,563	1,483,090
Reinsurance receivables	950,323	894,037
Funds held by reinsureds	242,033	278,673
Deferred acquisition costs	319,781	372,351
Prepaid reinsurance premiums	219,050	164,971
Income taxes	195,094	258,541
Other assets	338,455	316,408
TOTAL ASSETS	$21,282,175	$20,545,418
LIABILITIES:		
Reserve for losses and loss adjustment expenses	$10,263,267	$9,951,798
Future policy benefit reserve	57,827	58,910
Unearned premium reserve	1,495,838	1,613,390
Funds held under reinsurance treaties	23,373	13,544
Commission reserves	85,670	60,098
Other net payable to reinsurers	224,380	173,087
Losses in course of payment	124,703	112,170
4.868% Senior notes due 6/1/2044	396,654	396,594
6.6% Long term notes due 5/1/2067	236,413	236,364
Accrued interest on debt and borrowings	3,537	3,537
Equity index put option liability	41,729	40,705
Unsettled securities payable	86,003	15,314
Other liabilities	257,313	261,322
Total liabilities	13,296,707	12,936,833
Commitments and contingencies (Note 7)		
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; (2016) 68,805		

and (2015) 68,606 outstanding before treasury shares	688	686
Additional paid-in capital	2,120,581	2,103,638
Accumulated other comprehensive income (loss), net of deferred income tax expense (benefit) of $57,700 at 2016 and ($15,863) at 2015	84,000	(231,755)
Treasury shares, at cost; 26,921 shares (2016) and 25,912 shares (2015)	(3,072,313)	(2,885,956)
Retained earnings	8,852,512	8,621,972
Total shareholders' equity	7,985,468	7,608,585
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$21,282,175	$20,545,418

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

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)	2016	2015	2016	2015
	(unaudited)		(unaudited)	
REVENUES:				
Premiums earned	$1,288,860	$1,285,255	$2,507,727	$2,557,743
Net investment income	132,737	124,990	235,261	247,556
Net realized capital gains (losses):				
Other-than-temporary impairments on fixed maturity securities	(1,470)	(16,238)	(30,263)	(42,256)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-	-	-
Other net realized capital gains (losses)	34,128	(7,940)	(11,338)	7,573
Total net realized capital gains (losses)	32,658	(24,178)	(41,601)	(34,683)
Net derivative gain (loss)	1,996	6,445	(1,024)	6,203
Other income (expense)	(28,367)	(2,064)	(30,433)	49,217
Total revenues	1,427,884	1,390,448	2,669,930	2,826,036
CLAIMS AND EXPENSES:				
Incurred losses and loss adjustment expenses	857,816	778,184	1,558,565	1,493,339
Commission, brokerage, taxes and fees	295,502	290,520	570,508	573,614
Other underwriting expenses	72,077	61,902	144,187	120,643
Corporate expenses	7,117	5,925	15,003	11,388
Interest, fees and bond issue cost amortization expense	9,073	9,026	18,301	18,016
Total claims and expenses	1,241,585	1,145,557	2,306,564	2,217,000
INCOME (LOSS) BEFORE TAXES	186,299	244,891	363,366	609,036
Income tax expense (benefit)	30,607	35,834	35,988	77,001
NET INCOME (LOSS)	$155,692	$209,057	$327,378	$532,035
Other comprehensive income (loss), net of tax:				
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	124,356	(136,481)	267,318	(53,276)
Reclassification adjustment for realized losses (gains) included in net income (loss)	(1,448)	12,747	30,933	34,930
Total URA(D) on securities arising during the period	122,908	(123,734)	298,251	(18,346)
Foreign currency translation adjustments	5,050	54,337	14,823	(48,003)
Benefit plan actuarial net gain (loss) for the period	-	-	-	-
Reclassification adjustment for amortization of net (gain) loss included in net income (loss)	1,341	1,609	2,681	3,213
Total benefit plan net gain (loss) for the period	1,341	1,609	2,681	3,213
Total other comprehensive income (loss), net of tax	129,299	(67,788)	315,755	(63,136)

COMPREHENSIVE INCOME (LOSS)	$284,991	$141,269	$643,133	$468,899
EARNINGS PER COMMON SHARE				
Basic	$3.70	$4.72	$7.73	$11.99
Diluted	3.67	4.68	7.68	11.88
Dividends declared	1.15	0.95	2.30	1.90

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, 2016 (unaudited)	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016 (unaudited)	Six Months Ended June 30, 2015
COMMON SHARES (shares outstanding):				
Balance, beginning of period	42,399,666	44,410,420	42,694,252	44,685,637
Issued during the period, net	28,492	59,606	198,266	219,267
Treasury shares acquired	(544,728)	(277,500)	(1,009,088)	(712,378)
Balance, end of period	41,883,430	44,192,526	41,883,430	44,192,526
COMMON SHARES (par value):				
Balance, beginning of period	$688	$685	$686	$683
Issued during the period, net	-	-	2	2
Balance, end of period	688	685	688	685
ADDITIONAL PAID-IN CAPITAL:				
Balance, beginning of period	2,111,828	2,073,977	2,103,638	2,068,807
Share-based compensation plans	8,753	10,659	16,943	15,829
Balance, end of period	2,120,581	2,084,636	2,120,581	2,084,636
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES:				
Balance, beginning of period	(45,299)	52,969	(231,755)	48,317
Net increase (decrease) during the period	129,299	(67,788)	315,755	(63,136)
Balance, end of period	84,000	(14,819)	84,000	(14,819)
RETAINED EARNINGS:				
Balance, beginning of period	8,744,952	8,099,936	8,621,972	7,819,210
Net income (loss)	155,692	209,057	327,378	532,035
Dividends declared ($1.15 per share in second quarter 2016 and $2.30 year-to-date per share in 2016 and $0.95 per share in second quarter 2015 and $1.90 year-to-date per share in 2015)	(48,132)	(41,955)	(96,838)	(84,207)
Balance, end of period	8,852,512	8,267,038	8,852,512	8,267,038
TREASURY SHARES AT COST:				
Balance, beginning of period	(2,971,870)	(2,560,937)	(2,885,956)	(2,485,897)
Purchase of treasury shares	(100,443)	(49,941)	(186,357)	(124,981)
Balance, end of period	(3,072,313)	(2,610,878)	(3,072,313)	(2,610,878)
TOTAL SHAREHOLDERS' EQUITY, END OF PERIOD	$7,985,468	$7,726,662	$7,985,468	$7,726,662

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

EVEREST RE GROUP, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Six Months Ended June 30, 2016 (unaudited)	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$327,378	$532,035
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease (increase) in premiums receivable	20,168	(56,849)
Decrease (increase) in funds held by reinsureds, net	45,656	(6,755)
Decrease (increase) in reinsurance receivables	(68,284)	(49,185)
Decrease (increase) in income taxes	(10,424)	(20,898)
Decrease (increase) in prepaid reinsurance premiums	(51,243)	(39,563)
Increase (decrease) in reserve for losses and loss adjustment expenses	352,147	113,567
Increase (decrease) in future policy benefit reserve	(1,083)	(364)
Increase (decrease) in unearned premiums	(119,315)	(160,849)
Increase (decrease) in other net payable to reinsurers	46,508	16,712
Increase (decrease) in losses in course of payment	11,188	95,003
Change in equity adjustments in limited partnerships	(16,518)	(12,840)
Distribution of limited partnership income	41,296	18,332
Change in other assets and liabilities, net	17,012	32,728
Non-cash compensation expense	14,262	10,364
Amortization of bond premium (accrual of bond discount)	24,125	25,514
Amortization of underwriting discount on senior notes	2	2
Net realized capital (gains) losses	41,601	34,683
Net cash provided by (used in) operating activities	674,476	531,637
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from fixed maturities matured/called - available for sale, at market value	923,832	1,172,211
Proceeds from fixed maturities matured/called - available for sale, at fair value	-	-
Proceeds from fixed maturities sold - available for sale, at market value	594,764	731,673
Proceeds from fixed maturities sold - available for sale, at fair value	1,587	1,613
Proceeds from equity securities sold - available for sale, at market value	226	4,599
Proceeds from equity securities sold - available for sale, at fair value	430,038	300,620
Distributions from other invested assets	2,261,682	27,705
Cost of fixed maturities acquired - available for sale, at market value	(1,932,527)	(2,448,121)
Cost of fixed maturities acquired - available for sale, at fair value	-	(234)
Cost of equity securities acquired - available for sale, at market value	(2,393)	(5,541)
Cost of equity securities acquired - available for sale, at fair value	(194,043)	(317,650)
Cost of other invested assets acquired	(2,711,306)	(98,890)
Net change in short-term investments	271,913	207,879
Net change in unsettled securities transactions	59,619	4,475
Net cash provided by (used in) investing activities	(296,608)	(419,661)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common shares issued during the period, net	2,683	5,468
Purchase of treasury shares	(186,357)	(124,981)

Dividends paid to shareholders	(96,838)	(84,207)
Net cash provided by (used in) financing activities	(280,512)	(203,720)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	48,273	(6,829)
Net increase (decrease) in cash	145,629	(98,573)
Cash, beginning of period	283,658	437,474
Cash, end of period	$429,287	$338,901
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid (recovered)	$41,905	$93,352
Interest paid	18,192	17,907

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, 2016 and 2015

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.

During the fourth quarter of 2015, the Company established new subsidiaries, Everest Preferred International Holdings, Ltd. ("Preferred International"), a Bermuda based company and Everest International Holdings (Bermuda), Ltd. ("International Holdings"), a Bermuda based company. These new subsidiaries were part of a capital restructuring within the Company to support a planned increase in international business production, which includes directly supporting Group's new Lloyd's of London Syndicate corporate member.

Effective July 13, 2015, the Company sold all of the outstanding shares of capital stock of a wholly-owned subsidiary entity, Mt. McKinley Insurance Company ("Mt. McKinley"), to Clearwater Insurance Company. The operating results of Mt. McKinley for the three and six months ended June 30, 2015, are included within the Company's financial statements.

Effective February 27, 2013, the Company established a new subsidiary, Mt. Logan Re Ltd. ("Mt. Logan Re"). Mt. Logan Re manages separate segregated accounts whose assets and capital relate mainly to third party external investors.

2. BASIS OF PRESENTATION

The unaudited consolidated financial statements of the Company for the three and six months ended June 30, 2016 and 2015 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, 2015 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, 2016 and 2015 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, 2015, 2014 and 2013 included in the Company's most recent Form 10-K filing.

The Company consolidates the results of operations and financial position of all voting interest entities ("VOE") in which the Company has a controlling financial interest and all variable interest entities ("VIE") in which the Company is considered to be the primary beneficiary. The consolidation assessment, including the determination as to whether an entity qualifies as a VIE or VOE, depends on the facts and circumstances surrounding each entity.

Effective January 1, 2016, the Company adopted Accounting Standards Update 2015-02, "Consolidation (Topic 810) Amendments to the Consolidation Analysis" issued by the United States Financial Accounting Standards Board ("FASB"), which changed the method in which the Company determines whether entities are consolidated by the Company. The adoption of this amended accounting guidance has been implemented utilizing a full retrospective application for all periods presented in the Company's unaudited interim consolidated financial statements.

The amended guidance includes changes in the identification of the primary beneficiary of companies considered to be VIEs. These changes resulted in the Company concluding that Mt. Logan Re is a VIE given it has insufficient equity at risk and that each underlying separate segregated account is likewise a VIE. The Company has concluded that it is the primary beneficiary of Mt. Logan Re, but not of the underlying separate segregated accounts and therefore has deconsolidated these segregated accounts. This change had no impact to the net income or retained earnings of the Company.

All significant intercompany accounts and transactions have been eliminated.

Certain reclassifications and format changes have been made to prior years' amounts to conform to the 2016 presentation.

Application of Recently Issued Accounting Standard Changes.

Disclosures about Short-Duration Contracts. In May 2015, the FASB issued ASU 2015-09, authoritative guidance regarding required disclosures associated with short duration insurance contracts. The new disclosure requirements focus on information about initial claim estimates and subsequent claim estimate adjustment, methodologies in estimating claims and the timing, frequency and severity of claims related to short duration insurance contracts. This guidance is effective for annual reporting periods beginning after December 15, 2015 and interim reporting periods beginning after December 15, 2016. Therefore, the initial presentation of this guidance in the Company's financial statements and footnotes will be for its 10-K filing as of December 31, 2016. The Company does not anticipate that it will have a significant impact on its financial statements.

Debt Issuance Costs. In April 2015, The FASB issued ASU 2015–03, authoritative guidance on the presentation of debt issuance costs. This guidance requires that debt issuance costs be presented within the balance sheet as a reduction of the carrying value of the debt liability, rather than as a separate asset. This guidance is effective for annual reporting periods beginning after December 15, 2015 and related interim reporting periods. Based upon this guidance, the Company has adjusted prior financial statements and footnotes to conform with this new presentation.

Consolidation. In February 2015, the FASB issued ASU 2015-02, authoritative guidance regarding consolidation of reporting entities. The new guidance focuses on the required evaluation of whether certain legal entities should be consolidated. This guidance is effective for annual and interim reporting periods beginning after December 15, 2015. Based upon this guidance, the Company has determined that the separate segregated accounts associated with Mt. Logan Re, should not be consolidated. As a result, the Company has adjusted prior financial statements and footnotes to conform with this new consolidation presentation.

The following tables present certain financial statement line items as previously reported in 2015, the effect on those line items due to not consolidating the segregated accounts of Mt. Logan Re, in accordance with the newly adopted accounting policy and the line items as currently reported within the financial statements.

CONSOLIDATED BALANCE SHEET:	December 31, 2015		
	As previously reported	Effect of adoption of new accounting policy	As adopted
(Dollars in thousands)			
ASSETS:			
Short-term investments	$1,795,455	$ (995,771)	$799,684
Total investments and cash	17,672,176	(995,771)	16,676,405
Premiums receivable	1,479,293	3,797	1,483,090
Reinsurance receivables	840,420	53,617	894,037
Deferred acquisition costs	373,072	(721)	372,351
Prepaid reinsurance premiums	157,424	7,547	164,971
Other assets	265,634	56,184	321,818
TOTAL ASSETS	21,426,175	(875,347)	20,550,828
LIABILITIES:			
Funds held under reinsurance treaties	88,544	(75,000)	13,544
Commission reserves	79,849	(19,751)	60,098
Other net payable to reinsurers	166,822	6,265	173,087
Other liabilities	291,322	(30,000)	261,322
Total liabilities	13,060,729	(118,486)	12,942,243
NONCONTROLLING INTERESTS:			
Redeemable noncontrolling interests - Mt. Logan Re	756,861	(756,861)	-
TOTAL LIABILITIES, NONCONTROLLING INTERESTS AND SHAREHOLDERS' EQUITY	21,426,175	(875,347)	20,550,828

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS):	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
	As previously reported	Effect of adoption of new accounting policy	As adopted	As previously reported	Effect of adoption of new accounting policy	As adopted
(Dollars in thousands)						
REVENUES:						
Premiums earned	$1,332,398	$ (47,143)	$1,285,255	$2,639,475	$ (81,732)	$2,557,743
Net investment income	125,046	(56)	124,990	247,629	(73)	247,556

Other income (expense)	(3,925)	1,861	(2,064)	42,148	7,069	49,217
Total revenues	1,435,786	(45,338)	1,390,448	2,900,772	(74,736)	2,826,036
CLAIMS AND EXPENSES:						
Incurred losses and loss adjustment expenses	790,661	(12,477)	778,184	1,513,126	(19,787)	1,493,339
Commission, brokerage, taxes and fees	294,917	(4,397)	290,520	582,084	(8,470)	573,614
Other underwriting expenses	63,951	(2,049)	61,902	124,615	(3,972)	120,643
Total claims and expenses	1,164,480	(18,923)	1,145,557	2,249,229	(32,229)	2,217,000
INCOME (LOSS) BEFORE TAXES	271,306	(26,415)	244,891	651,543	(42,507)	609,036
NET INCOME (LOSS)	235,472	(26,415)	209,057	574,542	(42,507)	532,035
Net income (loss) attributable to noncontrolling interests	(26,415)	26,415	-	(42,507)	42,507	-
NET INCOME (LOSS) ATTRIBUTABLE TO EVEREST RE GROUP	209,057	-	209,057	532,035	-	532,035

7

CONSOLIDATED STATEMENT OF CASH FLOWS:	Six Months Ended June 30, 2015		
(Dollars in thousands)	As previously reported	Effect of adoption of new accounting policy	As adopted
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$574,542	$ (42,507)	$532,035
Decrease (increase) in premiums receivable	(51,422)	(5,427)	(56,849)
Decrease (increase) in funds held by reinsureds, net	68,245	(75,000)	(6,755)
Decrease (increase) in reinsurance receivables	(32,526)	(16,659)	(49,185)
Decrease (increase) in prepaid reinsurance premiums	(28,916)	(10,647)	(39,563)
Increase (decrease) in other net payable to reinsurers	23,867	(7,155)	16,712
Change in other assets and liabilities, net	26,768	5,960	32,728
Net cash provided by (used in) operating activities	683,072	(151,435)	531,637
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net change in short-term investments	(199,226)	407,105	207,879
Net cash provided by (used in) investing activities	(826,766)	407,105	(419,661)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Third party investment in redeemable noncontrolling interest	296,848	(296,848)	-
Dividends paid on third party investment in redeemable noncontrolling interest	(41,178)	41,178	-
Net cash provided by (used in) financing activities	51,950	(255,670)	(203,720)

3. INVESTMENTS

The amortized cost, market value and gross unrealized appreciation and depreciation of available for sale, fixed maturity, equity security investments, carried at market value and other-than-temporary impairments ("OTTI") in accumulated other comprehensive income ("AOCI") are as follows for the periods indicated:

	At June 30, 2016				
(Dollars in thousands)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	OTTI in AOCI (a)
Fixed maturity securities					
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$838,823	$ 35,865	$ (161)	$874,527	$ -
Obligations of U.S. states and political subdivisions	701,171	49,219	(478)	749,912	-
Corporate securities	4,833,072	173,613	(31,470)	4,975,215	6,724
Asset-backed securities	501,999	5,045	(860)	506,184	-
Mortgage-backed securities					
Commercial	277,921	8,108	(2,069)	283,960	-
Agency residential	2,480,550	50,009	(1,653)	2,528,906	-
Non-agency residential	776	45	(46)	775	-

Foreign government securities	1,331,323	75,287	(39,457)	1,367,153	108
Foreign corporate securities	2,665,628	149,438	(42,733)	2,772,333	3,592
Total fixed maturity securities	$13,631,263	$ 546,629	$ (118,927)	$14,058,965	$ 10,424
Equity securities	$124,699	$ 4,477	$ (10,436)	$118,740	$ -

8

	At December 31, 2015				
(Dollars in thousands)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	OTTI in AOCI (a)
Fixed maturity securities					
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$805,273	$ 13,465	$ (1,861)	$816,877	$ -
Obligations of U.S. states and political subdivisions	669,945	34,020	(890)	703,075	-
Corporate securities	4,817,014	97,159	(109,310)	4,804,863	1,412
Asset-backed securities	470,320	719	(3,813)	467,226	-
Mortgage-backed securities					
Commercial	264,924	4,750	(3,375)	266,299	-
Agency residential	2,313,265	25,318	(18,059)	2,320,524	-
Non-agency residential	893	51	(46)	898	-
Foreign government securities	1,256,983	54,403	(52,205)	1,259,181	53
Foreign corporate securities	2,677,589	107,163	(66,401)	2,718,351	36
Total fixed maturity securities	$13,276,206	$ 337,048	$ (255,960)	$13,357,294	$ 1,501
Equity securities	$122,271	$ 3,401	$ (16,732)	$108,940	$ -

(a) Represents the amount of OTTI recognized in AOCI. Amount includes unrealized gains and losses on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

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, 2016		At December 31, 2015	
(Dollars in thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value
Fixed maturity securities – available for sale:				
Due in one year or less	$1,038,566	$1,055,335	$1,021,200	$1,036,016
Due after one year through five years	6,537,730	6,716,423	6,193,426	6,220,563
Due after five years through ten years	1,880,481	1,956,278	2,217,075	2,203,932
Due after ten years	913,240	1,011,104	795,103	841,836
Asset-backed securities	501,999	506,184	470,320	467,226
Mortgage-backed securities:				
Commercial	277,921	283,960	264,924	266,299
Agency residential	2,480,550	2,528,906	2,313,265	2,320,524
Non-agency residential	776	775	893	898
Total fixed maturity securities	$13,631,263	$14,058,965	$13,276,206	$13,357,294

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)	2016	2015	2016	2015
Increase (decrease) during the period between the market value and cost of investments carried at market value, and deferred taxes thereon:				
Fixed maturity securities	$137,383	$(144,172)	$337,691	$(17,910)
Fixed maturity securities, other-than-temporary impairment	8,714	(477)	8,924	9,207
Equity securities	3,005	(430)	7,371	(1,880)
Change in unrealized appreciation (depreciation), pre-tax	149,102	(145,079)	353,986	(10,583)
Deferred tax benefit (expense)	(23,938)	21,344	(53,410)	(4,356)
Deferred tax benefit (expense), other-than-temporary impairment	(2,256)	1	(2,325)	(3,407)
Change in unrealized appreciation (depreciation), net of deferred taxes, included in shareholders' equity	$122,908	$(123,734)	$298,251	$(18,346)

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, 2016 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	$7,851	$ (161)	$ -	$ -	$7,851	$ (161)
Obligations of U.S. states and political subdivisions	-	-	562	(478)	562	(478)
Corporate securities	361,829	(7,778)	403,815	(23,692)	765,644	(31,470)
Asset-backed securities	23,269	(76)	64,821	(784)	88,090	(860)
Mortgage-backed securities						
Commercial	19,532	(1,727)	5,823	(342)	25,355	(2,069)
Agency residential	101,296	(467)	203,950	(1,186)	305,246	(1,653)
Non-agency residential	-	-	146	(46)	146	(46)
Foreign government securities	128,397	(11,750)	210,746	(27,707)	339,143	(39,457)
Foreign corporate securities	194,137	(10,879)	296,452	(31,854)	490,589	(42,733)
Total fixed maturity securities	$836,311	$ (32,838)	$1,186,315	$ (86,089)	$2,022,626	$ (118,927)
Equity securities	-	-	100,535	(10,436)	100,535	(10,436)
Total	$836,311	$ (32,838)	$1,286,850	$ (96,525)	$2,123,161	$ (129,363)

	Duration of Unrealized Loss at June 30, 2016 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	$25,648	$ (1,137)	$95,994	$ (14,183)	$121,642	$ (15,320)
Due in one year through five years	420,466	(21,372)	604,273	(55,248)	1,024,739	(76,620)
Due in five years through ten years	233,230	(7,378)	190,057	(12,431)	423,287	(19,809)
Due after ten years	12,870	(681)	21,251	(1,869)	34,121	(2,550)
Asset-backed securities	23,269	(76)	64,821	(784)	88,090	(860)
Mortgage-backed securities	120,828	(2,194)	209,919	(1,574)	330,747	(3,768)
Total fixed maturity securities	$836,311	$ (32,838)	$1,186,315	$ (86,089)	$2,022,626	$ (118,927)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at June 30, 2016 were $2,123,161 thousand and $129,363 thousand, respectively. The market value of securities for the single issuer whose securities comprised the largest unrealized loss position at June 30, 2016, did not exceed 0.4% 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 $32,838 thousand of unrealized losses related to fixed maturity securities that have been in an unrealized loss position for less than one year were generally comprised of foreign government securities, foreign corporate securities and domestic corporate securities. The majority of these unrealized losses are attributable to net unrealized foreign exchange losses, $31,679 thousand, as the U.S. dollar has strengthened against other currencies. The $86,089 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to foreign corporate securities, foreign government securities and domestic corporate securities. The majority of these unrealized losses are attributable to net unrealized foreign exchange losses, $74,394 thousand, as the U.S. dollar has strengthened against other currencies. There was no gross unrealized depreciation for mortgage-backed securities 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, 2015 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	$539,177	$(1,855)	$692	$(6)	$539,869	$(1,861)
Obligations of U.S. states and political subdivisions	6,434	(84)	4,917	(806)	11,351	(890)
Corporate securities	1,818,331	(74,161)	440,682	(35,149)	2,259,013	(109,310)
Asset-backed securities	348,545	(2,510)	67,230	(1,303)	415,775	(3,813)
Mortgage-backed securities						
Commercial	145,490	(3,375)	-	-	145,490	(3,375)
Agency residential	1,021,390	(10,014)	326,449	(8,045)	1,347,839	(18,059)
Non-agency residential	152	(2)	38	(44)	190	(46)
Foreign government securities	227,384	(21,996)	216,428	(30,209)	443,812	(52,205)
Foreign corporate securities	821,548	(25,627)	295,389	(40,774)	1,116,937	(66,401)
Total fixed maturity securities	$4,928,451	$(139,624)	$1,351,825	$(116,336)	$6,280,276	$(255,960)
Equity securities	-	-	91,907	(16,732)	91,907	(16,732)
Total	$4,928,451	$(139,624)	$1,443,732	$(133,068)	$6,372,183	$(272,692)

	Duration of Unrealized Loss at December 31, 2015 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	$29,737	$(1,840)	$74,615	$(13,440)	$104,352	$(15,280)
Due in one year through five years	2,328,805	(62,329)	651,228	(59,993)	2,980,033	(122,322)
Due in five years through ten years	969,139	(52,725)	206,538	(28,018)	1,175,677	(80,743)

Due after ten years	85,193	(6,829)	25,727	(5,493)	110,920	(12,322)
Asset-backed securities	348,545	(2,510)	67,230	(1,303)	415,775	(3,813)
Mortgage-backed securities	1,167,032	(13,391)	326,487	(8,089)	1,493,519	(21,480)
Total fixed maturity securities	$4,928,451	$ (139,624)	$1,351,825	$ (116,336)	$6,280,276	$ (255,960)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at December 31, 2015 were $6,372,183 thousand and $272,692 thousand, respectively. The market value of securities for the single issuer whose securities comprised the largest unrealized loss position at December 31, 2015, 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 $139,624 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. The majority of these unrealized losses are attributable to unrealized losses in the energy sector, $46,793 thousand, as falling oil prices have disrupted the market values for this sector, particularly for oil exploration, production and servicing companies and net unrealized foreign exchange losses, $39,037 thousand, as the U.S. dollar has strengthened against other currencies. The $116,336 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to foreign and domestic corporate securities, foreign government securities and agency residential mortgage-backed securities. The majority of these unrealized losses are attributable to net unrealized foreign exchange losses, $72,738 thousand, as the U.S. dollar has strengthened against other currencies and to unrealized losses in the energy sector, $18,447 thousand, as falling oil prices have disrupted the market values for this sector, particularly for oil exploration as well as production and servicing companies. There was no gross unrealized depreciation for mortgage-backed securities 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)	2016	2015	2016	2015
Fixed maturities	$102,851	$109,481	$205,376	$218,836
Equity securities	10,923	13,015	22,062	24,693
Short-term investments and cash	345	400	745	630
Other invested assets				
Limited partnerships	23,003	6,655	16,845	13,623
Other	1,151	983	301	1,608
Gross investment income before adjustments	138,273	130,534	245,329	259,390
Funds held interest income (expense)	1,740	2,717	4,280	5,593
Future policy benefit reserve income (expense)	(425)	(709)	(726)	(1,102)
Gross investment income	139,588	132,542	248,883	263,881
Investment expenses	(6,851)	(7,552)	(13,622)	(16,325)
Net investment income	$132,737	$124,990	$235,261	$247,556

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 $471,801 thousand in limited partnerships at June 30, 2016. These commitments will be funded when called in accordance with the partnership agreements, which have investment periods that expire, unless extended, through 2020.

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)	2016	2015	2016	2015
Fixed maturity securities, market value:				
Other-than-temporary impairments	$ (1,470)	$ (16,238)	$ (30,263)	$ (42,256)
Gains (losses) from sales	3,329	(2,570)	(13,582)	(10,594)
Fixed maturity securities, fair value:				
Gains (losses) from sales	(1,854)	14	(1,854)	42
Gains (losses) from fair value adjustments	1,571	(6)	1,339	56
Equity securities, market value:				
Gains (losses) from sales	8	(901)	65	(882)
Equity securities, fair value:				
Gains (losses) from sales	(7,690)	755	(16,116)	605
Gains (losses) from fair value adjustments	38,764	(5,232)	18,809	18,346
Short-term investments gain (loss)	-	-	1	-
Total net realized capital gains (losses)	$ 32,658	$ (24,178)	$ (41,601)	$ (34,683)

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)	2016	2015	2016	2015
Proceeds from sales of fixed maturity securities	$ 272,233	$ 376,238	$ 596,351	$ 733,286
Gross gains from sales	9,094	16,864	17,646	25,699
Gross losses from sales	(7,619)	(19,420)	(33,082)	(36,251)
Proceeds from sales of equity securities	$ 337,816	$ 167,170	$ 430,264	$ 305,219
Gross gains from sales	4,893	8,434	6,732	13,640
Gross losses from sales	(12,575)	(8,580)	(22,783)	(13,917)

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).

14

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, 2016, fair value for these equity index put option contracts was $33,872 thousand. Based on historical index volatilities and trends and the June 30, 2016 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 12%. 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, 2016, the present value of these theoretical maximum payouts using a 3% discount factor was $439,036 thousand. Conversely, if the contracts had all expired on June 30, 2016, with the S&P index at $2,098.86, there would have been 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, 2016, fair value for this equity index put option contract was $7,857 thousand. Based on historical index volatilities and trends and the June 30, 2016 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 38%. 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, 2016, the present value of the theoretical maximum payout using a 3% discount factor and current exchange rate was $39,056 thousand. Conversely, if the contract had expired on June 30, 2016, with the FTSE index at 6,504.30, there would have been 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, 2016	At December 31, 2015
Equity index put option contracts	Equity index put option liability	$ 41,729	$ 40,705
Total		$ 41,729	$ 40,705

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)		For the Three Months Ended		For the Six Months Ended	
Derivatives not designated as	Location of gain (loss) in statements of	June 30,		June 30,	
hedging instruments	operations and comprehensive income (loss)	2016	2015	2016	2015
Equity index put option contracts	Net derivative gain (loss)	$ 1,996	$ 6,445	$ (1,024)	$ 6,203
Total		$ 1,996	$ 6,445	$ (1,024)	$ 6,203

5. FAIR VALUE

GAAP guidance regarding fair value measurements address how companies should measure fair value when they are required to use fair value measures for recognition or disclosure purposes under GAAP and provides a common definition of fair value to be used throughout GAAP. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. In addition, it establishes a three-level valuation hierarchy for the disclosure of fair value measurements. The valuation hierarchy is based on the transparency of inputs to the valuation of an asset or liability. The level in the hierarchy within which a given fair value measurement falls is determined based on the lowest level input that is significant to the measurement, with Level 1 being the highest priority and Level 3 being the lowest priority.

The levels in the hierarchy are defined as follows:

Level 1: Inputs to the valuation methodology are observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in an active market;

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument;

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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. Due to the unavailability of prices for fifteen private placement securities, the Company valued the fifteen securities at $34,431 thousand at June 30, 2016. Due to the unavailability of prices for two private placement securities, the Company valued the two securities at $3,593 thousand at December 31, 2015.

The Company internally manages a public equity portfolio which had a fair value at June 30, 2016 and December 31, 2015 of $252,328 thousand and $253,575 thousand, respectively, and all prices were obtained from publically published sources.

Equity securities denominated in U.S. currency with quoted prices in active markets for identical assets are categorized as level 1 since the quoted prices are directly observable. Equity securities traded on foreign exchanges are categorized as level 2 due to the added input of a foreign exchange conversion rate to determine fair or market value. The Company uses foreign currency exchange rates published by nationally recognized sources.

All categories of fixed maturity securities listed in the tables below are generally categorized as level 2, 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. For foreign government securities and foreign corporate securities, the fair values provided by the third party pricing services in local currencies, and where applicable, are converted to U.S. dollars using currency exchange rates from nationally recognized sources.

The fixed maturities with fair values categorized as level 3 result when prices are not available from the nationally recognized pricing services. The asset managers will then obtain non-binding price quotes for the securities from brokers. 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. If the

16

broker quotes are for foreign denominated securities, the quotes are converted to U.S. dollars using currency exchange rates from nationally recognized sources. In limited circumstances when broker prices are not available for private placements, the Company will value the securities using comparable market information.

The composition and valuation inputs for the presented fixed maturities categories are as follows:

- U.S. Treasury securities and obligations of U.S. government agencies and corporations are primarily comprised of U.S. Treasury bonds and the fair value is based on observable market inputs such as quoted prices, reported trades, quoted prices for similar issuances or benchmark yields;
- Obligations of U.S. states and political subdivisions are comprised of state and municipal bond issuances and the fair values are based on observable market inputs such as quoted market prices, quoted prices for similar securities, benchmark yields and credit spreads;
- Corporate securities are primarily comprised of U.S. corporate and public utility bond issuances and the fair values are based on observable market inputs such as quoted market prices, quoted prices for similar securities, benchmark yields and credit spreads;
- Asset-backed and mortgage-backed securities fair values are based on observable inputs such as quoted prices, reported trades, quoted prices for similar issuances or benchmark yields and cash flow models using observable inputs such as prepayment speeds, collateral performance and default spreads;
- Foreign government securities are comprised of global non-U.S. sovereign bond issuances and the fair values are based on observable market inputs such as quoted market prices, quoted prices for similar securities and models with observable inputs such as benchmark yields and credit spreads and then, where applicable, converted to U.S. dollars using an exchange rate from a nationally recognized source;
- Foreign corporate securities are comprised of global non-U.S. corporate bond issuances and the fair values are based on observable market inputs such as quoted market prices, quoted prices for similar securities and models with observable inputs such as benchmark yields and credit spreads and then, where applicable, converted to U.S. dollars using an exchange rate from a nationally recognized source.

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's liability for equity index put options is categorized as level 3 since there is no active market for these seven long dated equity put options. The fair values for these options are calculated by the Company using an industry accepted pricing model, Black-Scholes. The model inputs and assumptions are: risk free interest rates, equity market indexes values, volatilities and dividend yields and duration. The model results are then adjusted for the Company's credit default swap rate. All of these inputs and assumptions are updated quarterly. One of the option contacts is in British Pound Sterling so the fair value for this contract is converted to U.S. dollars using an exchange rate from a nationally recognized source.

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, 2016	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	$874,527	$-	$874,527	$ -
Obligations of U.S. States and political subdivisions	749,912	-	749,912	-
Corporate securities	4,975,215	-	4,942,805	32,410
Asset-backed securities	506,184	-	506,184	-
Mortgage-backed securities				
Commercial	283,960	-	283,960	-
Agency residential	2,528,906	-	2,528,906	-
Non-agency residential	775	-	775	-
Foreign government securities	1,367,153	-	1,367,153	-
Foreign corporate securities	2,772,333	-	2,770,312	2,021
Total fixed maturities, market value	14,058,965	-	14,024,534	34,431
Fixed maturities, fair value	-	-	-	-
Equity securities, market value	118,740	100,535	18,205	-
Equity securities, fair value	1,104,430	1,042,554	61,876	-
Liabilities:				
Equity index put option contracts	$41,729	$-	$-	$ 41,729

There were no transfers between Level 1 and Level 2 for the six months ended June 30, 2016.

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, 2015	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	$ 816,877	$-	$816,877	$ -
Obligations of U.S. States and political subdivisions	703,075	-	703,075	-
Corporate securities	4,804,863	-	4,800,930	3,933
Asset-backed securities	467,226	-	467,226	-
Mortgage-backed securities				
Commercial	266,299	-	266,299	-
Agency residential	2,320,524	-	2,320,524	-
Non-agency residential	898	-	898	-
Foreign government securities	1,259,181	-	1,259,181	-
Foreign corporate securities	2,718,351	-	2,716,758	1,593
Total fixed maturities, market value	13,357,294	-	13,351,768	5,526
Fixed maturities, fair value	2,102	-	2,102	-
Equity securities, market value	108,940	91,907	17,033	-
Equity securities, fair value	1,337,733	1,275,666	62,067	-
Liabilities:				
Equity index put option contracts	$ 40,705	$-	$-	$ 40,705

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, 2016			Six Months Ended June 30, 2016		
(Dollars in thousands)	Corporate Securities	Foreign Corporate	Total	Corporate Securities	Foreign Corporate	Total
Beginning balance	$ 15,706	$ 596	$ 16,302	$ 3,933	$ 1,593	$ 5,526
Total gains or (losses) (realized/unrealized)						
Included in earnings	(18)	-	(18)	(10)	(997)	(1,007)
Included in other comprehensive income (loss)	(27)	1,425	1,398	(33)	1,425	1,392
Purchases, issuances and settlements	16,749	-	16,749	28,520	-	28,520

Transfers in and/or (out) of Level 3	-	-	-	-	-	-
Ending balance	$ 32,410	$ 2,021	$ 34,431	$ 32,410	$ 2,021	$ 34,431
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	$ -	$ -	$ -	$ -	$ (997)	$ (997)

(Some amounts may not reconcile due to rounding.)

19

(Dollars in thousands)	Three Months Ended June 30, 2015 Corporate Securities	Foreign Corporate	Total	Six Months Ended June 30, 2015 Corporate Securities	CMBS	Foreign Corporate	Total
Beginning balance	$ 2,653	$ 6,125	$ 8,778	$ -	$ 8,597	$ 7,166	$ 15,763
Total gains or (losses) (realized/unrealized)							
Included in earnings	2	58	60	4	-	115	119
Included in other comprehensive income (loss)	(3)	1,169	1,166	(2)	-	71	69
Purchases, issuances and settlements	(12)	-	(12)	1,928	-	-	1,928
Transfers in and/or (out) of Level 3	(682)	485	(197)	28	(8,597)	485	(8,084)
Ending balance	$ 1,958	$ 7,837	$ 9,795	$ 1,958	$ -	$ 7,837	$ 9,795
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 net transfers from level 3, fair value measurements using significant unobservable inputs, of $0 thousand and $8,084 thousand of investments for the six months ended June 30, 2016 and 2015, respectively, primarily relate to securities that were priced using single non-binding broker quotes as of December 31, 2014. The securities were subsequently priced using a recognized pricing service as of June 30, 2015, and were classified as level 2 as of that date.

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

(Dollars in thousands)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Liabilities:				
Balance, beginning of period	$ 43,725	$ 47,264	$ 40,705	$ 47,022
Total (gains) or losses (realized/unrealized)				
Included in earnings	(1,996)	(6,445)	1,024	(6,203)
Included in other comprehensive income (loss)	-	-	-	-
Purchases, issuances and settlements	-	-	-	-
Transfers in and/or (out) of Level 3	-	-	-	-
Balance, end of period	$ 41,729	$ 40,819	$ 41,729	$ 40,819

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

(Some amounts may not reconcile due to rounding.)

6. 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)	2016	2015	2016	2015
Net income (loss) per share:				
Numerator				
Net income (loss)	$155,692	$209,057	$327,378	$532,035
Less: dividends declared-common shares and nonvested common shares	(48,132)	(41,955)	(96,838)	(84,207)
Undistributed earnings	107,561	167,102	230,540	447,828
Percentage allocated to common shareholders [1]	98.9 %	98.9 %	98.9 %	98.9 %
	106,407	165,306	228,102	443,046
Add: dividends declared-common shareholders	47,643	41,529	95,853	83,345
Numerator for basic and diluted earnings per common share	$154,050	$206,835	$323,955	$526,391
Denominator				
Denominator for basic earnings per weighted-average common shares	41,653	43,804	41,891	43,915
Effect of dilutive securities:				
Options	296	393	315	405
Denominator for diluted earnings per adjusted weighted-average common shares	41,949	44,197	42,206	44,320
Per common share net income (loss)				
Basic	$3.70	$4.72	$7.73	$11.99
Diluted	$3.67	$4.68	$7.68	$11.88
(1) Basic weighted-average common shares outstanding	41,653	43,804	41,891	43,915
Basic weighted-average common shares outstanding and nonvested common shares expected to vest	42,104	44,280	42,338	44,389
Percentage allocated to common shareholders	98.9 %	98.9 %	98.9 %	98.9 %

(Some amounts may not reconcile due to rounding.)

There were no anti-diluted options outstanding for the three and six months ended June 30, 2016 and 2015.

All outstanding options expire on or between February 21, 2017 and September 19, 2022.

7. 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.

The Company has entered into separate annuity agreements with The Prudential Insurance of America ("The Prudential") and an additional unaffiliated life insurance company in which the Company has either purchased annuity contracts or become the assignee of annuity proceeds that are meant to settle claim payment obligations in the future. In both instances, the Company would become contingently liable if either The Prudential or the unaffiliated life insurance company were unable to make payments related to the respective annuity contract.

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, 2016	At December 31, 2015
The Prudential	$ 141,562	$ 142,427
Unaffiliated life insurance company	32,545	33,062

8. 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, 2016			Six Months Ended June 30, 2016		
(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	$ 142,255	$ (24,357)	$ 117,898	$ 301,283	$ (40,564)	$ 260,719
URA(D) on securities - OTTI	8,714	(2,256)	6,458	8,924	(2,325)	6,599
Reclassification of net realized losses (gains) included in net income (loss)	(1,867)	419	(1,448)	43,779	(12,846)	30,933
Foreign currency translation adjustments	13,389	(8,339)	5,050	31,208	(16,385)	14,823
Benefit plan actuarial net gain (loss)	-	-	-	-	-	-
Reclassification of benefit plan liability amortization included in net income (loss)	2,063	(722)	1,341	4,125	(1,444)	2,681
Total other comprehensive income (loss)	$ 164,554	$ (35,255)	$ 129,299	$ 389,319	$ (73,564)	$ 315,755

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
(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	$ (164,311)	$ 28,306	$ (136,005)	$ (73,522)	$ 14,446	$ (59,076)
URA(D) on securities - OTTI	(477)	1	(476)	9,207	(3,407)	5,800
Reclassification of net realized losses (gains) included in net income (loss)	19,709	(6,962)	12,747	53,732	(18,802)	34,930
Foreign currency translation adjustments	63,031	(8,694)	54,337	(57,244)	9,241	(48,003)
Benefit plan actuarial net gain (loss)	-	-	-	-	-	-
Reclassification of benefit plan liability amortization included in net income	2,476	(867)	1,609	4,943	(1,730)	3,213

(loss)						
Total other comprehensive income (loss)	$ (79,572)	$ 11,784	$ (67,788)	$ (62,884)	$ (252)	$ (63,136)

The following table presents details of the amounts reclassified from AOCI for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,		Affected line item within the statements of operations and comprehensive income
AOCI component	2016	2015	2016	2015	(loss)
(Dollars in thousands)					
URA(D) on securities	$ (1,867)	$ 19,709	$ 43,779	$ 53,732	Other net realized capital gains (losses)
	419	(6,962)	(12,846)	(18,802)	Income tax expense (benefit)
	$ (1,448)	$ 12,747	$ 30,933	$ 34,930	Net income (loss)
Benefit plan net gain (loss)	$ 2,063	$ 2,476	$ 4,125	$ 4,943	Other underwriting expenses
	(722)	(867)	(1,444)	(1,730)	Income tax expense (benefit)
	$ 1,341	$ 1,609	$ 2,681	$ 3,213	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)	Six Months Ended June 30, 2016	Twelve Months Ended December 31, 2015
Beginning balance of URA (D) on securities	$ 42,811	$ 223,250
Current period change in URA (D) of investments - temporary	291,652	(185,467)
Current period change in URA (D) of investments - non-credit OTTI	6,599	5,028
Ending balance of URA (D) on securities	341,062	42,811
Beginning balance of foreign currency translation adjustments	(211,477)	(99,947)
Current period change in foreign currency translation adjustments	14,823	(111,530)
Ending balance of foreign currency translation adjustments	(196,654)	(211,477)
Beginning balance of benefit plan net gain (loss)	(63,089)	(74,986)
Current period change in benefit plan net gain (loss)	2,681	11,897
Ending balance of benefit plan net gain (loss)	(60,408)	(63,089)
Ending balance of accumulated other comprehensive income (loss)	$ 84,000	$ (231,755)

9. CREDIT FACILITIES

The Company has two active credit facilities for a total commitment of up to $1,100,000 thousand and an additional credit facility for a total commitment of up to £175,000 thousand, providing for the issuance of letters of credit and/or unsecured revolving credit lines. The following table presents the interest and fees incurred in connection with the two credit facilities for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Credit facility interest and fees incurred	$ 213	$ 167	$ 583	$ 299

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

<u>Group Credit Facility</u>

Effective May 26, 2016, Group, Everest Reinsurance (Bermuda), Ltd. ("Bermuda Re") and Everest International Reinsurance, Ltd. ("Everest International"), both direct subsidiaries of Group, entered into a five year, $800,000 thousand senior credit facility with a syndicate of lenders, which amended and restated in its entirety the June 22, 2012, four year, $800,000 thousand senior credit facility. Both the May 26, 2016 and June 22, 2012 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 $5,370,979 thousand plus 25% of consolidated net income for each of Group's fiscal quarters, for which statements are available ending on or after March 31, 2016 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, 2016, was $5,412,090 thousand. As of June 30, 2016, 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, 2016			At December 31, 2015		
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	2,488	12/12/2016	600,000	2,488	12/12/2016
		-	455,972	12/31/2016	-	447,178	12/31/2016
Total Wells Fargo Bank Group Credit Facility		$800,000	$458,460		$800,000	$449,666	

Bermuda Re Letter of Credit Facility

Effective December 31, 2015, Bermuda Re renewed its $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, 2016			At December 31, 2015		
Bank	Commitment	In Use	Date of Expiry	Commitment	In Use	Date of Expiry
Citibank Bilateral Letter of Credit Agreement	$300,000	$3,672	11/24/2016	$300,000	$3,672	11/24/2016
		63,686	12/31/2016		67,783	12/31/2016
		4,058	2/28/2017		179	8/30/2017
		278	8/30/2017		316	12/31/2017
		2,593	12/31/2017		-	-
		100,737	6/30/2020		99,521	12/31/2019
Total Citibank Bilateral Agreement	$300,000	$175,024		$300,000	$171,471	

Everest International Credit Facility

Effective November 9, 2015, Everest International entered into a four year, £175,000 thousand credit facility with Lloyd's of London Bank ("Everest International Credit Facility"). The Everest International Credit Facility provides up to £175,000 thousand for the issuance of standby letters of credit on a collateralized basis. The Company pays a commitment fee of 0.1% per annum on the average daily amount of the remainder of (1) the aggregate amount available under the facility and (2) the aggregate amount of drawings outstanding under the facility. The Company pays a credit commission fee of 0.35% per annum on drawings outstanding under the facility.

The Everest International 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 $5,215,784 thousand (70% of consolidated net worth as of December 31, 2014), plus 25% of consolidated net income for each of Group's fiscal quarters, for which statements are available ending on or after January 1, 2015 and for which net income is positive, plus 25% of any increase in consolidated net worth of Group during such period attributable to the issuance of ordinary and preferred shares, which at June 30, 2016, was $5,555,040 thousand. As of June 30, 2016, the Company was in compliance with all Everest International Credit Facility requirements.

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

(Dollars in thousands)	At June 30, 2016			At December 31, 2015		
Bank	Commitment	In Use	Date of Expiry	Commitment	In Use	Date of Expiry
Lloyd's Bank plc	£175,000	£164,961	12/31/2019	£175,000	£164,961	12/31/2019
	-	-		-	-	
Total Lloyd's Bank Credit Facility	£175,000	£164,961		£175,000	£164,961	

10. REINSURANCE AND 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, 2016, the total amount on deposit in trust accounts was $407,186 thousand.

The Company reinsures some of its catastrophe exposures with the segregated accounts of Mt. Logan Re. Mt. Logan Re is a Class 3 insurer registered in Bermuda effective February 27, 2013 under The Segregated Accounts Companies Act 2000 and 100% of the voting common shares are owned by Group. Separate segregated accounts for Mt. Logan Re began being established effective July 1, 2013 and non-voting, redeemable preferred shares have been issued to capitalize the segregated accounts. Each segregated account invests predominately in a diversified set of catastrophe exposures, diversified by risk/peril and across different geographic regions globally.

Each segregated account is permitted to assume net risk exposures equal to its amount of preferred shares and posted collateral, which in the aggregate was $902,633 thousand and $798,548 thousand at June 30, 2016 and December 31, 2015, respectively. Of this amount, Group had invested $55,636 thousand and $50,000 thousand at June 30, 2016 and December 31, 2015, respectively, in the preferred shares.

On April 24, 2014, the Company entered into two collateralized reinsurance agreements with Kilimanjaro Re Limited ("Kilimanjaro"), a Bermuda based special purpose reinsurer, to provide the Company with catastrophe reinsurance coverage. These agreements are multi-year reinsurance contracts which cover specified named storm and earthquake events. The first agreement provides up to $250,000 thousand of reinsurance coverage from named storms in specified states of the Southeastern United States. The second agreement provides up to $200,000 thousand of reinsurance coverage from named storms in specified states of the Southeast, Mid-Atlantic and Northeast regions of the United States and Puerto Rico as well as reinsurance coverage from earthquakes in specified states of the Southeast, Mid-Atlantic, Northeast and West regions of the United States, Puerto Rico and British Columbia.

On November 18, 2014, the Company entered into a collateralized reinsurance agreement with Kilimanjaro Re to provide the Company with catastrophe reinsurance coverage. This agreement is a multi-year reinsurance contract which covers specified earthquake events. The agreement provides up to $500,000 thousand of reinsurance coverage from earthquakes in the United States, Puerto Rico and Canada.

On December 1, 2015 the Company entered into two collateralized reinsurance agreements with Kilimanjaro Re to provide the Company with catastrophe reinsurance coverage. These agreements are multi-year reinsurance contracts which cover named storm and earthquake events. The first agreement provides up to $300,000 thousand of reinsurance coverage from named storms and earthquakes in the United States, Puerto Rico and Canada. The second agreement provides up to $325,000 thousand of reinsurance coverage from named storms and earthquakes in the United States, Puerto Rico and Canada.

Kilimanjaro has financed the various property catastrophe reinsurance coverage by issuing catastrophe bonds to unrelated, external investors. On April 24, 2014, Kilimanjaro issued $450,000 thousand of notes ("Series 2014-1 Notes"). On November 18, 2014, Kilimanjaro issued $500,000 thousand of notes ("Series 2014-2 Notes"). On December 1, 2015, Kilimanjaro issued $625,000 thousand of notes ("Series 2015-1 Notes). The proceeds from the issuance of the Series 2014-1 Notes, the Series 2014-2 Notes and the Series 2015-1 Notes are held in reinsurance trust throughout the duration of the applicable reinsurance agreements and invested solely in US government money market funds with a rating of at least "AAAm" by Standard & Poor's.

11. SENIOR NOTES

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

(Dollars in thousands)	Date Issued	Date Due	Principal Amounts	June 30, 2016 Consolidated Balance Sheet Amount	Market Value	December 31, 2015 Consolidated Balance Sheet Amount	Market Value
4.868% Senior notes	06/05/2014	06/01/2044	400,000	$ 396,654	$ 404,096	$ 396,594	$ 381,204

On June 5, 2014, Holdings issued $400,000 thousand of 30 year senior notes at 4.868%, which will mature on June 1, 2044. Interest will be paid semi-annually on June 1 and December 1 of each year.

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)	2016	2015	2016	2015
Interest expense incurred	$ 4,868	$ 4,868	$ 9,736	$ 9,736

12. 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, 2016		December 31, 2015	
(Dollars in thousands)	Date Issued	Original Principal Amount	Scheduled	Final	Consolidated Balance Sheet Amount	Market Value	Consolidated Balance Sheet Amount	Market Value
6.6% Long term subordinated notes	04/26/2007	$ 400,000	05/15/2037	05/01/2067	$ 236,413	$ 189,893	$ 236,364	$ 208,978

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