

EVEREST RE GROUP LTD  
Form 10-Q  
May 10, 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:  
March 31, 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 – 4<sup>th</sup> 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.

YESX 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).

YESX 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 NOX

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

| <u>Class</u>                    | <u>Number of Shares Outstanding</u><br><u>At May 1, 2016</u> |
|---------------------------------|--------------------------------------------------------------|
| Common Shares, \$0.01 par value | 42,339,036                                                   |

---

EVEREST RE GROUP, LTD

Table of Contents  
Form 10-Q

Page

PART I

FINANCIAL INFORMATION

|         |                                                                                                                                      |    |
|---------|--------------------------------------------------------------------------------------------------------------------------------------|----|
| Item 1. | Financial Statements                                                                                                                 |    |
|         | Consolidated Balance Sheets March 31, 2016 (unaudited) and December 31, 2015 (unaudited)                                             | 1  |
|         | Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months ended March 31, 2016 and 2015 (unaudited) | 2  |
|         | Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2016 and 2015 (unaudited)            | 3  |
|         | Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015 (unaudited)                                 | 4  |
|         | Notes to Consolidated Interim Financial Statements (unaudited)                                                                       | 5  |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operation                                                 | 31 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk                                                                           | 53 |
| Item 4. | Controls and Procedures                                                                                                              | 53 |

PART II

OTHER INFORMATION

|         |                   |    |
|---------|-------------------|----|
| Item 1. | Legal Proceedings | 54 |
|---------|-------------------|----|

Edgar Filing: EVEREST RE GROUP LTD - Form 10-Q

|                                                                     |    |
|---------------------------------------------------------------------|----|
| Item 1A. Risk Factors                                               | 54 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 54 |
| Item 3. Defaults Upon Senior Securities                             | 54 |
| Item 4. Mine Safety Disclosures                                     | 55 |
| Item 5. Other Information                                           | 55 |
| Item 6. Exhibits                                                    | 55 |

---

EVEREST RE GROUP, LTD.  
CONSOLIDATED BALANCE SHEETS

| (Dollars and share amounts in thousands, except par value per share)                                               | March 31,<br>2016<br>(unaudited) | December 31,<br>2015 |
|--------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------|
| <b>ASSETS:</b>                                                                                                     |                                  |                      |
| Fixed maturities - available for sale, at market value<br>(amortized cost: 2016, \$13,480,045; 2015, \$13,276,206) | \$13,761,652                     | \$13,357,294         |
| Fixed maturities - available for sale, at fair value                                                               | 1,870                            | 2,102                |
| Equity securities - available for sale, at market value (cost: 2016, \$123,354; 2015,<br>\$122,271)                | 114,388                          | 108,940              |
| Equity securities - available for sale, at fair value                                                              | 1,313,404                        | 1,337,733            |
| Short-term investments                                                                                             | 441,528                          | 799,684              |
| Other invested assets (cost: 2016, \$1,109,186; 2015, \$786,994)                                                   | 1,109,186                        | 786,994              |
| Cash                                                                                                               | 328,943                          | 283,658              |
| Total investments and cash                                                                                         | 17,070,971                       | 16,676,405           |
| Accrued investment income                                                                                          | 101,789                          | 100,942              |
| Premiums receivable                                                                                                | 1,475,155                        | 1,483,090            |
| Reinsurance receivables                                                                                            | 920,039                          | 894,037              |
| Funds held by reinsureds                                                                                           | 225,320                          | 278,673              |
| Deferred acquisition costs                                                                                         | 357,335                          | 372,351              |
| Prepaid reinsurance premiums                                                                                       | 176,741                          | 164,971              |
| Income taxes                                                                                                       | 223,507                          | 258,541              |
| Other assets                                                                                                       | 304,997                          | 321,818              |
| <b>TOTAL ASSETS</b>                                                                                                | <b>\$20,855,854</b>              | <b>\$20,550,828</b>  |
| <b>LIABILITIES:</b>                                                                                                |                                  |                      |
| Reserve for losses and loss adjustment expenses                                                                    | \$9,985,979                      | \$9,951,798          |
| Future policy benefit reserve                                                                                      | 58,438                           | 58,910               |
| Unearned premium reserve                                                                                           | 1,588,506                        | 1,613,390            |
| Funds held under reinsurance treaties                                                                              | 20,745                           | 13,544               |
| Commission reserves                                                                                                | 55,960                           | 60,098               |
| Other net payable to reinsurers                                                                                    | 179,072                          | 173,087              |
| Losses in course of payment                                                                                        | 137,267                          | 112,170              |
| 4.868% Senior notes due 6/1/2044                                                                                   | 400,000                          | 400,000              |
| 6.6% Long term notes due 5/1/2067                                                                                  | 238,369                          | 238,368              |
| Accrued interest on debt and borrowings                                                                            | 12,341                           | 3,537                |
| Equity index put option liability                                                                                  | 43,725                           | 40,705               |
| Unsettled securities payable                                                                                       | 54,984                           | 15,314               |
| Other liabilities                                                                                                  | 240,169                          | 261,322              |
| Total liabilities                                                                                                  | 13,015,555                       | 12,942,243           |
| Commitments and contingencies (Note 7)                                                                             |                                  |                      |
| <b>SHAREHOLDERS' EQUITY:</b>                                                                                       |                                  |                      |
| Preferred shares, par value: \$0.01; 50,000 shares authorized;<br>no shares issued and outstanding                 | -                                | -                    |
| Common shares, par value: \$0.01; 200,000 shares authorized; (2016) 68,776                                         |                                  |                      |

Edgar Filing: EVEREST RE GROUP LTD - Form 10-Q

|                                                                                                                                           |                     |                      |
|-------------------------------------------------------------------------------------------------------------------------------------------|---------------------|----------------------|
| and (2015) 68,606 outstanding before treasury shares                                                                                      | 688                 | 686                  |
| Additional paid-in capital                                                                                                                | 2,111,828           | 2,103,638            |
| Accumulated other comprehensive income (loss), net of deferred income tax expense<br>(benefit) of \$22,446 at 2016 and (\$15,863) at 2015 | (45,299 )           | (231,755 )           |
| Treasury shares, at cost; 26,377 shares (2016) and 25,912 shares (2015)                                                                   | (2,971,870 )        | (2,885,956 )         |
| Retained earnings                                                                                                                         | 8,744,952           | 8,621,972            |
| Total shareholders' equity                                                                                                                | 7,840,299           | 7,608,585            |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                         | <b>\$20,855,854</b> | <b>\$ 20,550,828</b> |

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

1

---

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

| (Dollars in thousands, except per share amounts)                                                               | Three Months Ended<br>March 31, |              |
|----------------------------------------------------------------------------------------------------------------|---------------------------------|--------------|
|                                                                                                                | 2016                            | 2015         |
|                                                                                                                | (unaudited)                     |              |
| <b>REVENUES:</b>                                                                                               |                                 |              |
| Premiums earned                                                                                                | \$ 1,218,867                    | \$ 1,272,488 |
| Net investment income                                                                                          | 102,524                         | 122,566      |
| Net realized capital gains (losses):                                                                           |                                 |              |
| Other-than-temporary impairments on fixed maturity securities                                                  | (28,793 )                       | (26,018 )    |
| Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss) | -                               | -            |
| Other net realized capital gains (losses)                                                                      | (45,466 )                       | 15,513       |
| Total net realized capital gains (losses)                                                                      | (74,259 )                       | (10,505 )    |
| Net derivative gain (loss)                                                                                     | (3,020 )                        | (242 )       |
| Other income (expense)                                                                                         | (2,066 )                        | 51,281       |
| Total revenues                                                                                                 | 1,242,046                       | 1,435,588    |
| <b>CLAIMS AND EXPENSES:</b>                                                                                    |                                 |              |
| Incurred losses and loss adjustment expenses                                                                   | 700,749                         | 715,155      |
| Commission, brokerage, taxes and fees                                                                          | 275,006                         | 283,094      |
| Other underwriting expenses                                                                                    | 72,110                          | 58,741       |
| Corporate expenses                                                                                             | 7,886                           | 5,463        |
| Interest, fees and bond issue cost amortization expense                                                        | 9,228                           | 8,990        |
| Total claims and expenses                                                                                      | 1,064,979                       | 1,071,443    |
| <b>INCOME (LOSS) BEFORE TAXES</b>                                                                              | 177,067                         | 364,145      |
| Income tax expense (benefit)                                                                                   | 5,381                           | 41,167       |
| <b>NET INCOME (LOSS)</b>                                                                                       | \$ 171,686                      | \$ 322,978   |
| Other comprehensive income (loss), net of tax:                                                                 |                                 |              |
| Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period                      | 142,962                         | 83,205       |
| Reclassification adjustment for realized losses (gains) included in net income (loss)                          | 32,381                          | 22,183       |
| Total URA(D) on securities arising during the period                                                           | 175,343                         | 105,388      |
| Foreign currency translation adjustments                                                                       | 9,773                           | (102,340 )   |
| Benefit plan actuarial net gain (loss) for the period                                                          | -                               | -            |
| Reclassification adjustment for amortization of net (gain) loss included in net income (loss)                  | 1,340                           | 1,604        |
| Total benefit plan net gain (loss) for the period                                                              | 1,340                           | 1,604        |
| Total other comprehensive income (loss), net of tax                                                            | 186,456                         | 4,652        |
| <b>COMPREHENSIVE INCOME (LOSS)</b>                                                                             | \$ 358,142                      | \$ 327,630   |
| <b>EARNINGS PER COMMON SHARE</b>                                                                               |                                 |              |

Edgar Filing: EVEREST RE GROUP LTD - Form 10-Q

|                    |        |        |
|--------------------|--------|--------|
| Basic              | \$4.03 | \$7.26 |
| Diluted            | 4.00   | 7.19   |
| Dividends declared | 1.15   | 0.95   |

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

2

---



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

| (Dollars in thousands, except share and dividends per share amounts)                    | Three Months Ended       |                    |
|-----------------------------------------------------------------------------------------|--------------------------|--------------------|
|                                                                                         | 2016                     | 2015               |
|                                                                                         | March 31,<br>(unaudited) |                    |
| <b>COMMON SHARES (shares outstanding):</b>                                              |                          |                    |
| Balance, beginning of period                                                            | 42,694,252               | 44,685,637         |
| Issued during the period, net                                                           | 169,774                  | 159,661            |
| Treasury shares acquired                                                                | (464,360 )               | (434,878 )         |
| Balance, end of period                                                                  | 42,399,666               | 44,410,420         |
| <b>COMMON SHARES (par value):</b>                                                       |                          |                    |
| Balance, beginning of period                                                            | \$686                    | \$683              |
| Issued during the period, net                                                           | 2                        | 2                  |
| Balance, end of period                                                                  | 688                      | 685                |
| <b>ADDITIONAL PAID-IN CAPITAL:</b>                                                      |                          |                    |
| Balance, beginning of period                                                            | 2,103,638                | 2,068,807          |
| Share-based compensation plans                                                          | 8,190                    | 5,170              |
| Balance, end of period                                                                  | 2,111,828                | 2,073,977          |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS),<br/>NET OF DEFERRED INCOME TAXES:</b> |                          |                    |
| Balance, beginning of period                                                            | (231,755 )               | 48,317             |
| Net increase (decrease) during the period                                               | 186,456                  | 4,652              |
| Balance, end of period                                                                  | (45,299 )                | 52,969             |
| <b>RETAINED EARNINGS:</b>                                                               |                          |                    |
| Balance, beginning of period                                                            | 8,621,972                | 7,819,210          |
| Net income (loss)                                                                       | 171,686                  | 322,978            |
| Dividends declared (\$1.15 per share in 2016 and \$0.95 per share in 2015)              | (48,706 )                | (42,252 )          |
| Balance, end of period                                                                  | 8,744,952                | 8,099,936          |
| <b>TREASURY SHARES AT COST:</b>                                                         |                          |                    |
| Balance, beginning of period                                                            | (2,885,956 )             | (2,485,897 )       |
| Purchase of treasury shares                                                             | (85,914 )                | (75,040 )          |
| Balance, end of period                                                                  | (2,971,870 )             | (2,560,937 )       |
| <b>TOTAL SHAREHOLDERS' EQUITY, END OF PERIOD</b>                                        | <b>\$7,840,299</b>       | <b>\$7,666,630</b> |

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<br>March 31, |             |
|-------------------------------------------------------------------------------------|---------------------------------|-------------|
|                                                                                     | 2016                            | 2015        |
|                                                                                     | (unaudited)                     |             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                        |                                 |             |
| Net income (loss)                                                                   | \$ 171,686                      | \$ 322,978  |
| Adjustments to reconcile net income to net cash provided by operating activities:   |                                 |             |
| Decrease (increase) in premiums receivable                                          | 7,604                           | (101,728 )  |
| Decrease (increase) in funds held by reinsureds, net                                | 60,592                          | (12,027 )   |
| Decrease (increase) in reinsurance receivables                                      | (32,865 )                       | (90,028 )   |
| Decrease (increase) in income taxes                                                 | (3,883 )                        | 14,214      |
| Decrease (increase) in prepaid reinsurance premiums                                 | (10,219 )                       | (12,868 )   |
| Increase (decrease) in reserve for losses and loss adjustment expenses              | 50,497                          | 55,334      |
| Increase (decrease) in future policy benefit reserve                                | (473 )                          | (127 )      |
| Increase (decrease) in unearned premiums                                            | (26,116 )                       | (40,934 )   |
| Increase (decrease) in other net payable to reinsurers                              | 5,254                           | 81,172      |
| Increase (decrease) in losses in course of payment                                  | 24,473                          | 71,568      |
| Change in equity adjustments in limited partnerships                                | 6,181                           | (6,762 )    |
| Distribution of limited partnership income                                          | 15,915                          | 8,600       |
| Change in other assets and liabilities, net                                         | 3,844                           | 32,168      |
| Non-cash compensation expense                                                       | 8,041                           | 5,170       |
| Amortization of bond premium (accrual of bond discount)                             | 12,354                          | 13,333      |
| Amortization of underwriting discount on senior notes                               | 1                               | 1           |
| Net realized capital (gains) losses                                                 | 74,259                          | 10,505      |
| Net cash provided by (used in) operating activities                                 | 367,145                         | 350,569     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                        |                                 |             |
| Proceeds from fixed maturities matured/called - available for sale, at market value | 503,428                         | 594,807     |
| Proceeds from fixed maturities sold - available for sale, at market value           | 324,118                         | 355,812     |
| Proceeds from fixed maturities sold - available for sale, at fair value             | -                               | 1,236       |
| Proceeds from equity securities sold - available for sale, at market value          | 203                             | 83          |
| Proceeds from equity securities sold - available for sale, at fair value            | 92,245                          | 137,966     |
| Distributions from other invested assets                                            | 1,111,710                       | 10,797      |
| Cost of fixed maturities acquired - available for sale, at market value             | (1,078,990)                     | (1,370,458) |
| Cost of equity securities acquired - available for sale, at market value            | (1,105 )                        | (4,464 )    |
| Cost of equity securities acquired - available for sale, at fair value              | (96,297 )                       | (171,411 )  |
| Cost of other invested assets acquired                                              | (1,454,123)                     | (41,961 )   |
| Net change in short-term investments                                                | 360,238                         | 222,952     |
| Net change in unsettled securities transactions                                     | 30,390                          | (505 )      |
| Net cash provided by (used in) investing activities                                 | (208,183 )                      | (265,146 )  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                        |                                 |             |
| Common shares issued during the period, net                                         | 151                             | 2           |
| Purchase of treasury shares                                                         | (85,914 )                       | (75,040 )   |
| Dividends paid to shareholders                                                      | (48,706 )                       | (42,252 )   |
| Net cash provided by (used in) financing activities                                 | (134,469 )                      | (117,290 )  |

|                                         |           |           |
|-----------------------------------------|-----------|-----------|
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | 20,792    | (7,032 )  |
| Net increase (decrease) in cash         | 45,285    | (38,899 ) |
| Cash, beginning of period               | 283,658   | 437,474   |
| Cash, end of period                     | \$328,943 | \$398,575 |

SUPPLEMENTAL CASH FLOW INFORMATION:

|                               |         |          |
|-------------------------------|---------|----------|
| Income taxes paid (recovered) | \$5,000 | \$24,266 |
| Interest paid                 | 370     | 132      |

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

4

---

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 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 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.

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 months ended March 31, 2015, are included within the Company's financial statements.

2. BASIS OF PRESENTATION

The unaudited consolidated financial statements of the Company for the three months ended March 31, 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 months ended March 31, 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.

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. The Company does not anticipate that the adoption of this guidance will have a material impact on its financial statements.

**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.

Edgar Filing: EVEREST RE GROUP LTD - Form 10-Q

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                | Effect of       |                     |
|                                                                             | previously        | adoption        |                     |
|                                                                             | reported          | of new          | As Currently        |
|                                                                             |                   | accounting      | Reported            |
|                                                                             |                   | policy          |                     |
| (Dollars in thousands)                                                      |                   |                 |                     |
| <b>ASSETS:</b>                                                              |                   |                 |                     |
| 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             |
| <b>TOTAL ASSETS</b>                                                         | <b>21,426,175</b> | <b>(875,347</b> | <b>) 20,550,828</b> |
| <b>LIABILITIES:</b>                                                         |                   |                 |                     |
| 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           |
| <b>Total liabilities</b>                                                    | <b>13,060,729</b> | <b>(118,486</b> | <b>) 12,942,243</b> |
| <b>NONCONTROLLING INTERESTS:</b>                                            |                   |                 |                     |
| Redeemable noncontrolling interests - Mt. Logan Re                          | 756,861           | (756,861        | ) -                 |
| <b>TOTAL LIABILITIES, NONCONTROLLING INTERESTS AND SHAREHOLDERS' EQUITY</b> | <b>21,426,175</b> | <b>(875,347</b> | <b>) 20,550,828</b> |

| CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS): | Three Months Ended March 31, 2015 |                    |                    |
|------------------------------------------------------------------------|-----------------------------------|--------------------|--------------------|
|                                                                        | As                                | Effect of adoption |                    |
|                                                                        | previously                        | of new             |                    |
|                                                                        | reported                          | accounting         | As Currently       |
|                                                                        |                                   | policy             | Reported           |
| (Dollars in thousands)                                                 |                                   |                    |                    |
| <b>REVENUES:</b>                                                       |                                   |                    |                    |
| Premiums earned                                                        | \$ 1,307,077                      | \$ (34,589         | ) \$ 1,272,488     |
| Net investment income                                                  | 122,583                           | (17                | ) 122,566          |
| Other income (expense)                                                 | 46,073                            | 5,208              | 51,281             |
| <b>Total revenues</b>                                                  | <b>1,464,986</b>                  | <b>(29,398</b>     | <b>) 1,435,588</b> |
| <b>CLAIMS AND EXPENSES:</b>                                            |                                   |                    |                    |

Edgar Filing: EVEREST RE GROUP LTD - Form 10-Q

|                                                            |           |         |        |           |
|------------------------------------------------------------|-----------|---------|--------|-----------|
| Incurred losses and loss adjustment expenses               | 722,465   | (7,310  | )      | 715,155   |
| Commision, brokerage, taxes and fees                       | 287,167   | (4,073  | )      | 283,094   |
| Other underwriting expenses                                | 60,664    | (1,923  | )      | 58,741    |
| Total claims and expenses                                  | 1,084,749 | (13,306 | )      | 1,071,443 |
| NET INCOME (LOSS) BEFORE TAXES                             | 380,237   | (16,092 | )      | 364,145   |
| NET INCOME (LOSS)                                          | 339,070   | (16,092 | )      | 322,978   |
| Net income (loss) attributable to noncontrolling interests | (16,092   | )       | 16,092 | -         |
| NET INCOME (LOSS) ATTRIBUTABLE TO EVEREST RE GROUP         | 322,978   | -       |        | 322,978   |

7

---

## CONSOLIDATED STATEMENT OF CASH FLOWS:

Three Months Ended March 31, 2015

| (Dollars in thousands)                                                         | As<br>previously<br>reported | Effect of<br>adoption<br>of new<br>accounting<br>policy | As<br>Currently<br>Reported |
|--------------------------------------------------------------------------------|------------------------------|---------------------------------------------------------|-----------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                   |                              |                                                         |                             |
| Net income (loss)                                                              | \$ 339,070                   | \$ (16,092 )                                            | \$ 322,978                  |
| Decrease (increase) in premiums receivable                                     | (98,195 )                    | (3,533 )                                                | (101,728 )                  |
| Decrease (increase) in funds held by reinsureds, net                           | 62,973                       | (75,000 )                                               | (12,027 )                   |
| Decrease (increase) in reinsurance receivables                                 | (84,665 )                    | (5,363 )                                                | (90,028 )                   |
| Decrease (increase) in prepaid reinsurance premiums                            | 12,144                       | (25,012 )                                               | (12,868 )                   |
| Increase (decrease) in other net payable to reinsurers                         | 68,365                       | 12,807                                                  | 81,172                      |
| Change in other assets and liabilities, net                                    | 24,542                       | 7,626                                                   | 32,168                      |
| Net cash provided by (used in) operating activities                            | 455,136                      | (104,567 )                                              | 350,569                     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                   |                              |                                                         |                             |
| Net change in short-term investments                                           | (7,567 )                     | 230,519                                                 | 222,952                     |
| Net cash provided by (used in) investing activities                            | (495,665 )                   | 230,519                                                 | (265,146 )                  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                   |                              |                                                         |                             |
| Third party investment in redeemable noncontrolling interest                   | 156,848                      | (156,848 )                                              | -                           |
| Dividends paid on third party investment in redeemable noncontrolling interest | (30,896 )                    | 30,896                                                  | -                           |
| Net cash provided by (used in) financing activities                            | 8,662                        | (125,952 )                                              | (117,290 )                  |

## 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:

| (Dollars in thousands)                                                                | At March 31, 2016 |                            |                            |                 | OTTI in<br>AOCI<br>(a) |
|---------------------------------------------------------------------------------------|-------------------|----------------------------|----------------------------|-----------------|------------------------|
|                                                                                       | Amortized<br>Cost | Unrealized<br>Appreciation | Unrealized<br>Depreciation | Market<br>Value |                        |
| Fixed maturity securities                                                             |                   |                            |                            |                 |                        |
| U.S. Treasury securities and obligations of U.S. government agencies and corporations | \$ 891,944        | \$ 27,721                  | \$ (153 )                  | \$ 919,512      | \$ -                   |
| Obligations of U.S. states and political subdivisions                                 | 664,481           | 38,439                     | (843 )                     | 702,077         | -                      |
| Corporate securities                                                                  | 4,733,277         | 137,455                    | (58,694 )                  | 4,812,038       | 1,303                  |
| Asset-backed securities                                                               | 514,550           | 2,623                      | (1,454 )                   | 515,719         | -                      |
| Mortgage-backed securities                                                            |                   |                            |                            |                 |                        |
| Commercial                                                                            | 269,123           | 5,893                      | (1,998 )                   | 273,018         | -                      |
| Agency residential                                                                    | 2,435,511         | 41,982                     | (4,204 )                   | 2,473,289       | -                      |
| Non-agency residential                                                                | 836               | 46                         | (46 )                      | 836             | -                      |



Edgar Filing: EVEREST RE GROUP LTD - Form 10-Q

|                                 |              |            |               |              |          |
|---------------------------------|--------------|------------|---------------|--------------|----------|
| Foreign government securities   | 1,301,579    | 65,835     | (44,671 )     | 1,322,743    | 39       |
| Foreign corporate securities    | 2,668,744    | 123,001    | (49,325 )     | 2,742,420    | 368      |
| Total fixed maturity securities | \$13,480,045 | \$ 442,995 | \$ (161,388 ) | \$13,761,652 | \$ 1,710 |
| Equity securities               | \$123,354    | \$ 4,008   | \$ (12,974 )  | \$114,388    | \$ -     |

8

---

| (Dollars in thousands)                                                                   | At December 31, 2015 |                            |                            |                 | OTTI in<br>AOCI<br>(a) |
|------------------------------------------------------------------------------------------|----------------------|----------------------------|----------------------------|-----------------|------------------------|
|                                                                                          | Amortized<br>Cost    | Unrealized<br>Appreciation | Unrealized<br>Depreciation | Market<br>Value |                        |
| Fixed maturity securities                                                                |                      |                            |                            |                 |                        |
| U.S. Treasury securities and obligations of<br>U.S. government agencies and corporations | \$ 805,273           | \$ 13,465                  | \$ (1,861 )                | \$ 816,877      | \$ -                   |
| Obligations of U.S. states and political<br>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.

| (Dollars in thousands)                          | At March 31, 2016 |                 | At December 31, 2015 |                 |
|-------------------------------------------------|-------------------|-----------------|----------------------|-----------------|
|                                                 | Amortized<br>Cost | Market<br>Value | Amortized<br>Cost    | Market<br>Value |
| Fixed maturity securities – available for sale: |                   |                 |                      |                 |
| Due in one year or less                         | \$ 922,297        | \$ 932,602      | \$ 1,021,200         | \$ 1,036,016    |
| Due after one year through five years           | 6,390,584         | 6,515,613       | 6,193,426            | 6,220,563       |
| Due after five years through ten years          | 2,108,976         | 2,149,123       | 2,217,075            | 2,203,932       |
| Due after ten years                             | 838,168           | 901,452         | 795,103              | 841,836         |
| Asset-backed securities                         | 514,550           | 515,719         | 470,320              | 467,226         |
| Mortgage-backed securities:                     |                   |                 |                      |                 |
| Commercial                                      | 269,123           | 273,018         | 264,924              | 266,299         |
| Agency residential                              | 2,435,511         | 2,473,289       | 2,313,265            | 2,320,524       |
| Non-agency residential                          | 836               | 836             | 893                  | 898             |
| Total fixed maturity securities                 | \$ 13,480,045     | \$ 13,761,652   | \$ 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:

| (Dollars in thousands)                                                                                                                      | Three Months Ended |           |
|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-----------|
|                                                                                                                                             | March 31,<br>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                                                                                                                   | \$200,308          | \$126,262 |
| Fixed maturity securities, other-than-temporary impairment                                                                                  | 210                | 9,684     |
| Equity securities                                                                                                                           | 4,366              | (1,450 )  |
| Change in unrealized appreciation (depreciation), pre-tax                                                                                   | 204,884            | 134,496   |
| Deferred tax benefit (expense)                                                                                                              | (29,472 )          | (25,700 ) |
| Deferred tax benefit (expense), other-than-temporary impairment                                                                             | (69 )              | (3,408 )  |
| Change in unrealized appreciation (depreciation), net of deferred taxes, included in shareholders' equity                                   | \$175,343          | \$105,388 |

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.

10

---

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:

| (Dollars in thousands)                                                                | Duration of Unrealized Loss at March 31, 2016 By Security Type |                               |                        |                               |              |                               |
|---------------------------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------|------------------------|-------------------------------|--------------|-------------------------------|
|                                                                                       | Less than 12 months                                            |                               | Greater than 12 months |                               | Total        |                               |
|                                                                                       | Market Value                                                   | Gross Unrealized Depreciation | Market Value           | Gross Unrealized Depreciation | Market Value | Gross Unrealized Depreciation |
| Fixed maturity securities - available for sale                                        |                                                                |                               |                        |                               |              |                               |
| U.S. Treasury securities and obligations of U.S. government agencies and corporations | \$71,914                                                       | \$ (153 )                     | \$ 698                 | \$ -                          | \$72,612     | \$ (153 )                     |
| Obligations of U.S. states and political subdivisions                                 | 4,469                                                          | (16 )                         | 7,014                  | (827 )                        | 11,483       | (843 )                        |
| Corporate securities                                                                  | 757,686                                                        | (29,211 )                     | 340,682                | (29,483 )                     | 1,098,368    | (58,694 )                     |
| Asset-backed securities                                                               | 66,629                                                         | (257 )                        | 68,896                 | (1,197 )                      | 135,525      | (1,454 )                      |
| Mortgage-backed securities                                                            |                                                                |                               |                        |                               |              |                               |
| Commercial                                                                            | 33,955                                                         | (1,707 )                      | 6,345                  | (291 )                        | 40,300       | (1,998 )                      |
| Agency residential                                                                    | 239,830                                                        | (1,726 )                      | 290,778                | (2,478 )                      | 530,608      | (4,204 )                      |
| Non-agency residential                                                                | 137                                                            | (2 )                          | 34                     | (44 )                         | 171          | (46 )                         |
| Foreign government securities                                                         | 167,643                                                        | (18,658 )                     | 196,372                | (26,013 )                     | 364,015      | (44,671 )                     |
| Foreign corporate securities                                                          | 414,232                                                        | (15,945 )                     | 285,045                | (33,380 )                     | 699,277      | (49,325 )                     |
| Total fixed maturity securities                                                       | \$1,756,495                                                    | \$ (67,675 )                  | \$1,195,864            | \$ (93,713 )                  | \$2,952,359  | \$ (161,388 )                 |
| Equity securities                                                                     | -                                                              | -                             | 96,771                 | (12,974 )                     | 96,771       | (12,974 )                     |
| Total                                                                                 | \$1,756,495                                                    | \$ (67,675 )                  | \$1,292,635            | \$ (106,687 )                 | \$3,049,130  | \$ (174,362 )                 |

| (Dollars in thousands)              | Duration of Unrealized Loss at March 31, 2016 By Maturity |                               |                        |                               |              |                               |
|-------------------------------------|-----------------------------------------------------------|-------------------------------|------------------------|-------------------------------|--------------|-------------------------------|
|                                     | Less than 12 months                                       |                               | Greater than 12 months |                               | Total        |                               |
|                                     | Market Value                                              | Gross Unrealized Depreciation | Market Value           | Gross Unrealized Depreciation | Market Value | Gross Unrealized Depreciation |
| Fixed maturity securities           |                                                           |                               |                        |                               |              |                               |
| Due in one year or less             | \$50,743                                                  | \$ (255 )                     | \$91,385               | \$ (14,690 )                  | \$142,128    | \$ (14,945 )                  |
| Due in one year through five years  | 843,152                                                   | (37,957 )                     | 550,261                | (46,326 )                     | 1,393,413    | (84,283 )                     |
| Due in five years through ten years | 467,988                                                   | (21,816 )                     | 162,567                | (24,926 )                     | 630,555      | (46,742 )                     |
| Due after ten years                 | 54,061                                                    | (3,955 )                      | 25,598                 | (3,761 )                      | 79,659       | (7,716 )                      |
| Asset-backed securities             | 66,629                                                    | (257 )                        | 68,896                 | (1,197 )                      | 135,525      | (1,454 )                      |
| Mortgage-backed securities          | 273,922                                                   | (3,435 )                      | 297,157                | (2,813 )                      | 571,079      | (6,248 )                      |
| Total fixed maturity securities     | \$1,756,495                                               | \$ (67,675 )                  | \$1,195,864            | \$ (93,713 )                  | \$2,952,359  | \$ (161,388 )                 |

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at March 31, 2016 were \$3,049,130 thousand and \$174,362 thousand, respectively. The market value of securities for the single issuer whose securities comprised the largest unrealized loss position at March 31, 2016, did not exceed 0.6% 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 \$67,675 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 corporate securities, foreign government securities and foreign corporate securities. The majority of these unrealized losses are attributable to net unrealized foreign exchange losses, \$36,994 thousand, as the U.S. dollar has strengthened against other currencies and unrealized losses in the energy sector, \$16,509 thousand, as falling oil prices have disrupted the market values for this sector, particularly for oil exploration, production and servicing companies. The \$93,713 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 and foreign government securities. The majority of these unrealized losses are attributable to net unrealized foreign exchange losses, \$67,220 thousand, as the U.S. dollar has strengthened against other currencies and to unrealized losses in the energy sector, \$14,945 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

11

---

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:

| (Dollars in thousands)                                                                | Duration of Unrealized Loss at December 31, 2015 By Security Type |                               |                        |                               |              |                               |
|---------------------------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------|------------------------|-------------------------------|--------------|-------------------------------|
|                                                                                       | Less than 12 months                                               |                               | Greater than 12 months |                               | Total        |                               |
|                                                                                       | Market Value                                                      | Gross Unrealized Depreciation | Market Value           | Gross Unrealized Depreciation | Market Value | Gross Unrealized Depreciation |
| 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)                   |

| (Dollars in thousands)    | Duration of Unrealized Loss at December 31, 2015 By Maturity |                               |                        |                               |              |                               |
|---------------------------|--------------------------------------------------------------|-------------------------------|------------------------|-------------------------------|--------------|-------------------------------|
|                           | Less than 12 months                                          |                               | Greater than 12 months |                               | Total        |                               |
|                           | Market Value                                                 | Gross Unrealized Depreciation | Market Value           | Gross Unrealized Depreciation | Market Value | Gross Unrealized Depreciation |
| Fixed maturity securities |                                                              |                               |                        |                               |              |                               |
| Due in one year or less   | \$29,737                                                     | \$(1,840)                     | \$74,615               | \$(13,440)                    | \$104,352    | \$(15,280)                    |

Edgar Filing: EVEREST RE GROUP LTD - Form 10-Q

|                                     |             |              |             |              |             |              |
|-------------------------------------|-------------|--------------|-------------|--------------|-------------|--------------|
| 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

12



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:

| (Dollars in thousands)                         | Three Months Ended |            |
|------------------------------------------------|--------------------|------------|
|                                                | March 31,          |            |
|                                                | 2016               | 2015       |
| Fixed maturities                               | \$ 102,525         | \$ 109,355 |
| Equity securities                              | 11,139             | 11,678     |
| Short-term investments and cash                | 400                | 230        |
| Other invested assets                          |                    |            |
| Limited partnerships                           | (6,158 )           | 6,968      |
| Other                                          | (850 )             | 625        |
| Gross investment income before adjustments     | 107,056            | 128,856    |
| Funds held interest income (expense)           | 2,540              | 2,876      |
| Future policy benefit reserve income (expense) | (301 )             | (393 )     |
| Gross investment income                        | 109,295            | 131,339    |
| Investment expenses                            | (6,771 )           | (8,773 )   |
| Net investment income                          | \$ 102,524         | \$ 122,566 |

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 \$447,875 thousand in limited partnerships at March 31, 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:

| (Dollars in thousands)                     | Three Months Ended |             |
|--------------------------------------------|--------------------|-------------|
|                                            | March 31,          |             |
|                                            | 2016               | 2015        |
| Fixed maturity securities, market value:   |                    |             |
| Other-than-temporary impairments           | \$(28,793 )        | \$(26,018 ) |
| Gains (losses) from sales                  | (16,911 )          | (8,024 )    |
| Fixed maturity securities, fair value:     |                    |             |
| Gains (losses) from sales                  | -                  | 28          |
| Gains (losses) from fair value adjustments | (232 )             | 62          |
| Equity securities, market value:           |                    |             |
| Gains (losses) from sales                  | 57                 | 19          |
| Equity securities, fair value:             |                    |             |
| Gains (losses) from sales                  | (8,426 )           | (150 )      |
| Gains (losses) from fair value adjustments | (19,955 )          | 23,578      |
| Short-term investments gain (loss)         | 1                  | -           |
| Total net realized capital gains (losses)  | \$(74,259 )        | \$(10,505 ) |

The Company recorded as net realized capital gains (losses) in the consolidated statements of operations and comprehensive income (loss) both fair value re-measurements and write-downs in the value of securities deemed to be impaired on an other-than-temporary basis as displayed in the table above. The Company had no other-than-temporary impaired securities where the impairment had both a credit and non-credit component.

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

| (Dollars in thousands)                           | Three Months Ended |           |
|--------------------------------------------------|--------------------|-----------|
|                                                  | March 31,          |           |
|                                                  | 2016               | 2015      |
| Proceeds from sales of fixed maturity securities | \$324,118          | \$357,048 |
| Gross gains from sales                           | 8,552              | 8,835     |
| Gross losses from sales                          | (25,463 )          | (16,831 ) |
| Proceeds from sales of equity securities         | \$92,448           | \$138,049 |
| Gross gains from sales                           | 1,839              | 5,206     |
| Gross losses from sales                          | (10,208 )          | (5,337 )  |

#### 4. DERIVATIVES

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

The Company sold six equity index put option contracts, based on the Standard & Poor's 500 ("S&P 500") index, for total consideration, net of commissions, of \$22,530 thousand. At March 31, 2016, fair value for these equity index put option contracts was \$34,199 thousand. Based on historical index volatilities and trends and the March 31, 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 13%. The theoretical maximum payouts under these six equity index put option contracts would occur if on each of the exercise dates the S&P 500 index value were zero. At March 31, 2016, the present value of these theoretical maximum payouts using a 3% discount factor was \$435,813 thousand.

14

---

Conversely, if the contracts had all expired on March 31, 2016, with the S&P index at \$2,059.74, 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 March 31, 2016, fair value for this equity index put option contract was \$9,526 thousand. Based on historical index volatilities and trends and the March 31, 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 45%. The theoretical maximum payout under the equity index put option contract would occur if on the exercise date the FTSE 100 index value was zero. At March 31, 2016, the present value of the theoretical maximum payout using a 3% discount factor and current exchange rate was \$41,168 thousand. Conversely, if the contract had expired on March 31, 2016, with the FTSE index at 6,174.90, 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 March 31, 2016 | At December 31, 2015 |
|---------------------------------------------------|------------------------------------------|-------------------|----------------------|
| Equity index put option contracts                 | Equity index put option liability        | \$ 43,725         | \$ 40,705            |
| Total                                             |                                          | \$ 43,725         | \$ 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)

| Derivatives not designated as hedging instruments | Location of gain (loss) in statements of operations and comprehensive income (loss) | Three Months Ended March 31, |           |
|---------------------------------------------------|-------------------------------------------------------------------------------------|------------------------------|-----------|
|                                                   |                                                                                     | 2016                         | 2015      |
| Equity index put option contracts                 | Net derivative gain (loss)                                                          | \$ (3,020 )                  | \$ (242 ) |
| Total                                             |                                                                                     | \$ (3,020 )                  | \$ (242 ) |

## 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.

15

---

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 six private placement securities, the Company valued the six securities at \$16,302 thousand at March 31, 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 March 31, 2016 and December 31, 2015 of \$241,605 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 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 contracts 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:

| (Dollars in thousands)                                                                   | March 31, 2016 | Fair Value Measurement Using:                                                       |                                                           |                                                    |
|------------------------------------------------------------------------------------------|----------------|-------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                                                                          |                | Quoted<br>Prices<br>in Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets:</b>                                                                           |                |                                                                                     |                                                           |                                                    |
| Fixed maturities, market value                                                           |                |                                                                                     |                                                           |                                                    |
| U.S. Treasury securities and obligations of<br>U.S. government agencies and corporations | \$ 919,512     | \$-                                                                                 | \$919,512                                                 | \$ -                                               |
| Obligations of U.S. States and political subdivisions                                    | 702,077        | -                                                                                   | 702,077                                                   | -                                                  |
| Corporate securities                                                                     | 4,812,038      | -                                                                                   | 4,796,332                                                 | 15,706                                             |
| Asset-backed securities                                                                  | 515,719        | -                                                                                   | 515,719                                                   | -                                                  |
| Mortgage-backed securities                                                               |                |                                                                                     |                                                           |                                                    |
| Commercial                                                                               | 273,018        | -                                                                                   | 273,018                                                   | -                                                  |
| Agency residential                                                                       | 2,473,289      | -                                                                                   | 2,473,289                                                 | -                                                  |
| Non-agency residential                                                                   | 836            | -                                                                                   | 836                                                       | -                                                  |
| Foreign government securities                                                            | 1,322,743      | -                                                                                   | 1,322,743                                                 | -                                                  |
| Foreign corporate securities                                                             | 2,742,420      | -                                                                                   | 2,741,824                                                 | 596                                                |
| Total fixed maturities, market value                                                     | 13,761,652     | -                                                                                   | 13,745,350                                                | 16,302                                             |
| Fixed maturities, fair value                                                             | 1,870          | -                                                                                   | 1,870                                                     | -                                                  |
| Equity securities, market value                                                          | 114,388        | 96,771                                                                              | 17,617                                                    | -                                                  |
| Equity securities, fair value                                                            | 1,313,404      | 1,253,346                                                                           | 60,058                                                    | -                                                  |
| <b>Liabilities:</b>                                                                      |                |                                                                                     |                                                           |                                                    |
| Equity index put option contracts                                                        | \$ 43,725      | \$-                                                                                 | \$-                                                       | \$ 43,725                                          |

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

| (Dollars in thousands)                                                                | December 31, 2015 | Fair Value Measurement Using:                                  |                                   |                                           |
|---------------------------------------------------------------------------------------|-------------------|----------------------------------------------------------------|-----------------------------------|-------------------------------------------|
|                                                                                       |                   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>Assets:</b>                                                                        |                   |                                                                |                                   |                                           |
| 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                            | -                                         |
| <b>Liabilities:</b>                                                                   |                   |                                                                |                                   |                                           |
| Equity index put option contracts                                                     | \$ 40,705         | \$-                                                            | \$-                               | \$ 40,705                                 |

Edgar Filing: EVEREST RE GROUP LTD - Form 10-Q

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

| (Dollars in thousands)                        | Three Months Ended March 31, 2016 |                   |           | Three Months Ended March 31, 2015 |          |                   |           |
|-----------------------------------------------|-----------------------------------|-------------------|-----------|-----------------------------------|----------|-------------------|-----------|
|                                               | Corporate Securities              | Foreign Corporate | Total     | Corporate Securities              | CMBS     | Foreign Corporate | Total     |
| Beginning balance                             | \$ 3,933                          | \$ 1,593          | \$ 5,526  | \$-                               | \$ 8,597 | \$ 7,166          | \$ 15,763 |
| Total gains or (losses) (realized/unrealized) |                                   |                   |           |                                   |          |                   |           |
| Included in earnings                          | 8                                 | (997 )            | (989 )    | 2                                 | -        | 57                | 59        |
| Included in other comprehensive income (loss) | (6 )                              | -                 | (6 )      | 1                                 | -        | (1,098 )          | (1,097 )  |
| Purchases, issuances and settlements          | 11,771                            | -                 | 11,771    | 1,940                             | -        | -                 | 1,940     |
| Transfers in and/or (out) of Level 3          | -                                 | -                 | -         | 710                               | (8,597)  | -                 | (7,887 )  |
| Ending balance                                | \$ 15,706                         | \$ 596            | \$ 16,302 | \$ 2,653                          | \$-      | \$ 6,125          | \$ 8,778  |

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.)

The net transfers from level 3, fair value measurements using significant unobservable inputs, of \$7,887 thousand of investments for the three months ended March 31, 2015, 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 March 31, 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 March 31, |           |
|-----------------------------------------------|------------------------------|-----------|
|                                               | 2016                         | 2015      |
| Liabilities:                                  |                              |           |
| Balance, beginning of period                  | \$ 40,705                    | \$ 47,022 |
| Total (gains) or losses (realized/unrealized) |                              |           |
| Included in earnings                          | 3,020                        | 242       |
| Included in other comprehensive income (loss) | -                            | -         |
| Purchases, issuances and settlements          | -                            | -         |
| Transfers in and/or (out) of Level 3          | -                            | -         |

Edgar Filing: EVEREST RE GROUP LTD - Form 10-Q

|                                                                                                                                                                                                                            |           |           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Balance, end of period                                                                                                                                                                                                     | \$ 43,725 | \$ 47,264 |
| The amount of total gains or losses for the period included in earnings<br>(or changes in net assets) attributable to the change in unrealized<br>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.

| (Dollars in thousands, except per share amounts)                                              | Three Months Ended |           |
|-----------------------------------------------------------------------------------------------|--------------------|-----------|
|                                                                                               | March 31,<br>2016  | 2015      |
| Net income (loss) per share:                                                                  |                    |           |
| Numerator                                                                                     |                    |           |
| Net income (loss)                                                                             | \$171,686          | \$322,978 |
| Less: dividends declared-common shares and nonvested common shares                            | (48,706)           | (42,252)  |
| Undistributed earnings                                                                        | 122,980            | 280,726   |
| Percentage allocated to common shareholders <sup>(1)</sup>                                    | 99.0 %             | 98.9 %    |
|                                                                                               | 121,697            | 277,755   |
| Add: dividends declared-common shareholders                                                   | 48,210             | 41,816    |
| Numerator for basic and diluted earnings per common share                                     | \$169,907          | \$319,571 |
| Denominator                                                                                   |                    |           |
| Denominator for basic earnings per weighted-average common shares                             | 42,129             | 44,028    |
| Effect of dilutive securities:                                                                |                    |           |
| Options                                                                                       | 334                | 416       |
| Denominator for diluted earnings per adjusted weighted-average common shares                  | 42,463             | 44,444    |
| Per common share net income (loss)                                                            |                    |           |
| Basic                                                                                         | \$4.03             | \$7.26    |
| Diluted                                                                                       | \$4.00             | \$7.19    |
| <sup>(1)</sup> Basic weighted-average common shares outstanding                               | 42,129             | 44,028    |
| Basic weighted-average common shares outstanding and nonvested common shares expected to vest | 42,573             | 44,499    |
| Percentage allocated to common shareholders                                                   | 99.0 %             | 98.9 %    |

(Some amounts may not reconcile due to rounding.)

There were no anti-diluted options outstanding for the three months ended March 31, 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:

|                                     | At March 31, | At December 31, |
|-------------------------------------|--------------|-----------------|
| (Dollars in thousands)              | 2016         | 2015            |
| The Prudential                      | \$ 141,945   | \$ 142,427      |
| Unaffiliated life insurance company | 31,907       | 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:

| (Dollars in thousands)                                                                | Three Months Ended March 31, |              |            | Three Months Ended March 31, 2015 |              |            |
|---------------------------------------------------------------------------------------|------------------------------|--------------|------------|-----------------------------------|--------------|------------|
|                                                                                       | 2016<br>Before<br>Tax        | Tax Effect   | Net of Tax | Before Tax                        | Tax Effect   | Net of Tax |
| Unrealized appreciation (depreciation) ("URA(D)") on securities - temporary           | \$ 159,028                   | \$ (16,207 ) | \$ 142,821 | \$ 90,789                         | \$ (13,860 ) | \$ 76,929  |
| URA(D) on securities - OTTI                                                           | 210                          | (69 )        | 141        | 9,684                             | (3,408 )     | 6,276      |
| Reclassification of net realized losses (gains) included in net income (loss)         | 45,646                       | (13,265 )    | 32,381     | 34,023                            | (11,840 )    | 22,183     |
| Foreign currency translation adjustments                                              | 17,819                       | (8,046 )     | 9,773      | (120,275 )                        | 17,935       | (102,340 ) |
| Benefit plan actuarial net gain (loss)                                                | -                            | -            | -          | -                                 | -            | -          |
| Reclassification of benefit plan liability amortization included in net income (loss) | 2,062                        | (722 )       | 1,340      | 2,467                             | (863 )       | 1,604      |
| Total other comprehensive income (loss)                                               | \$ 224,765                   | \$ (38,309 ) | \$ 186,456 | \$ 16,688                         | \$ (12,036 ) | \$ 4,652   |

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

| AOCI component | Three Months Ended |      | Affected line item within the statements of operations and comprehensive income (loss) |
|----------------|--------------------|------|----------------------------------------------------------------------------------------|
|                | March 31, 2016     | 2015 |                                                                                        |

Edgar Filing: EVEREST RE GROUP LTD - Form 10-Q

(Dollars in thousands)

|                              |           |           |                                           |
|------------------------------|-----------|-----------|-------------------------------------------|
| URA(D) on securities         | \$ 45,646 | \$ 34,023 | Other net realized capital gains (losses) |
|                              | (13,265 ) | (11,840 ) | Income tax expense (benefit)              |
|                              | \$ 32,381 | \$ 22,183 | Net income (loss)                         |
| Benefit plan net gain (loss) | \$ 2,062  | \$ 2,467  | Other underwriting expenses               |
|                              | (722 )    | (863 )    | Income tax expense (benefit)              |
|                              | \$ 1,340  | \$ 1,604  | Net income (loss)                         |

22

---

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)                                            | Three Months Ended<br>March 31,<br>2016 | Twelve Months Ended<br>December 31,<br>2015 |
|-------------------------------------------------------------------|-----------------------------------------|---------------------------------------------|
| Beginning balance of URA (D) on securities                        | \$ 42,811                               | \$ 223,250                                  |
| Current period change in URA (D) of investments - temporary       | 175,202                                 | (185,467 )                                  |
| Current period change in URA (D) of investments - non-credit OTTI | 141                                     | 5,028                                       |
| Ending balance of URA (D) on securities                           | 218,154                                 | 42,811                                      |
| Beginning balance of foreign currency translation adjustments     | (211,477 )                              | (99,947 )                                   |
| Current period change in foreign currency translation adjustments | 9,773                                   | (111,530 )                                  |
| Ending balance of foreign currency translation adjustments        | (201,704 )                              | (211,477 )                                  |
| Beginning balance of benefit plan net gain (loss)                 | (63,089 )                               | (74,986 )                                   |
| Current period change in benefit plan net gain (loss)             | 1,340                                   | 11,897                                      |
| Ending balance of benefit plan net gain (loss)                    | (61,749 )                               | (63,089 )                                   |
| Ending balance of accumulated other comprehensive income (loss)   | \$ (45,299 )                            | \$ (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:

| (Dollars in thousands)                     | Three Months Ended<br>March 31, |        |
|--------------------------------------------|---------------------------------|--------|
|                                            | 2016                            | 2015   |
| Credit facility interest and fees incurred | \$ 370                          | \$ 132 |

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

### Group Credit Facility

Effective June 22, 2012, Group, Bermuda Re and Everest International entered into a four year, \$800,000 thousand senior credit facility with a syndicate of lenders, which amended and restated in its entirety the July 27, 2007, five year, \$850,000 thousand senior credit facility. Both the June 22, 2012 and July 27, 2007 senior credit facilities, which have similar terms, are referred to as the "Group Credit Facility". Wells Fargo Corporation ("Wells Fargo Bank") is the administrative agent for the Group Credit Facility, which consists of two tranches. Tranche one provides up to \$200,000 thousand of unsecured revolving credit for liquidity and general corporate purposes, and for the issuance of unsecured standby letters of credit. The interest on the revolving loans shall, at the Company's option, be either (1) the Base Rate (as defined below) or (2) an adjusted London Interbank Offered Rate ("LIBOR") plus a margin. The Base Rate is the higher of (a) the prime commercial lending rate established by Wells Fargo Bank, (b) the Federal



Funds Rate plus 0.5% per annum or (c) the one month LIBOR Rate plus 1.0% per annum. The amount of margin and the fees payable for the Group Credit Facility depends on Group's senior unsecured debt rating. Tranche two exclusively provides up to \$600,000 thousand for the issuance of standby letters of credit on a collateralized basis.

The Group Credit Facility requires Group to maintain a debt to capital ratio of not greater than 0.35 to 1 and to maintain a minimum net worth. Minimum net worth is an amount equal to the sum of \$4,249,963 thousand plus 25% of consolidated net income for each of Group's fiscal quarters, for which statements are available ending on or after January 1, 2012 and for which consolidated net income is positive, plus 25% of any increase in consolidated net worth during such period attributable to the issuance of ordinary and preferred shares, which at March 31, 2016, was \$5,413,940 thousand. As of March 31, 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 March 31, 2016 |           |                | At December 31, 2015 |           |                |
|----------------------------------------------|-------------------|-----------|----------------|----------------------|-----------|----------------|
|                                              | Commitment        | Use       | Date of Expiry | Commitment           | Use       | Date of Expiry |
| Bank                                         |                   |           |                |                      |           |                |
| 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     |
|                                              | -                 | 452,552   | 12/31/2016     | -                    | 447,178   | 12/31/2016     |
| Total Wells Fargo Bank Group Credit Facility | \$800,000         | \$455,040 |                | \$800,000            | \$449,666 |                |

The Company is in the process of renewing this credit facility and anticipates that the renewal terms will be similar to the expiring terms.

#### 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 March 31, 2016 |           |                | At December 31, 2015 |           |                |
|-----------------------------------------------|-------------------|-----------|----------------|----------------------|-----------|----------------|
|                                               | Commitment        | Use       | Date of Expiry | Commitment           | Use       | Date of Expiry |
| Bank                                          |                   |           |                |                      |           |                |
| Citibank Bilateral Letter of Credit Agreement |                   |           |                |                      |           |                |
|                                               | \$300,000         | \$3,672   | 11/24/2016     | \$300,000            | \$3,672   | 11/24/2016     |
|                                               |                   | 64,823    | 12/31/2016     |                      | 67,783    | 12/31/2016     |
|                                               |                   | 4,058     | 2/28/2017      |                      | 179       | 8/30/2017      |
|                                               |                   | 184       | 8/30/2017      |                      | 316       | 12/31/2017     |
|                                               |                   | 2,598     | 12/31/2017     |                      | -         | -              |
|                                               |                   | 96,738    | 3/30/2020      |                      | 99,521    | 12/31/2019     |
| Total Citibank Bilateral Agreement            | \$300,000         | \$172,073 |                | \$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.

24

---

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 March 31, 2016, was \$5,513,929 thousand. As of March 31, 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 March 31, 2016 |          |                | At December 31, 2015 |          |                |
|------------------------------------|-------------------|----------|----------------|----------------------|----------|----------------|
|                                    | Commitment        | In Use   | Date of Expiry | Commitment           | In Use   | Date of Expiry |
| Bank                               |                   |          |                |                      |          |                |
| 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 March 31, 2016, the total amount on deposit in trust accounts was \$377,081 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 \$859,333 thousand and \$798,548 thousand at March 31, 2016 and December 31, 2015, respectively. Of this amount, Group had invested \$54,336 thousand and \$50,000 thousand at March 31, 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 | March 31, 2016             |              | December 31, 2015          |              |
|------------------------|-------------|------------|-------------------|----------------------------|--------------|----------------------------|--------------|
|                        |             |            |                   | Consolidated Sheet Balance | Market Value | Consolidated Sheet Balance | Market Value |
| 4.868% Senior notes    | 06/05/2014  | 06/01/2044 | 400,000           | \$ 400,000                 | \$ 393,520   | \$ 400,000                 | \$ 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:

| (Dollars in thousands)    | Three Months Ended |                |
|---------------------------|--------------------|----------------|
|                           | March 31, 2016     | March 31, 2015 |
| Interest expense incurred | \$ 4,868           | \$ 4,868       |

## 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 | March 31, 2016 | December 31, 2015 |
|---------------|----------------|-------------------|
|---------------|----------------|-------------------|

Edgar Filing: EVEREST RE GROUP LTD - Form 10-Q

| (Dollars in thousands)            | Date Issued | Original Principal Amount | Scheduled  | Final      | Consolidated Balance Sheet |              | Consolidated Balance Sheet |              |
|-----------------------------------|-------------|---------------------------|------------|------------|----------------------------|--------------|----------------------------|--------------|
|                                   |             |                           |            |            | Amount                     | Market Value | Amount                     | Market Value |
| 6.6% Long term subordinated notes | 04/26/2007  | \$ 400,000                | 05/15/2037 | 05/01/2067 | \$ 238,369                 | \$ 203,789   | \$ 238,368                 | \$ 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 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. Effective upon the maturity of the Company's 5.40% senior notes on October 15, 2014, the Company's 4.868% senior notes, due on June 1, 2044, have become the Company's long term indebtedness that ranks senior to the long term 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<br>March 31, |          |
|---------------------------|---------------------------------|----------|
| (Dollars in thousands)    | 2016                            | 2015     |
| Interest expense incurred | \$ 3,937                        | \$ 3,937 |

### 13. 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 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.

27

---

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.

For inter-affiliate reinsurance and business written through the Lloyd's Syndicate, 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>U.S. Reinsurance</u><br>(Dollars in thousands) | Three Months Ended<br>March 31, |            |
|---------------------------------------------------|---------------------------------|------------|
|                                                   | 2016                            | 2015       |
| Gross written premiums                            | \$536,706                       | \$562,647  |
| Net written premiums                              | 470,691                         | 484,403    |
| Premiums earned                                   | \$486,541                       | \$511,094  |
| Incurred losses and LAE                           | 236,444                         | 244,886    |
| Commission and brokerage                          | 117,317                         | 122,784    |
| Other underwriting expenses                       | 13,459                          | 11,529     |
| Underwriting gain (loss)                          | \$ 119,321                      | \$ 131,895 |

| <u>International</u><br>(Dollars in thousands) | Three Months Ended<br>March 31, |           |
|------------------------------------------------|---------------------------------|-----------|
|                                                | 2016                            | 2015      |
| Gross written premiums                         | \$235,591                       | \$326,998 |
| Net written premiums                           | 202,500                         | 261,738   |
| Premiums earned                                | \$250,450                       | \$305,569 |
| Incurred losses and LAE                        | 147,535                         | 179,652   |
| Commission and brokerage                       | 64,286                          | 70,614    |
| Other underwriting expenses                    | 7,823                           | 8,115     |
| Underwriting gain (loss)                       | \$30,806                        | \$47,188  |

| <u>Bermuda</u><br>(Dollars in thousands) | Three Months Ended<br>March 31, |           |
|------------------------------------------|---------------------------------|-----------|
|                                          | 2016                            | 2015      |
| Gross written premiums                   | \$204,732                       | \$188,121 |
| Net written premiums                     | 184,314                         | 174,566   |
| Premiums earned                          | \$194,428                       | \$195,704 |
| Incurred losses and LAE                  | 111,521                         | 110,015   |

Edgar Filing: EVEREST RE GROUP LTD - Form 10-Q

|                             |          |          |
|-----------------------------|----------|----------|
| Commission and brokerage    | 49,922   | 51,133   |
| Other underwriting expenses | 9,185    | 8,800    |
| Underwriting gain (loss)    | \$23,800 | \$25,756 |

28

---

| <u>Insurance</u><br>(Dollars in thousands) | Three Months Ended<br>March 31, |           |
|--------------------------------------------|---------------------------------|-----------|
|                                            | 2016                            | 2015      |
| Gross written premiums                     | \$376,160                       | \$340,258 |
| Net written premiums                       | 323,952                         | 303,581   |
| Premiums earned                            | \$287,448                       | \$260,121 |
| Incurred losses and LAE                    | 205,249                         | 180,601   |
| Commission and brokerage                   | 43,481                          | 38,563    |
| Other underwriting expenses                | 41,643                          | 30,297    |
| Underwriting gain (loss)                   | \$(2,925 )                      | \$10,660  |

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

| (Dollars in thousands)                                 | Three Months Ended<br>March 31, |           |
|--------------------------------------------------------|---------------------------------|-----------|
|                                                        | 2016                            | 2015      |
| Underwriting gain (loss)                               | \$171,002                       | \$215,498 |
| Net investment income                                  | 102,524                         | 122,566   |
| Net realized capital gains (losses)                    | (74,259 )                       | (10,505 ) |
| Net derivative gain (loss)                             | (3,020 )                        | (242 )    |
| Corporate expenses                                     | (7,886 )                        | (5,463 )  |
| Interest, fee and bond issue cost amortization expense | (9,228 )                        | (8,990 )  |
| Other income (expense)                                 | (2,066 )                        | 51,281    |
| Income (loss) before taxes                             | \$177,067                       | \$364,145 |

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 periods indicated:

| (Dollars in thousands)               | Three Months Ended<br>March 31, |           |
|--------------------------------------|---------------------------------|-----------|
|                                      | 2016                            | 2015      |
| United Kingdom gross written premium | \$182,630                       | \$197,936 |

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

#### 14. SHARE-BASED COMPENSATION PLANS

For the three months ended March 31, 2016, share-based compensation awards granted were 155,710 restricted shares, granted on February 24, 2016, with a fair value of \$186.015 per share and 11,130 performance share units, granted on February 24, 2016 with a fair value of \$186.015 per unit.



## 15. 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:

| <u>Pension Benefits</u>            | Three Months Ended |          |
|------------------------------------|--------------------|----------|
|                                    | March 31,          |          |
| (Dollars in thousands)             | 2016               | 2015     |
| Service cost                       | \$ 2,897           | \$ 2,940 |
| Interest cost                      | 2,361              | 2,457    |
| Expected return on plan assets     | (2,484 )           | (2,903 ) |
| Amortization of prior service cost | -                  | 5        |
| Amortization of net (income) loss  | 2,014              | 2,251    |
| Net periodic benefit cost          | \$ 4,788           | \$ 4,750 |

| <u>Other Benefits</u>             | Three Months Ended |        |
|-----------------------------------|--------------------|--------|
|                                   | March 31,          |        |
| (Dollars in thousands)            | 2016               | 2015   |
| Service cost                      | \$ 438             | \$ 401 |
| Interest cost                     | 296                | 263    |
| Amortization of net (income) loss | 48                 | 211    |
| Net periodic benefit cost         | \$ 782             | \$ 875 |

The Company did not make any contributions to the qualified pension benefit plan for the three months ended March 31, 2016 and 2015.

## 16. 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).

For interim reporting periods, the company is generally required to use the annualized effective tax rate ("AETR") method, as prescribed by ASC 740-270, Interim Reporting, to calculate its income tax provision. Under this method, the AETR 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 income tax expense or benefit for a quarter represents the difference between the year-to-date income 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 AETR.

17. SUBSEQUENT EVENTS

The Company has evaluated known recognized and non-recognized subsequent events. The Company does not have any subsequent events to report.

30

---

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, domestic and international underwriting operations, including underwriting syndicates at Lloyd's of London and certain government sponsored risk transfer vehicles. 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 recently, the 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 property catastrophe and casualty reinsurance lines of business. Generally, there was ample insurance and reinsurance capacity relative to demand, as well as, additional capital from the capital markets through insurance linked financial instruments. These financial instruments such as side cars, catastrophe bonds and collateralized reinsurance funds, provide capital markets with access to insurance and reinsurance risk exposure. The capital markets demand for these products is being primarily driven by the current low interest environment and the desire to achieve greater risk diversification and potentially higher returns on their investments. This increased competition is generally having a negative impact on rates, terms and conditions; however, the impact varies widely by market and coverage.

Rates tend to fluctuate by specific region and products, particularly areas recently impacted by large catastrophic events. Although there have been flooding and wind storm events and earthquakes in parts of the world, the overall 2013, 2014 and 2015 catastrophe losses for the industry were considerably lower than average. This lower level of losses, combined with increased competition has resulted in downward pressure on insurance and reinsurance rates in certain geographical areas.

During 2015, we initiated a strategic build out of our insurance platform through the investment in key leadership hires which in turn has brought significant underwriting talent and stronger direction in achieving our insurance program strategic goals of increased premium volume and improved underwriting results. Recent growth is coming from highly diversified areas including newly launched lines of business, as well as, product and geographic expansion in existing lines of business. We are building a world-class insurance platform capable of offering products across lines and geographies, complementing our leading global reinsurance franchise. As part of this initiative, we received approval from Lloyd's of London to launch a new syndicate, which will provide us access to additional international business and new product opportunities to further diversify and broaden our insurance portfolio in 2016.





Overall, we believe that given our size, strong ratings, distribution system, reputation, expertise and capital market vehicle activity the current marketplace conditions provide profit opportunities. 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<br>March 31, |                            | Percentage<br>Increase/<br>(Decrease) |                 |
|---------------------------------------------------------|---------------------------------|----------------------------|---------------------------------------|-----------------|
|                                                         | 2016                            | 2015                       |                                       |                 |
| Gross written premiums                                  | \$ 1,353.2                      | \$ 1,418.0                 | -4.6                                  | %               |
| Net written premiums                                    | 1,181.5                         | 1,224.3                    | -3.5                                  | %               |
| <b>REVENUES:</b>                                        |                                 |                            |                                       |                 |
| Premiums earned                                         | \$ 1,218.9                      | \$ 1,272.5                 | -4.2                                  | %               |
| Net investment income                                   | 102.5                           | 122.6                      | -16.4                                 | %               |
| Net realized capital gains (losses)                     | (74.3 )                         | (10.5 )                    | NM                                    |                 |
| Net derivative gain (loss)                              | (3.0 )                          | (0.2 )                     | NM                                    |                 |
| Other income (expense)                                  | (2.1 )                          | 51.3                       | -104.0                                | %               |
| Total revenues                                          | 1,242.0                         | 1,435.6                    | -13.5                                 | %               |
| <b>CLAIMS AND EXPENSES:</b>                             |                                 |                            |                                       |                 |
| Incurred losses and loss adjustment expenses            | 700.7                           | 715.2                      | -2.0                                  | %               |
| Commission, brokerage, taxes and fees                   | 275.0                           | 283.1                      | -2.9                                  | %               |
| Other underwriting expenses                             | 72.1                            | 58.7                       | 22.8                                  | %               |
| Corporate expenses                                      | 7.9                             | 5.5                        | 44.4                                  | %               |
| Interest, fees and bond issue cost amortization expense | 9.2                             | 9.0                        | 2.6                                   | %               |
| Total claims and expenses                               | 1,065.0                         | 1,071.4                    | -0.6                                  | %               |
| <b>INCOME (LOSS) BEFORE TAXES</b>                       | 177.1                           | 364.1                      | -51.4                                 | %               |
| Income tax expense (benefit)                            | 5.4                             | 41.2                       | -86.9                                 | %               |
| <b>NET INCOME (LOSS)</b>                                | <b>\$ 171.7</b>                 | <b>\$ 323.0</b>            | <b>-46.8</b>                          | <b>%</b>        |
| <b>RATIOS:</b>                                          |                                 |                            |                                       |                 |
| Loss ratio                                              | 57.5 %                          | 56.2 %                     | 1.3                                   | Point<br>Change |
| Commission and brokerage ratio                          | 22.6 %                          | 22.2 %                     | 0.4                                   |                 |
| Other underwriting expense ratio                        | 5.9 %                           | 4.7 %                      | 1.2                                   |                 |
| Combined ratio                                          | 86.0 %                          | 83.1 %                     | 2.9                                   |                 |
| <b>Balance sheet data:</b>                              |                                 |                            |                                       |                 |
| (Dollars in millions, except per share amounts)         | At<br>March 31,<br>2016         | At<br>December 31,<br>2015 | Percentage<br>Increase/<br>(Decrease) |                 |
| Total investments and cash                              | \$ 17,071.0                     | \$ 16,676.4                | 2.4                                   | %               |
| Total assets                                            | 20,855.9                        | 20,550.8                   | 1.5                                   | %               |
| Loss and loss adjustment expense reserves               | 9,986.0                         | 9,951.8                    | 0.3                                   | %               |

Edgar Filing: EVEREST RE GROUP LTD - Form 10-Q

|                      |          |          |     |   |
|----------------------|----------|----------|-----|---|
| Total debt           | 638.4    | 638.4    | 0.0 | % |
| Total liabilities    | 13,015.6 | 12,942.2 | 0.6 | % |
| Shareholders' equity | 7,840.3  | 7,608.6  | 3.0 | % |
| Book value per share | 184.91   | 178.21   | 3.8 | % |

(NM, not meaningful)

(Some amounts may not reconcile due to rounding.)

Revenues.

Premiums. Gross written premiums decreased by 4.6% to \$1,353.2 million for the three months ended March 31, 2016, compared to \$1,418.0 million for the three months ended March 31, 2015, reflecting a \$100.7 million, or 9.3%, decrease in our reinsurance business, partially offset by a \$35.9 million, or 10.6%, increase in our insurance business. The rise in insurance premiums was primarily due to increases in most lines of business, as we have focused on expanding the insurance operations. The decline in reinsurance premiums was mainly due to a decrease in treaty casualty business, a decline in international premiums related to quota share agreements and a negative impact of \$19.8 million from the year over year movement in foreign exchange rates.

Net written premiums decreased by 3.5% to \$1,181.5 million for the three months ended March 31, 2016, compared to \$1,224.3 million for the three months ended March 31, 2015. The decrease is consistent with the decrease in gross written premiums. Premiums earned decreased by 4.2% to \$1,218.9 million for the three months ended March 31, 2016, compared to \$1,272.5 million for the three months ended March 31, 2015. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

Net Investment Income. Net investment income decreased by 16.4% to \$102.5 million for the three months ended March 31, 2016, compared with investment income of \$122.6 million for the three months ended March 31, 2015. Net pre-tax investment income, as a percentage of average invested assets, was 2.5% for the three months ended March 31, 2016, compared to 3.0% for the three months ended March 31, 2015. The decline in income and yield was primarily the result of a decrease in our limited partnership income and lower reinvestment rates for the fixed income portfolios.

Net Realized Capital Gains (Losses). Net realized capital losses were \$74.3 million and \$10.5 million for the three months ended March 31, 2016 and 2015, respectively. The \$74.3 million was comprised of \$28.8 million of other-than-temporary impairments, \$25.2 million of net realized capital losses from sales on our fixed maturity and equity securities and \$20.2 million of net losses from fair value re-measurements. The net realized capital losses of \$10.5 million for the three months ended March 31, 2015 were comprised of \$26.0 million of other-than-temporary impairments and \$8.1 million of net realized capital losses from sales on our fixed maturity and equity securities, which were partially offset by \$23.6 million of net gains from fair value re-measurements.

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 a net derivative loss of \$3.0 million and \$0.2 million for the three months ended March 31, 2016 and 2015, respectively. The change in the fair value of these equity index put option contracts is indicative of the change in the equity markets and interest rates over the same periods.

Other Income (Expense). We recorded other expense of \$2.1 million and other income of \$51.3 million for the three months ended March 31, 2016 and 2015, respectively. The changes were primarily the result of fluctuations in foreign currency exchange rates for the corresponding periods.

## Claims and Expenses.

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

| (Dollars in millions) | Three Months Ended March 31, |                       | Prior   |                       | Total   | Ratio %/<br>Pt Change |
|-----------------------|------------------------------|-----------------------|---------|-----------------------|---------|-----------------------|
|                       | Current Year                 | Ratio %/<br>Pt Change | Years   | Ratio %/<br>Pt Change |         |                       |
| <u>2016</u>           |                              |                       |         |                       |         |                       |
| Attritional           | \$692.4                      | 56.8%                 | \$(1.4) | -0.1%                 | \$690.9 | 56.7%                 |
| Catastrophes          | 10.4                         | 0.9%                  | (0.6)   | -0.1%                 | 9.8     | 0.8%                  |
| Total Segment         | \$702.8                      | 57.7%                 | \$(2.0) | -0.2%                 | \$700.7 | 57.5%                 |

|               |         |       |         |       |         |       |
|---------------|---------|-------|---------|-------|---------|-------|
| <u>2015</u>   |         |       |         |       |         |       |
| Attritional   | \$715.8 | 56.3% | \$(0.7) | -0.1% | \$715.1 | 56.2% |
| Catastrophes  | -       | 0.0%  | 0.1     | 0.0%  | 0.1     | 0.0%  |
| Total Segment | \$715.8 | 56.3% | \$(0.6) | -0.1% | \$715.2 | 56.2% |

Variance 2016/2015

|               |          |     |     |         |       |     |          |     |     |
|---------------|----------|-----|-----|---------|-------|-----|----------|-----|-----|
| Attritional   | \$(23.4) | 0.5 | pts | \$(0.7) | -     | pts | \$(24.2) | 0.5 | pts |
| Catastrophes  | 10.4     | 0.9 | pts | (0.7)   | (0.1) | pts | 9.7      | 0.8 | pts |
| Total Segment | \$(13.0) | 1.4 | pts | \$(1.4) | (0.1) | pts | \$(14.5) | 1.3 | pts |

Incurred losses and LAE decreased by 2.0% to \$700.7 million for the three months ended March 31, 2016, compared to \$715.2 million for the three months ended March 31, 2015, primarily due to a decrease in current year attritional losses of \$23.4 million, mainly resulting from the impact of the decline in premiums earned, partially offset by an increase of \$10.4 million in current year catastrophe losses. The current year catastrophe losses of \$10.4 million for the three months ended March 31, 2016 related to the 2016 Taiwan Earthquake. There were no current year catastrophe losses for the three months ended March 31, 2015.

Commission, Brokerage, Taxes and Fees. Commission, brokerage, taxes and fees decreased by 2.9% to \$275.0 million for the three months ended March 31, 2016 compared to \$283.1 million for the three months ended March 31, 2015. These changes were primarily due to the impact of the decrease in premiums earned.

Other Underwriting Expenses. Other underwriting expenses were \$72.1 million and \$58.7 million for the three months ended March 31, 2016 and 2015, respectively. The increase in other underwriting expenses was mainly due to costs incurred related to the expansion of the insurance business.

Corporate Expenses. Corporate expenses, which are general operating expenses that are not allocated to segments, were \$7.9 million and \$5.5 million for the three months ended March 31, 2016 and 2015, respectively. The increase in corporate expenses was mainly due to increased compensation and benefit expenses and costs related to the start up of the Lloyd's syndicate.

Interest, Fees and Bond Issue Cost Amortization Expense. Interest, fees and other bond amortization expense was comparable at \$9.2 million and \$9.0 million for the three months ended March 31, 2016 and 2015, respectively.

Income Tax Expense (Benefit). We had income tax expenses of \$5.4 million and \$41.2 million for the three months ended March 31, 2016 and 2015, respectively. Income tax expense is primarily a function of the geographic location of the Company's pre-tax income and the statutory tax rates in those jurisdictions, as affected by tax-exempt investment income and as calculated under the annualized effective tax rate ("AETR") method. Variations in the AETR generally result from changes in the relative levels of pre-tax income, including the impact of catastrophe losses and net capital gains (losses), among jurisdictions with different tax rates. The decrease in income tax expense for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 was mainly due to higher realized capital losses in the U.S. and lower premiums earned.

#### Net Income (Loss).

Our net income was \$171.7 million and \$323.0 million for the three months ended March 31, 2016 and 2015, respectively. The changes were primarily driven by the financial component fluctuations explained above.

#### Ratios.

Our combined ratio increased by 2.9 points to 86.0% for the three months ended March 31, 2016, compared to 83.1% for the three months ended March 31, 2015. The loss ratio components increased 1.3 points for the three months ended March 31, 2016 over the same periods last year, mainly due to \$10.4 million of current year catastrophe losses in 2016. The commission and brokerage ratio components were comparable at 22.6% for the three months ended March 31, 2016 and 22.2% for the three months ended March 31, 2015. The other underwriting expense ratio components increased by 1.3 points for the three months ended March 31, 2016 over the same period last year due primarily to the increased focus on the expansion of the insurance business.

#### Shareholders' Equity.

Shareholders' equity increased by \$231.7 million to \$7,840.3 million at March 31, 2016 from \$7,608.6 million at December 31, 2015, principally as a result of \$175.3 million of unrealized appreciation on investments, net of tax, \$171.7 million of net income, \$9.8 million of net foreign currency translation adjustments, \$8.2 million of share-based compensation transactions and \$1.3 million of net benefit plan obligation adjustments, partially offset by repurchases of 0.5 million common shares for \$85.9 million and \$48.7 million of shareholder dividends.

#### Consolidated Investment Results

##### Net Investment Income.

Net investment income decreased by 16.4% to \$102.5 million for the three months ended March 31, 2016 compared to \$122.6 million for the three months ended March 31, 2015, primarily due to a decrease in limited partnership income and a decline in income from our fixed maturities, reflective of lower reinvestment rates.

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

| (Dollars in millions)                          | Three Months Ended |          |
|------------------------------------------------|--------------------|----------|
|                                                | March 31,          |          |
|                                                | 2016               | 2015     |
| Fixed maturities                               | \$ 102.5           | \$ 109.4 |
| Equity securities                              | 11.1               | 11.7     |
| Short-term investments and cash                | 0.4                | 0.2      |
| Other invested assets                          |                    |          |
| Limited partnerships                           | (6.1 )             | 7.0      |
| Other                                          | (0.9 )             | 0.6      |
| Gross investment income before adjustments     | 107.1              | 128.9    |
| Funds held interest income (expense)           | 2.5                | 2.9      |
| Future policy benefit reserve income (expense) | (0.3 )             | (0.4 )   |
| Gross investment income                        | 109.3              | 131.4    |
| Investment expenses                            | (6.8 )             | (8.8 )   |
| Net investment income                          | \$ 102.5           | \$ 122.6 |

(Some amounts may not reconcile due to rounding.)

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

|                                                      | At        | At           |
|------------------------------------------------------|-----------|--------------|
|                                                      | March 31, | December 31, |
|                                                      | 2016      | 2015         |
| Imbedded pre-tax yield of cash and invested assets   | 2.8%      | 3.0%         |
| Imbedded after-tax yield of cash and invested assets | 2.5%      | 2.6%         |

|                                                                | March 31, |      |
|----------------------------------------------------------------|-----------|------|
|                                                                | 2016      | 2015 |
| Annualized pre-tax yield on average cash and invested assets   | 2.5%      | 3.0% |
| Annualized after-tax yield on average cash and invested assets | 2.2%      | 2.4% |

## Net Realized Capital Gains (Losses).

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

| (Dollars in millions)                                 | Three Months Ended March 31, |            |            |
|-------------------------------------------------------|------------------------------|------------|------------|
|                                                       | 2016                         | 2015       | Variance   |
| <u>Gains (losses) from sales:</u>                     |                              |            |            |
| Fixed maturity securities, market value:              |                              |            |            |
| Gains                                                 | \$ 8.6                       | \$ 8.8     | \$ (0.2 )  |
| Losses                                                | (25.5 )                      | (16.8 )    | (8.7 )     |
| Total                                                 | (16.9 )                      | (8.0 )     | (8.9 )     |
| Equity securities, market value:                      |                              |            |            |
| Gains                                                 | 0.1                          | -          | 0.1        |
| Losses                                                | -                            | -          | -          |
| Total                                                 | 0.1                          | -          | 0.1        |
| Equity securities, fair value:                        |                              |            |            |
| Gains                                                 | 1.8                          | 5.2        | (3.4 )     |
| Losses                                                | (10.2 )                      | (5.3 )     | (4.9 )     |
| Total                                                 | (8.4 )                       | (0.2 )     | (8.2 )     |
| Total net realized capital gains (losses) from sales: |                              |            |            |
| Gains                                                 | 10.5                         | 14.0       | (3.5 )     |
| Losses                                                | (35.7 )                      | (22.2 )    | (13.5 )    |
| Total                                                 | (25.2 )                      | (8.1 )     | (17.1 )    |
| <u>Other-than-temporary impairments:</u>              |                              |            |            |
|                                                       | (28.8 )                      | (26.0 )    | (2.8 )     |
| <u>Gains (losses) from fair value adjustments:</u>    |                              |            |            |
| Fixed maturities, fair value                          | (0.2 )                       | 0.1        | (0.3 )     |
| Equity securities, fair value                         | (20.0 )                      | 23.6       | (43.6 )    |
| Total                                                 | (20.2 )                      | 23.6       | (43.8 )    |
| Total net realized capital gains (losses)             | \$ (74.3 )                   | \$ (10.5 ) | \$ (63.7 ) |

(Some amounts may not reconcile due to rounding.)

Net realized capital losses were \$74.3 million and \$10.5 million for the three months ended March 31, 2016 and 2015, respectively. For the three months ended March 31, 2016, we recorded \$28.8 million of other-than-temporary impairments, \$25.2 million of net realized capital losses from sales on our fixed maturity and equity securities and \$20.2 million of net losses from fair value re-measurements. The fixed maturity and equity sales for the three months ended March 31, 2016 related primarily to adjusting the portfolios for overall market changes and individual credit shifts. For the three months ended March 31, 2015, we recorded \$26.0 million of other-than-temporary impairments and \$8.1 million of net realized capital losses from sales of fixed maturity and equity securities, partially offset by \$23.6 million of net realized capital gains due to fair value re-measurements on fixed maturity and equity securities. The fixed maturity and equity sales for the three months ended March 31, 2015 related primarily to adjusting the portfolios for overall market changes and individual credit shifts along with maintaining a balanced foreign currency exposure.





Segment Results.

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 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.

For inter-affiliate reinsurance and business written through the Lloyd's Syndicate, 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.

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

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

#### U.S. Reinsurance.

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

| (Dollars in millions)            | Three Months Ended March 31, |         |            |          |           |
|----------------------------------|------------------------------|---------|------------|----------|-----------|
|                                  | 2016                         | 2015    | Variance   | % Change |           |
| Gross written premiums           | \$536.7                      | \$562.6 | \$ (25.9 ) | -4.6     | %         |
| Net written premiums             | 470.7                        | 484.4   | (13.7 )    | -2.8     | %         |
| Premiums earned                  | \$486.5                      | \$511.1 | \$ (24.6 ) | -4.8     | %         |
| Incurred losses and LAE          | 236.4                        | 244.9   | (8.4 )     | -3.4     | %         |
| Commission and brokerage         | 117.3                        | 122.8   | (5.5 )     | -4.5     | %         |
| Other underwriting expenses      | 13.5                         | 11.5    | 1.9        | 16.7     | %         |
| Underwriting gain (loss)         | \$119.3                      | \$131.9 | \$ (12.6 ) | -9.5     | %         |
|                                  |                              |         |            |          | Point Chg |
| Loss ratio                       | 48.6 %                       | 47.9 %  |            |          | 0.7       |
| Commission and brokerage ratio   | 24.1 %                       | 24.0 %  |            |          | 0.1       |
| Other underwriting expense ratio | 2.8 %                        | 2.3 %   |            |          | 0.5       |
| Combined ratio                   | 75.5 %                       | 74.2 %  |            |          | 1.3       |

(Some amounts may not reconcile due to rounding.)

**Premiums.** Gross written premiums decreased by 4.6% to \$536.7 million for the three months ended March 31, 2016 from \$562.6 million for the three months ended March 31, 2015, primarily due to a decrease in treaty casualty business. Net written premiums decreased by 2.8% to \$470.7 million for the three months ended March 31, 2016 compared to \$484.4 million for the three months ended March 31, 2015. The difference between the change in gross written premiums compared to the change in net written premiums was due to varying utilization of reinsurance. Premiums earned decreased 4.8% to \$486.5 million for the three months ended March 31, 2016, compared to \$511.1 million for the three months ended March 31, 2015. The change in premiums earned relative to net written premiums is primarily the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

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

| (Dollars in millions) | Three Months Ended March 31, |                       |             |                       |                |                       |
|-----------------------|------------------------------|-----------------------|-------------|-----------------------|----------------|-----------------------|
|                       | Current Year                 | Ratio %/<br>Pt Change | Prior Years | Ratio %/<br>Pt Change | Total Incurred | Ratio %/<br>Pt Change |
| <b>2016</b>           |                              |                       |             |                       |                |                       |
| Attritional           | \$240.8                      | 49.5%                 | \$(4.5)     | -0.9%                 | \$236.3        | 48.6%                 |
| Catastrophes          | -                            | 0.0 %                 | 0.2         | 0.0 %                 | 0.2            | 0.0 %                 |
| Total Segment         | \$240.8                      | 49.5%                 | \$(4.4)     | -0.9%                 | \$236.4        | 48.6%                 |

#### 2015

Edgar Filing: EVEREST RE GROUP LTD - Form 10-Q

|               |         |       |         |       |         |       |
|---------------|---------|-------|---------|-------|---------|-------|
| Attritional   | \$247.7 | 48.4% | \$(0.7) | -0.1% | \$247.0 | 48.3% |
| Catastrophes  | -       | 0.0%  | (2.1)   | -0.4% | (2.1 )  | -0.4% |
| Total Segment | \$247.7 | 48.4% | \$(2.8) | -0.5% | \$244.9 | 47.9% |

Variance 2016/2015

|               |          |     |     |         |       |     |           |     |     |
|---------------|----------|-----|-----|---------|-------|-----|-----------|-----|-----|
| Attritional   | \$(6.9 ) | 1.1 | pts | \$(3.8) | (0.8) | pts | \$(10.7 ) | 0.3 | pts |
| Catastrophes  | -        | -   | pts | 2.3     | 0.4   | pts | 2.3       | 0.4 | pts |
| Total Segment | \$(6.9 ) | 1.1 | pts | \$(1.5) | (0.4) | pts | \$(8.4 )  | 0.7 | pts |

39

---

Incurred losses decreased by 3.4% to \$236.4 million for the three months ended March 31, 2016 compared to \$244.9 million for the three months ended March 31, 2015, primarily due to \$6.9 million decrease in current year attritional losses resulting from the impact of the decline in premiums earned. There were no current year catastrophe losses for the three months ended March 31, 2016 and 2015.

**Segment Expenses.** Commission and brokerage expenses decreased by 4.5% to \$117.3 million for the three months ended March 31, 2016 compared to \$122.8 million for the three months ended March 31, 2015. The decrease was primarily due to the impact of the decline in premiums earned. Segment other underwriting expenses increased to \$13.5 million for the three months ended March 31, 2016 from \$11.5 million for the three months ended March 31, 2015. The increase was primarily due to the impact of changes in the mix of business and higher compensation costs.

#### International.

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

| (Dollars in millions)            | Three Months Ended March 31, |         |            |          |           |
|----------------------------------|------------------------------|---------|------------|----------|-----------|
|                                  | 2016                         | 2015    | Variance   | % Change |           |
| Gross written premiums           | \$235.6                      | \$327.0 | \$ (91.4 ) | -28.0    | %         |
| Net written premiums             | 202.5                        | 261.7   | (59.2 )    | -22.6    | %         |
| Premiums earned                  | \$250.5                      | \$305.6 | \$ (55.2 ) | -18.1    | %         |
| Incurred losses and LAE          | 147.5                        | 179.7   | (32.2 )    | -17.9    | %         |
| Commission and brokerage         | 64.3                         | 70.6    | (6.3 )     | -9.0     | %         |
| Other underwriting expenses      | 7.8                          | 8.1     | (0.3 )     | -3.6     | %         |
| Underwriting gain (loss)         | \$30.8                       | \$47.2  | \$ (16.4 ) | -34.7    | %         |
|                                  |                              |         |            |          | Point Chg |
| Loss ratio                       | 58.9 %                       | 58.8 %  |            |          | 0.1       |
| Commission and brokerage ratio   | 25.7 %                       | 23.1 %  |            |          | 2.6       |
| Other underwriting expense ratio | 3.1 %                        | 2.7 %   |            |          | 0.4       |
| Combined ratio                   | 87.7 %                       | 84.6 %  |            |          | 3.1       |

(Some amounts may not reconcile due to rounding.)

**Premiums.** Gross written premiums decreased by 28.0% to \$235.6 million for the three months ended March 31, 2016 compared to \$327.0 million for the three months ended March 31, 2015, primarily due to, reductions in premiums related to quota share agreements, declines in Latin American and Asian business and the negative impact of \$14.8 million from the movement of foreign exchange rates. Net written premiums decreased by 22.6% to \$202.5 million for the three months ended March 31, 2016 compared to \$261.7 million for the three months ended March 31, 2015. The difference between the change in gross written premiums compared to the change in net written premiums is primarily due to varying utilization of reinsurance related to the quota share contracts. Premiums earned decreased 18.1% to \$250.5 million for the three months ended March 31, 2016 compared to \$305.6 million for the three months ended March 31, 2015. The change in premiums earned relative to net written premiums is primarily the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

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

| (Dollars in millions)     | Three Months Ended March 31, |                       |             |                       |                |                       |
|---------------------------|------------------------------|-----------------------|-------------|-----------------------|----------------|-----------------------|
|                           | Current Year                 | Ratio %/<br>Pt Change | Prior Years | Ratio %/<br>Pt Change | Total Incurred | Ratio %/<br>Pt Change |
| <u>2016</u>               |                              |                       |             |                       |                |                       |
| Attritional               | \$145.1                      | 57.9%                 | \$(7.4)     | -3.0%                 | \$137.7        | 54.9%                 |
| Catastrophes              | 10.4                         | 4.2 %                 | (0.6)       | -0.2%                 | 9.8            | 4.0 %                 |
| Total Segment             | \$155.5                      | 62.1%                 | \$(8.0)     | -3.2%                 | \$147.5        | 58.9%                 |
| <u>2015</u>               |                              |                       |             |                       |                |                       |
| Attritional               | \$177.9                      | 58.2%                 | \$(0.1)     | 0.0 %                 | \$177.8        | 58.2%                 |
| Catastrophes              | -                            | 0.0 %                 | 1.8         | 0.6 %                 | 1.8            | 0.6 %                 |
| Total Segment             | \$177.9                      | 58.2%                 | \$1.8       | 0.6 %                 | \$179.7        | 58.8%                 |
| <u>Variance 2016/2015</u> |                              |                       |             |                       |                |                       |
| Attritional               | \$(32.8)                     | (0.3 ) pts            | \$(7.3)     | (3.0) pts             | \$(40.1 )      | (3.3 ) pts            |
| Catastrophes              | 10.4                         | 4.2 pts               | (2.4)       | (0.8) pts             | 8.0            | 3.4 pts               |
| Total Segment             | \$(22.4)                     | 3.9 pts               | \$(9.8)     | (3.8) pts             | \$(32.2)       | 0.1 pts               |

Incurred losses and LAE decreased by 17.9% to \$147.5 million for the three months ended March 31, 2016 compared to \$179.7 million for the three months ended March 31, 2015, primarily due to the decrease in current year attritional losses of \$32.8 million, reflecting a decline in premiums earned. The reduction in current year attritional losses was partially offset by an increase of \$10.4 million in current year catastrophe losses. The \$10.4 million of current year catastrophe losses for the three months ended March 31, 2016 were due to the 2016 Taiwan Earthquake. There were no current year catastrophe losses for the three months ended March 31, 2015.

Segment Expenses. Commission and brokerage decreased by 9.0% to \$64.3 million for the three months ended March 31, 2016 compared to \$70.6 million for the three months ended March 31, 2015. The decrease was mainly due to the impact of the decrease in premiums earned and changes in the mix of business. Segment other underwriting expenses decreased slightly to \$7.8 million for the three months ended March 31, 2016 compared to \$8.1 million for the three months ended March 31, 2015.

Bermuda.

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

| (Dollars in millions)            | Three Months Ended March 31, |         |           |          |           |
|----------------------------------|------------------------------|---------|-----------|----------|-----------|
|                                  | 2016                         | 2015    | Variance  | % Change |           |
| Gross written premiums           | \$204.7                      | \$188.1 | \$ 16.6   | 8.8      | %         |
| Net written premiums             | 184.3                        | 174.6   | 9.7       | 5.6      | %         |
| Premiums earned                  | \$194.4                      | \$195.7 | \$ (1.3 ) | -0.7     | %         |
| Incurred losses and LAE          | 111.5                        | 110.0   | 1.5       | 1.4      | %         |
| Commission and brokerage         | 49.9                         | 51.1    | (1.2 )    | -2.4     | %         |
| Other underwriting expenses      | 9.2                          | 8.8     | 0.4       | 4.4      | %         |
| Underwriting gain (loss)         | \$23.8                       | \$25.8  | \$ (2.0 ) | -7.6     | %         |
|                                  |                              |         |           |          | Point Chg |
| Loss ratio                       | 57.4 %                       | 56.2 %  |           |          | 1.2       |
| Commission and brokerage ratio   | 25.7 %                       | 26.1 %  |           |          | (0.4 )    |
| Other underwriting expense ratio | 4.7 %                        | 4.5 %   |           |          | 0.2       |
| Combined ratio                   | 87.8 %                       | 86.8 %  |           |          | 1.0       |

(Some amounts may not reconcile due to rounding.)

**Premiums.** Gross written premiums increased by 8.8% to \$204.7 million for the three months ended March 31, 2016 compared to \$188.1 million for the three months ended March 31, 2015, primarily due to increased casualty writings through the Bermuda office, partially offset by the negative impact of \$4.6 million from the movement of foreign exchange rates. Net written premiums increased by 5.6% to \$184.3 million for the three months ended March 31, 2016 compared to \$174.6 million for the three months ended March 31, 2015. The difference between the change in gross written premiums compared to the change in net written premiums was due to varying utilization of reinsurance. Premiums earned decreased 0.7% to \$194.4 million for the three months ended March 31, 2016 compared to \$195.7 million for the three months ended March 31, 2015. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

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

| (Dollars in millions) | Three Months Ended March 31, |                       |             |                       |                |                       |
|-----------------------|------------------------------|-----------------------|-------------|-----------------------|----------------|-----------------------|
|                       | Current Year                 | Ratio %/<br>Pt Change | Prior Years | Ratio %/<br>Pt Change | Total Incurred | Ratio %/<br>Pt Change |
| <b>2016</b>           |                              |                       |             |                       |                |                       |
| Attritional           | \$107.9                      | 55.5 %                | \$3.6       | 1.9 %                 | \$111.5        | 57.4 %                |
| Catastrophes          | -                            | 0.0 %                 | -           | 0.0 %                 | -              | 0.0 %                 |
| Total Segment         | \$107.9                      | 55.5 %                | \$3.6       | 1.9 %                 | \$111.5        | 57.4 %                |
| <b>2015</b>           |                              |                       |             |                       |                |                       |
| Attritional           | \$109.4                      | 55.9 %                | \$-         | 0.0 %                 | \$109.4        | 55.9 %                |
| Catastrophes          | -                            | 0.0 %                 | 0.6         | 0.3 %                 | 0.6            | 0.3 %                 |

Edgar Filing: EVEREST RE GROUP LTD - Form 10-Q

|               |         |       |       |       |         |       |
|---------------|---------|-------|-------|-------|---------|-------|
| Total Segment | \$109.4 | 55.9% | \$0.6 | 0.3 % | \$110.0 | 56.2% |
|---------------|---------|-------|-------|-------|---------|-------|

Variance 2016/2015

|               |          |        |     |       |       |     |        |        |     |
|---------------|----------|--------|-----|-------|-------|-----|--------|--------|-----|
| Attritional   | \$(1.5 ) | (0.4 ) | pts | \$3.6 | 1.9   | pts | \$2.1  | 1.5    | pts |
| Catastrophes  | -        | -      | pts | (0.6) | (0.3) | pts | (0.6 ) | (0.3 ) | pts |
| Total Segment | \$(1.5 ) | (0.4 ) | pts | \$3.0 | 1.6   | pts | \$1.5  | 1.2    | pts |



Incurred losses and LAE increased by 1.4% to \$111.5 million for the three months ended March 31, 2016 compared to \$110.0 million for the three months ended March 31, 2015, primarily due to an increase of \$3.6 million in prior years attritional losses, partially offset by a decrease in current year attritional losses of \$1.5 million, primarily due to the impact of the decline in premiums earned. There were no current year catastrophe losses for the three months ended March 31, 2016 and 2015.

Segment Expenses. Commission and brokerage decreased by 2.4% to \$49.9 million for the three months ended March 31, 2016 compared to \$51.1 million for the three months ended March 31, 2015, mainly due to changes in the mix of business. Segment other underwriting expenses increased slightly to \$9.2 million for the three months ended March 31, 2016 compared to \$8.8 million for the three months ended March 31, 2015.

#### Insurance.

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

| (Dollars in millions)            | Three Months Ended March 31, |         |           |           |   |
|----------------------------------|------------------------------|---------|-----------|-----------|---|
|                                  | 2016                         | 2015    | Variance  | % Change  |   |
| Gross written premiums           | \$376.2                      | \$340.3 | \$ 35.9   | 10.5      | % |
| Net written premiums             | 324.0                        | 303.6   | 20.4      | 6.7       | % |
| Premiums earned                  | \$287.4                      | \$260.1 | \$ 27.3   | 10.5      | % |
| Incurred losses and LAE          | 205.2                        | 180.6   | 24.6      | 13.6      | % |
| Commission and brokerage         | 43.5                         | 38.6    | 4.9       | 12.8      | % |
| Other underwriting expenses      | 41.6                         | 30.3    | 11.3      | 37.4      | % |
| Underwriting gain (loss)         | \$(2.9 )                     | \$10.7  | \$(13.6 ) | -127.4    | % |
|                                  |                              |         |           | Point Chg |   |
| Loss ratio                       | 71.4 %                       | 69.4 %  |           | 2.0       |   |
| Commission and brokerage ratio   | 15.1 %                       | 14.8 %  |           | 0.3       |   |
| Other underwriting expense ratio | 14.5 %                       | 11.7 %  |           | 2.8       |   |
| Combined ratio                   | 101.0%                       | 95.9 %  |           | 5.1       |   |

(Some amounts may not reconcile due to rounding.)

Premiums. Gross written premiums increased by 10.5% to \$376.2 million for the three months ended March 31, 2016 compared to \$340.3 million for the three months ended March 31, 2015. This increase was primarily driven by an increase in accident and health business, premium from the start-up of the Lloyd's syndicate and additional expansion of other insurance lines of business. Net written premiums increased by 6.7% to \$324.0 million for the three months ended March 31, 2016 compared to \$303.6 million for the three months ended March 31, 2015, which is consistent with the change in gross written premiums. Premiums earned increased 10.5% to \$287.4 million for the three months ended March 31, 2016 compared to \$260.1 million for the three months ended March 31, 2015. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

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

| (Dollars in millions)     | Three Months Ended March 31, |                       |             |                       |                |                       |
|---------------------------|------------------------------|-----------------------|-------------|-----------------------|----------------|-----------------------|
|                           | Current Year                 | Ratio %/<br>Pt Change | Prior Years | Ratio %/<br>Pt Change | Total Incurred | Ratio %/<br>Pt Change |
| <u>2016</u>               |                              |                       |             |                       |                |                       |
| Attritional               | \$198.5                      | 69.1%                 | \$6.9       | 2.4 %                 | \$205.4        | 71.5%                 |
| Catastrophes              | -                            | 0.0 %                 | (0.2)       | -0.1 %                | (0.2 )         | -0.1 %                |
| Total Segment             | \$198.5                      | 69.1%                 | \$6.7       | 2.3 %                 | \$205.2        | 71.4%                 |
| <u>2015</u>               |                              |                       |             |                       |                |                       |
| Attritional               | \$180.8                      | 69.5%                 | \$-         | 0.0 %                 | \$180.8        | 69.5%                 |
| Catastrophes              | -                            | 0.0 %                 | (0.2)       | -0.1 %                | (0.2 )         | -0.1 %                |
| Total Segment             | \$180.8                      | 69.5%                 | \$(0.2)     | -0.1 %                | \$180.6        | 69.4%                 |
| <u>Variance 2016/2015</u> |                              |                       |             |                       |                |                       |
| Attritional               | \$17.7                       | (0.4 ) pts            | \$6.9       | 2.4 pts               | \$24.6         | 2.0 pts               |
| Catastrophes              | -                            | - pts                 | -           | - pts                 | -              | - pts                 |
| Total Segment             | \$17.7                       | (0.4 ) pts            | \$6.9       | 2.4 pts               | \$24.6         | 2.0 pts               |

Incurred losses and LAE increased by 13.6% to \$205.2 million for the three months ended March 31, 2016 compared to \$180.6 million for the three months ended March 31, 2015, mainly due to an increase of \$17.7 million in current year attritional losses related to the impact of the increase in premiums earned and an increase of \$6.9 million in prior years' attritional losses related to predominantly crop hail business. There were no current year catastrophe losses for the three months ended March 31, 2016 and 2015.

Segment Expenses. Commission and brokerage increased by 12.8% to \$43.5 million for the three months ended March 31, 2016 compared to \$38.6 million for the three months ended March 31, 2015. The increase was primarily driven by the impact of the increase in premiums earned and the change in the mix of business. Segment other underwriting expenses increased to \$41.6 million for the three months ended March 31, 2016 compared to \$30.3 million for the three months ended March 31, 2015. The increase was primarily due to the impact of the increase in premiums earned and increased expenses due to the build out of our insurance platform.

## FINANCIAL CONDITION

Cash and Invested Assets. Aggregate invested assets, including cash and short-term investments, were \$17,071.0 million at March 31, 2016, an increase of \$394.6 million compared to \$16,676.4 million at December 31, 2015. This increase was primarily the result of \$367.1 million of cash flows from operations, \$204.9 million of pre-tax unrealized appreciation, \$30.4 million of unsettled securities and \$14.6 million due to fluctuations in foreign currencies, partially offset by \$85.9 million paid for share repurchases, \$48.7 million paid out in dividends to shareholders, \$28.8 million of other-than-temporary impairments, \$12.4 million in fair value re-measurements, \$12.4 million of amortization bond premium and \$6.2 million in equity adjustments of our limited partnership investments.

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

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

Over the past several years, we have expanded the allocation of our investments funded by shareholders' equity to include: 1) a greater percentage of publicly traded equity securities, 2) emerging market fixed maturities through mutual fund structures, as well as individual holdings, 3) high yield fixed maturities, 4) bank loan securities and 5) private equity limited partnership investments. The objective of this portfolio diversification is to enhance the risk-adjusted total return of the investment portfolio by allocating a prudent portion of the portfolio to higher return asset classes, which are also less subject to changes in value with movements in interest rates. We limit our allocation to these asset classes because of 1) the potential for volatility in their values and 2) the impact of these investments on regulatory and rating agency capital adequacy models. We use investment managers experienced in these markets and adjust our allocation to these investments based upon market conditions. At March 31, 2016, the market value of investments in these investment market sectors, carried at both market and fair value, approximated 52% of shareholders' equity.

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

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

| (Dollars in millions)           | At March 31, 2016 |         | At December 31, 2015 |         |
|---------------------------------|-------------------|---------|----------------------|---------|
| Fixed maturities, market value  | \$13,761.7        | 80.6 %  | \$13,357.3           | 80.1 %  |
| Fixed maturities, fair value    | 1.9               | 0.0 %   | 2.1                  | 0.0 %   |
| Equity securities, market value | 114.4             | 0.7 %   | 108.9                | 0.7 %   |
| Equity securities, fair value   | 1,313.4           | 7.7 %   | 1,337.7              | 8.0 %   |
| Short-term investments          | 441.5             | 2.6 %   | 799.7                | 4.8 %   |
| Other invested assets           | 1,109.2           | 6.5 %   | 787.0                | 4.7 %   |
| Cash                            | 328.9             | 1.9 %   | 283.7                | 1.7 %   |
| Total investments and cash      | \$17,071.0        | 100.0 % | \$16,676.4           | 100.0 % |

(Some amounts may not reconcile due to rounding.)

|                                         | At<br>March 31, 2016 | At<br>December 31, 2015 |
|-----------------------------------------|----------------------|-------------------------|
| Fixed income portfolio duration (years) | 3.1                  | 3.2                     |
| Fixed income composite credit quality   | Aa3                  | Aa3                     |
| Imbedded end of period yield, pre-tax   | 2.8%                 | 3.0%                    |
| Imbedded end of period yield, after-tax | 2.5%                 | 2.6%                    |

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

|                                             | Three<br>Months<br>Ended<br>March<br>31,<br>2016 | Twelve<br>Months<br>Ended<br>December<br>31, 2015 |
|---------------------------------------------|--------------------------------------------------|---------------------------------------------------|
| Fixed income portfolio total return         | 1.9%                                             | 1.1%                                              |
| Barclay's Capital - U.S. aggregate index    | 3.0%                                             | 0.6%                                              |
| Common equity portfolio total return        | -0.8%                                            | -0.9%                                             |
| S&P 500 index                               | 1.4%                                             | 1.4%                                              |
| Other invested asset portfolio total return | -0.9%                                            | 4.1%                                              |

The pre-tax equivalent total return for the bond portfolio was approximately 1.9% and 1.4%, respectively, at March 31, 2016 and December 31, 2015. The pre-tax equivalent return adjusts the yield on tax-exempt bonds to the fully taxable equivalent.

Our fixed income and equity portfolios have different compositions than the benchmark indexes. Our fixed income portfolios have a shorter duration because we align our investment portfolio with our liabilities. We also hold foreign

securities to match our foreign liabilities while the index is comprised of only U.S. securities. Our equity portfolios reflect an emphasis on dividend yield and growth equities, while the index is comprised of the largest 500 equities by market capitalization.

Reinsurance Receivables.

Reinsurance receivables for both paid and recoverable on unpaid losses totaled \$920.0 million at March 31, 2016 and \$894.0 million at December 31, 2015. At March 31, 2016, \$183.8 million, or 20.0%, was receivable from Resolution Group Reinsurance (Barbados) Limited ("Resolution Group"); \$96.7 million, or 10.5%, was receivable from Zurich Vericherungs Gesellschaft ("Zurich"); \$103.9 million, or 11.3%, was receivable from C.V. Starr (Bermuda) ("C.V. Starr"); and \$49.1 million, or 5.3%, was receivable from Axis Reinsurance Company ("Axis"). The receivables from Resolution Group and C.V. Starr are fully collateralized by individual trust agreements. No other retrocessionaire accounted for more than 5% of our receivables.

46

---

Loss and LAE Reserves. Gross loss and LAE reserves totaled \$9,986.0 million at March 31, 2016 and \$9,951.8 million at December 31, 2015.

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

| (Dollars in millions) | At March 31, 2016 |               |                |            |
|-----------------------|-------------------|---------------|----------------|------------|
|                       | Case Reserves     | IBNR Reserves | Total Reserves | % of Total |
| U.S. Reinsurance      | \$1,273.9         | \$1,982.3     | \$3,256.2      | 32.6 %     |
| International         | 771.3             | 1,083.5       | 1,854.8        | 18.6 %     |
| Bermuda               | 811.4             | 1,184.5       | 1,995.9        | 20.0 %     |
| Insurance             | 963.5             | 1,487.6       | 2,451.1        | 24.5 %     |
| Total excluding A&E   | 3,820.1           | 5,737.9       | 9,558.0        | 95.7 %     |
| A&E                   | 229.6             | 198.4         | 428.0          | 4.3 %      |
| Total including A&E   | \$4,049.6         | \$5,936.3     | \$9,986.0      | 100.0 %    |

(Some amounts may not reconcile due to rounding.)

| (Dollars in millions) | At December 31, 2015 |               |                |            |
|-----------------------|----------------------|---------------|----------------|------------|
|                       | Case Reserves        | IBNR Reserves | Total Reserves | % of Total |
| U.S. Reinsurance      | \$1,295.3            | \$1,912.9     | \$3,208.2      | 32.2 %     |
| International         | 768.9                | 1,045.0       | 1,813.9        | 18.2 %     |
| Bermuda               | 843.8                | 1,174.2       | 2,018.0        | 20.3 %     |
| Insurance             | 998.4                | 1,480.3       | 2,478.7        | 24.9 %     |
| Total excluding A&E   | 3,906.3              | 5,612.3       | 9,518.7        | 95.7 %     |
| A&E                   | 234.4                | 198.8         | 433.1          | 4.3 %      |
| Total including A&E   | \$4,140.7            | \$5,811.1     | \$9,951.8      | 100.0 %    |

(Some amounts may not reconcile due to rounding.)

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

Our loss and LAE reserves represent management's best estimate of our ultimate liability for unpaid claims. We continuously re-evaluate our reserves, including re-estimates of prior period reserves, taking into consideration all available information and, in particular, newly reported loss and claim experience. Changes in reserves resulting from such re-evaluations are reflected in incurred losses in the period when the re-evaluation is made. Our analytical methods and processes operate at multiple levels including individual contracts, groupings of like contracts, classes and lines of business, internal business units, segments, legal entities, and in the aggregate. In order to set appropriate reserves, we make qualitative and quantitative analyses and judgments at these various levels. Additionally, the attribution of reserves, changes in reserves and incurred losses among accident years requires qualitative and quantitative adjustments and allocations at these various levels. We utilize actuarial science, business expertise and management judgment in a manner intended to ensure the accuracy and consistency of our reserving practices. Nevertheless, our reserves are estimates, which are subject to variation, which may be significant.

There can be no assurance that reserves for, and losses from, claim obligations will not increase in the future, possibly by a material amount. However, we believe that our existing reserves and reserving methodologies lessen the probability that any such increase would have a material adverse effect on our financial condition, results of operations or cash flows. In this context, we note that over the past 10 years, as presented in our previous 10-K filing, our calendar year operations have been affected by effects from prior period reserve re-estimates, ranging from a favorable \$68.6 million in 2015, representing 0.7% of the net prior period reserves for the year in which the adjustment was made, to an unfavorable \$206.5 million in 2007, representing 2.6% of the net prior period reserves for the year in which the adjustment was made.

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

|                        | At<br>March 31,<br>2016 | At<br>December 31,<br>2015 |
|------------------------|-------------------------|----------------------------|
| (Dollars in millions)  |                         |                            |
| Gross reserves         | \$ 428.0                | \$ 433.1                   |
| Reinsurance receivable | (113.3 )                | (113.5 )                   |
| Net reserves           | \$ 314.7                | \$ 319.6                   |

(Some amounts may not reconcile due to rounding.)

With respect to asbestos only, at March 31, 2016, we had net asbestos loss reserves of \$299.6 million, or 95.2%, of total net A&E reserves, all of which was for assumed business.

On July 13, 2015, we sold Mt. McKinley to Clearwater Insurance Company. Concurrently with the closing, we entered into a retrocession treaty with an affiliate of Clearwater. Per the retrocession treaty, we retroceded 100% of the liabilities associated with certain Mt. McKinley policies, which had been reinsured by Bermuda Re. As consideration for entering into the retrocession treaty, Bermuda Re transferred cash of \$140.3 million, an amount equal to the net loss reserves as of the closing date. Of the \$140.3 million of net loss reserves retroceded, \$100.5 million were related to A&E business. The maximum liability retroceded under the retrocession treaty will be \$440.3 million, equal to the retrocession payment plus \$300.0 million. We will retain liability for any amounts exceeding the maximum liability retroceded under the retrocession treaty.

Ultimate loss projections for A&E liabilities cannot be accomplished using standard actuarial techniques. We believe that our A&E reserves represent management's best estimate of the ultimate liability; however, there can be no assurance that ultimate loss payments will not exceed such reserves, perhaps by a significant amount.

Industry analysts use the "survival ratio" to compare the A&E reserves among companies with such liabilities. The survival ratio is typically calculated by dividing a company's current net reserves by the three year average of annual paid losses. Hence, the survival ratio equals the number of years that it would take to exhaust the current reserves if future loss payments were to continue at historical levels. Using this measurement, our net three year asbestos survival ratio was 5.9 years at March 31, 2016. These metrics can be skewed by individual large settlements occurring in the prior three years and therefore, may not be indicative of the timing of future payments.

Shareholders' Equity. Our shareholders' equity increased to \$7,840.3 million as of March 31, 2016 from \$7,608.6 million as of December 31, 2015. This increase was the result of \$175.3 million of unrealized appreciation on investments, \$171.7 million of net income, \$9.8 million of net foreign currency translation adjustments, \$8.2 million of share-based compensation transactions and \$1.3 million of net benefit plan obligation adjustments, partially offset by repurchases of 0.5 million common shares for \$85.9 million and \$48.7 million of shareholder dividends.

## LIQUIDITY AND CAPITAL RESOURCES

Capital. Shareholders' equity at March 31, 2016 and December 31, 2015 was \$7,840.3 million and \$7,608.6, respectively. Management's objective in managing capital is to ensure its overall capital level, as well as the capital levels of its operating subsidiaries, exceed the amounts required by regulators, the amount needed to support our current financial strength ratings from rating agencies and our own economic capital models. The Company's capital



has historically exceeded these benchmark levels.

Our two main operating companies Bermuda Re and Everest Re are regulated by the Bermuda Monetary Authority ("BMA") and the State of Delaware, Department of Insurance, respectively. Both regulatory bodies have their own capital adequacy models based on statutory capital as opposed to GAAP basis equity. Failure to meet the required statutory capital levels could result in various regulatory restrictions, including business activity and the payment of dividends to their parent companies.

48

---

The regulatory targeted capital and the actual statutory capital for Bermuda Re and Everest Re were as follows:

| (Dollars in millions)       | Bermuda Re <sup>(1)</sup> |           | Everest Re <sup>(2)</sup> |           |
|-----------------------------|---------------------------|-----------|---------------------------|-----------|
|                             | At December 31,           |           | At December 31,           |           |
|                             | 2015                      | 2014      | 2015                      | 2014      |
| Regulatory targeted capital | \$2,079.0                 | \$2,050.0 | \$1,355.7                 | \$1,209.6 |
| Actual capital              | \$2,628.3                 | \$2,748.0 | \$3,210.9                 | \$2,893.0 |

(1) Regulatory targeted capital represents the target capital level from the applicable year's BSCR calculation.

(2) Regulatory targeted capital represents 200% of the RBC authorized control level calculation for the applicable year.

Our financial strength ratings as determined by A.M. Best, Standard & Poor's and Moody's are important as they provide our customers and investors with an independent assessment of our financial strength using a rating scale that provides for relative comparisons. We continue to possess significant financial flexibility and access to debt and equity markets as a result of our financial strength, as evidenced by the financial strength ratings as assigned by independent rating agencies.

We maintain our own economic capital models to monitor and project our overall capital, as well as, the capital at our operating subsidiaries. A key input to the economic models is projected income and this input is continually compared to actual results, which may require a change in the capital strategy. For example, if catastrophe losses are higher than expected, we may scale back our share buybacks to offset the impact on capital from the reduced income.

During 2015 and the first quarter of 2016, we repurchased 2.7 million shares for \$486.0 million in the open market and paid \$223.8 million in dividends to adjust our capital position and enhance long term expected returns to our shareholders. We may at times enter into a Rule 10b5-1 repurchase plan agreement to facilitate the repurchase of shares. On November 19, 2014, our existing Board authorization to purchase up to 25 million of our shares was amended to authorize the purchase of up to 30 million shares. As of March 31, 2016, we had repurchased 26.4 million shares under this authorization.

**Liquidity.** Our liquidity requirements are generally met from positive cash flow from operations. Positive cash flow results from reinsurance and insurance premiums being collected prior to disbursements for claims, which disbursements generally take place over an extended period after the collection of premiums, sometimes a period of many years. Collected premiums are generally invested, prior to their use in such disbursements, and investment income provides additional funding for loss payments. Our net cash flows from operating activities were \$367.1 million and \$350.6 million for the three months ended March 31, 2016 and 2015, respectively. Additionally, these cash flows reflected net tax payments of \$5.0 million and \$24.3 million for the three months ended March 31, 2016 and 2015, respectively, and net catastrophe loss payments of \$26.3 million and \$40.1 million for the three months ended March 31, 2016 and 2015, respectively.

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

As the timing of payments for claims and benefits cannot be predicted with certainty, we maintain portfolios of long term invested assets with varying maturities, along with short-term investments that provide additional liquidity for payment of claims. At March 31, 2016 and December 31, 2015, we held cash and short-term investments of \$770.5

million and \$1,083.3 million, respectively. All of our short-term investments are readily marketable and can be converted to cash. Starting in the first quarter of 2016, we implemented a new liquidity sweep facility with investments in short maturity, investment grade, U.S. dollar denominated fixed income securities. The facility is structured as a limited liability corporation so it is classified on our balance sheet as part of other invested assets. This facility had \$290.8 million of available liquidity at March 31, 2016. In addition to these cash and short-term investments, at March 31, 2016, we had \$932.6 million of available for sale fixed maturity securities maturing within one year or less, \$6,515.6

49

---

million maturing within one to five years and \$3,050.6 million maturing after five years. Our \$1,427.8 million of equity securities are comprised primarily of publicly traded securities that can be easily liquidated. We believe that these fixed maturity and equity securities, in conjunction with the short-term investments and positive cash flow from operations, provide ample sources of liquidity for the expected payment of losses in the near future. We do not anticipate selling securities or using available credit facilities to pay losses and LAE but have the ability to do so. Sales of securities might result in realized capital gains or losses. At March 31, 2016 we had \$272.6 million of net pre-tax unrealized appreciation, comprised of \$447.0 million of pre-tax unrealized appreciation and \$174.4 million of pre-tax unrealized depreciation.

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

In addition to our cash flows from operations and liquid investments, we also have multiple credit facilities that provide up to \$200.0 million of unsecured revolving credit for liquidity but more importantly provide for up to \$600.0 million and £175.0 million of collateralized standby letters of credit to support business written by our Bermuda operating subsidiaries.

Effective June 22, 2012, Group, Bermuda Re and Everest International entered into a four year, \$800.0 million senior credit facility with a syndicate of lenders, which amended and restated in its entirety the July 27, 2007, five year, \$850.0 million senior credit facility. Both the June 22, 2012 and July 27, 2007 senior credit facilities, which have similar terms, are referred to as the "Group Credit Facility". Wells Fargo Corporation ("Wells Fargo Bank") is the administrative agent for the Group Credit Facility, which consists of two tranches. Tranche one provides up to \$200.0 million of unsecured revolving credit for liquidity and general corporate purposes, and for the issuance of unsecured standby letters of credit. The interest on the revolving loans shall, at the Company's option, be either (1) the Base Rate (as defined below) or (2) an adjusted London Interbank Offered Rate ("LIBOR") plus a margin. The Base Rate is the higher of (a) the prime commercial lending rate established by Wells Fargo Bank, (b) the Federal Funds Rate plus 0.5% per annum or (c) the one month LIBOR Rate plus 1.0% per annum. The amount of margin and the fees payable for the Group Credit Facility depends on Group's senior unsecured debt rating. Tranche two exclusively provides up to \$600.0 million for the issuance of standby letters of credit on a collateralized basis.

The Group Credit Facility requires Group to maintain a debt to capital ratio of not greater than 0.35 to 1 and to maintain a minimum net worth. Minimum net worth is an amount equal to the sum of \$4,250.0 million plus 25% of consolidated net income for each of Group's fiscal quarters, for which statements are available ending on or after January 1, 2012 and for which consolidated net income is positive, plus 25% of any increase in consolidated net worth during such period attributable to the issuance of ordinary and preferred shares, which at March 31, 2016, was \$5,413.9 million. As of March 31, 2016, the Company was in compliance with all Group Credit Facility covenants.

At March 31, 2016 and December 31, 2015, the Company had no outstanding short-term borrowings from the Group Credit Facility revolving credit line. The highest amount outstanding during the first three months of 2016 was \$175.0 million for the period of February 8, 2016 to March 8, 2016. At March 31, 2016, the Group Credit Facility had no outstanding letters of credit under tranche one and \$455.0 million outstanding letters of credit under tranche two. At December 31, 2015, the Group Credit Facility had no outstanding letters of credit under tranche one and \$449.7 million outstanding letters of credit under tranche two.

The Company is in the process of renewing this credit facility and anticipates that the renewal terms will be similar to the expiring terms.



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 \$5,215.8 million (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 March 31, 2016, was \$5,513.9 million. As of March 31, 2016, the Company was in compliance with all Everest International Credit Facility requirements.

At March 31, 2016 and December 31, 2015, Everest International Credit Facility had £165.0 million outstanding letters of credit.

Costs incurred in connection with the Group Credit Facility and Everest International Credit Facility were \$0.4 million and \$0.1 million for the three months ended March 31, 2016 and March 31, 2015, respectively.

#### Market Sensitive Instruments.

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

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

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

**Interest Rate Risk.** Our \$17.1 billion investment portfolio, at March 31, 2016, is principally comprised of fixed maturity securities, which are generally subject to interest rate risk and some foreign currency exchange rate risk, and some equity securities, which are subject to price fluctuations and some foreign exchange rate risk. The overall economic impact of the foreign exchange risks on the investment portfolio is partially mitigated by changes in the dollar value of foreign currency denominated liabilities and their associated income statement impact.

Interest rate risk is the potential change in value of the fixed maturity securities portfolio, including short-term investments, from a change in market interest rates. In a declining interest rate environment, it includes prepayment risk on the \$2,747.1 million of mortgage-backed securities in the \$13,763.5 million fixed maturity portfolio. Prepayment risk results from potential accelerated principal payments that shorten the average life and thus the expected yield of the security.



The table below displays the potential impact of market value fluctuations and after-tax unrealized appreciation on our fixed maturity portfolio (including \$441.5 million of short-term investments) for the period indicated based on upward and downward parallel and immediate 100 and 200 basis point shifts in interest rates. For legal entities with a U.S. dollar functional currency, this modeling was performed on each security individually. To generate appropriate price estimates on mortgage-backed securities, changes in prepayment expectations under different interest rate environments were taken into account. For legal entities with a non-U.S. dollar functional currency, the effective duration of the involved portfolio of securities was used as a proxy for the market value change under the various interest rate change scenarios.

|                                        | Impact of Interest Rate Shift in Basis Points |             |             |             |             |
|----------------------------------------|-----------------------------------------------|-------------|-------------|-------------|-------------|
|                                        | At March 31, 2016                             |             |             |             |             |
| (Dollars in millions)                  | -200                                          | -100        | 0           | 100         | 200         |
| Total Market/Fair Value                | \$ 14,995.3                                   | \$ 14,603.3 | \$ 14,205.1 | \$ 13,772.6 | \$ 13,325.5 |
| Market/Fair Value Change from Base (%) | 5.6                                           | % 2.8       | % 0.0       | % -3.0      | % -6.2      |
| Change in Unrealized Appreciation      |                                               |             |             |             |             |
| After-tax from Base (\$)               | \$669.4                                       | \$337.4     | \$-         | \$(367.4 )  | \$(747.3 )  |

We had \$9,986.0 million and \$9,951.8 million of gross reserves for losses and LAE as of March 31, 2016 and December 31, 2015, respectively. These amounts are recorded at their nominal value, as opposed to present value, which would reflect a discount adjustment to reflect the time value of money. Since losses are paid out over a period of time, the present value of the reserves is less than the nominal value. As interest rates rise, the present value of the reserves decreases and, conversely, as interest rates decline, the present value increases. These movements are the opposite of the interest rate impacts on the fair value of investments. While the difference between present value and nominal value is not reflected in our financial statements, our financial results will include investment income over time from the investment portfolio until the claims are paid. Our loss and loss reserve obligations have an expected duration of approximately 4.2 years, which is reasonably consistent with our fixed income portfolio. If we were to discount our loss and LAE reserves, net of ceded reserves, the discount would be approximately \$1.1 billion resulting in a discounted reserve balance of approximately \$7.9 billion, representing approximately 55.9% of the value of the fixed maturity investment portfolio funds.

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

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

|                                           | Impact of Percentage Change in Equity Fair/Market Values |            |            |            |            |
|-------------------------------------------|----------------------------------------------------------|------------|------------|------------|------------|
|                                           | At March 31, 2016                                        |            |            |            |            |
| (Dollars in millions)                     | -20%                                                     | -10%       | 0%         | 10%        | 20%        |
| Fair/Market Value of the Equity Portfolio | \$ 1,142.2                                               | \$ 1,285.0 | \$ 1,427.8 | \$ 1,570.6 | \$ 1,713.4 |
| After-tax Change in Fair/Market Value     | \$(193.0 )                                               | \$(96.5 )  | \$-        | \$96.5     | \$193.0    |



Foreign Currency Risk. Foreign currency risk is the potential change in value, income and cash flow arising from adverse changes in foreign currency exchange rates. Each of our non-U.S./Bermuda ("foreign") operations maintains capital in the currency of the country of its geographic location consistent with local regulatory guidelines. Each foreign operation may conduct business in its local currency, as well as the currency of other countries in which it operates. The primary foreign currency exposures for these foreign operations are the Canadian Dollar, the Singapore Dollar, the British Pound Sterling and the Euro. We mitigate foreign exchange exposure by generally matching the currency and duration of our assets to our corresponding operating liabilities. In accordance with FASB guidance, we translate the assets, liabilities and income of non-U.S. dollar functional currency legal entities to the U.S. dollar. This translation amount is

52

---

reported as a component of other comprehensive income. As of March 31, 2016, there has been no material change in exposure to foreign exchange rates as compared to December 31, 2015.

Safe Harbor Disclosure.

This report contains forward-looking statements within the meaning of the U.S. federal securities laws. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the federal securities laws. In some cases, these statements can be identified by the use of forward-looking words such as "may", "will", "should", "could", "anticipate", "estimate", "expect", "plan", "believe", "predict", "potential" and "intend". Forward-looking statements contained in this report include information regarding our reserves for losses and LAE, the adequacy of capital in relation to regulatory required capital, the adequacy of our provision for uncollectible balances, estimates of our catastrophe exposure, the effects of catastrophic events on our financial statements, the ability of Everest Re, Holdings, Holdings Ireland and Bermuda Re to pay dividends and the settlement costs of our specialized equity index put option contracts. Forward-looking statements only reflect our expectations and are not guarantees of performance. These statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from our expectations. Important factors that could cause our actual events or results to be materially different from our expectations include those discussed under the caption ITEM 1A, "Risk Factors". We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Instruments. See "Liquidity and Capital Resources - Market Sensitive Instruments" in PART I – ITEM 2.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, our management carried out an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission's rules and forms. Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.

## PART II

## ITEM 1. LEGAL PROCEEDINGS

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.

## ITEM 1A. RISK FACTORS

No material changes.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities.

Issuer Purchases of Equity Securities

|                       | (a)                                         | (b)                                    | (c)                                                                                         | (d)                                                                                                                         |
|-----------------------|---------------------------------------------|----------------------------------------|---------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| Period                | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1) |
| January 1 - 31, 2016  | 0                                           | \$ -                                   | 0                                                                                           | 4,081,701                                                                                                                   |
| February 1 - 29, 2016 | 493,367                                     | \$ 185.1719                            | 450,199                                                                                     | 3,631,502                                                                                                                   |
| March 1 - 31, 2016    | 14,161                                      | \$ 185.9969                            | 14,161                                                                                      | 3,617,341                                                                                                                   |
| Total                 | 507,528                                     | \$ -                                   | 464,360                                                                                     | 3,617,341                                                                                                                   |

(1) On September 21, 2004, the Company's board of directors approved an amended share repurchase program authorizing the Company and/or its subsidiary Holdings to purchase up to an aggregate of 5,000,000 of the Company's common shares through open market transactions, privately negotiated transactions or both. On July 21, 2008; February 24, 2010; February 22, 2012; May 15, 2013; and November 19, 2014, the Company's executive committee of the Board of Directors has approved subsequent amendments to the share repurchase program authorizing the Company and/or its subsidiary Holdings, to purchase up to a current aggregate of 30,000,000 of the Company's shares (recognizing that the number of shares authorized for repurchase has been reduced by those shares that have already been purchased) in open market transactions, privately negotiated transactions or both. Through May 2, 2016, the

Company purchased an additional 258,480 shares for \$47.8 million under the share repurchase program.

ITEM 3.           DEFAULTS UPON SENIOR SECURITIES

None.

54

---

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Index:

| <u>Exhibit No.</u> | <u>Description</u>                                              |
|--------------------|-----------------------------------------------------------------|
| 31.1               | Section 302 Certification of Dominic J. Addesso                 |
| 31.2               | Section 302 Certification of Craig Howie                        |
| 32.1               | Section 906 Certification of Dominic J. Addesso and Craig Howie |
| 101.INS            | XBRL Instance Document                                          |
| 101.SCH            | XBRL Taxonomy Extension Schema                                  |
| 101.CAL            | XBRL Taxonomy Extension Calculation Linkbase                    |
| 101.DEF            | XBRL Taxonomy Extension Definition Linkbase                     |
| 101.LAB            | XBRL Taxonomy Extension Labels Linkbase                         |
| 101.PRE            | XBRL Taxonomy Extension Presentation Linkbase                   |

Everest Re Group, Ltd.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Everest Re Group,  
Ltd.  
(Registrant)

/S/ CRAIG HOWIE  
Craig Howie  
Executive Vice  
President and  
Chief Financial  
Officer

(Duly Authorized  
Officer and Principal  
Financial Officer)

Dated: May 10, 2016