

EVEREST REINSURANCE HOLDINGS INC
Form 10-Q
May 15, 2015
UNITED STATES

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

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

FOR THE QUARTERLY PERIOD
ENDED:
March 31, 2015

Commission file number:
1-14527

EVEREST REINSURANCE HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-3263609
(I.R.S. Employer
Identification No.)

477 Martinsville Road
Post Office Box 830
Liberty Corner, New Jersey 07938-0830
(908) 604-3000

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

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

YES X NO

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

YES X NO

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

Large accelerated filer		Accelerated filer
	X	
Non-accelerated filer		Smaller reporting

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company

(Do not check if smaller
reporting company)

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

YES NO X

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

Class	Number of Shares Outstanding At May 1, 2015
Common Shares, \$0.01 par value	1,000

The Registrant meets the conditions set forth in General Instruction H (1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format permitted by General Instruction H of Form 10-Q.

EVEREST REINSURANCE HOLDINGS, INC.

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EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value per share)	March 31, 2015 (unaudited)	December 31, 2014
ASSETS:		
Fixed maturities - available for sale, at market value (amortized cost: 2015, \$5,108,085; 2014, \$5,235,523)	\$ 5,226,919	\$ 5,293,411
Fixed maturities - available for sale, at fair value	363	1,509
Equity securities - available for sale, at market value (cost: 2015, \$15; 2014, \$15)	16	16
Equity securities - available for sale, at fair value	1,350,070	1,299,037
Short-term investments	559,947	564,364
Other invested assets (cost: 2015, \$440,616; 2014, \$435,010)	440,616	435,010
Other invested assets, at fair value	1,691,275	1,655,311
Cash	267,487	323,975
Total investments and cash	9,536,693	9,572,633
Note receivable - affiliated	250,000	250,000
Accrued investment income	47,856	45,386
Premiums receivable	1,161,029	1,086,203
Reinsurance receivables - unaffiliated	690,641	659,303
Reinsurance receivables - affiliated	3,386,137	3,372,715
Funds held by reinsureds	192,108	182,159
Deferred acquisition costs	94,703	109,262
Prepaid reinsurance premiums	791,245	809,083
Other assets	257,876	235,576
TOTAL ASSETS	\$ 16,408,288	\$ 16,322,320
LIABILITIES:		
Reserve for losses and loss adjustment expenses	\$ 7,805,030	\$ 7,843,856
Unearned premium reserve	1,408,321	1,442,122
Funds held under reinsurance treaties	107,444	101,743
Losses in the course of payment	237,919	178,521
Commission reserves	66,461	63,110
Other net payable to reinsurers	972,196	1,028,549
4.868% Senior notes due 6/1/2044	400,000	400,000
6.6% Long term notes due 5/1/2067	238,365	238,364
Accrued interest on debt and borrowings	12,341	3,537
Income taxes	81,928	46,835
Unsettled securities payable	27,206	41,092
Other liabilities	350,540	361,874
Total liabilities	11,707,751	11,749,603
Commitments and Contingencies (Note 6)		
STOCKHOLDER'S EQUITY:		
Common stock, par value: \$0.01; 3,000 shares authorized; 1,000 shares issued and outstanding (2015 and 2014)	-	-
Additional paid-in capital	366,258	362,293

Accumulated other comprehensive income (loss), net of deferred income tax expense		
(benefit) of \$6,693 at 2015 and \$2,434 at 2014	12,430	4,519
Retained earnings	4,321,849	4,205,905
Total stockholder's equity	4,700,537	4,572,717
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 16,408,288	\$ 16,322,320

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

EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)	2015	Three Months Ended March 31, 2014 (unaudited)
REVENUES:		
Premiums earned	\$ 521,062	\$ 470,445
Net investment income	72,581	63,787
Net realized capital gains (losses):		
Other-than-temporary impairments on fixed maturity securities	(24,121)	-
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-
Other net realized capital gains (losses)	45,417	(4,050)
Total net realized capital gains (losses)	21,296	(4,050)
Other income (expense)	15,833	(3,055)
Total revenues	630,772	527,127
CLAIMS AND EXPENSES:		
Incurred losses and loss adjustment expenses	308,880	278,046
Commission, brokerage, taxes and fees	96,531	76,094
Other underwriting expenses	48,543	39,251
Corporate expenses	1,609	1,302
Interest, fee and bond issue cost amortization expense	8,859	7,436
Total claims and expenses	464,422	402,129
INCOME (LOSS) BEFORE TAXES	166,350	124,998
Income tax expense (benefit)	50,406	38,532
NET INCOME (LOSS)	\$ 115,944	\$ 86,466
Other comprehensive income (loss), net of tax :		
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	15,950	20,797
Less: reclassification adjustment for realized losses (gains) included in net income (loss)	23,665	1,298
Total URA(D) on securities arising during the period	39,615	22,095
Foreign currency translation adjustments	(33,308)	(7,836)
Benefit plan actuarial net gain (loss) for the period	-	-
Reclassification adjustment for amortization of net (gain) loss included in net income (loss)	1,604	771
Total benefit plan net gain (loss) for the period	1,604	771
Total other comprehensive income (loss), net of tax	7,911	15,030
COMPREHENSIVE INCOME (LOSS)	\$ 123,855	\$ 101,496

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

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EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF
CHANGES IN STOCKHOLDER'S EQUITY

(Dollars in thousands, except share amounts)	2015	Three Months Ended March 31, 2014 (unaudited)
COMMON STOCK (shares outstanding):		
Balance, beginning of period	1,000	1,000
Balance, end of period	1,000	1,000
ADDITIONAL PAID-IN CAPITAL:		
Balance, beginning of period	\$ 362,293	\$ 351,051
Share-based compensation plans	3,965	3,394
Balance, end of period	366,258	354,445
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES:		
Balance, beginning of period	4,519	87,648
Net increase (decrease) during the period	7,911	15,030
Balance, end of period	12,430	102,678
RETAINED EARNINGS:		
Balance, beginning of period	4,205,905	3,751,779
Net income (loss)	115,944	86,466
Balance, end of period	4,321,849	3,838,245
TOTAL STOCKHOLDER'S EQUITY, END OF PERIOD	\$ 4,700,537	\$ 4,295,368

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

EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Three Months Ended March 31,	
	2015 (unaudited)	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 115,944	\$ 86,466
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease (increase) in premiums receivable	(78,969)	12,611
Decrease (increase) in funds held by reinsureds, net	(4,707)	2,877
Decrease (increase) in reinsurance receivables	(68,311)	(279,364)
Decrease (increase) in income taxes	31,408	24,447
Decrease (increase) in prepaid reinsurance premiums	15,016	(47,040)
Increase (decrease) in reserve for losses and loss adjustment expenses	20,927	(58,410)
Increase (decrease) in unearned premiums	(28,224)	76,126
Increase (decrease) in other net payable to reinsurers	(52,400)	130,527
Increase (decrease) in losses in course of payment	60,419	101,869
Change in equity adjustments in limited partnerships	(7,173)	3,143
Distribution of limited partnership income	7,369	5,824
Change in other assets and liabilities, net	35,494	(16,618)
Non-cash compensation expense	1,946	1,729
Amortization of bond premium (accrual of bond discount)	4,955	6,004
Amortization of underwriting discount on senior notes	1	14
Net realized capital (gains) losses	(21,296)	4,050
Net cash provided by (used in) operating activities	32,399	54,255
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from fixed maturities matured/called - available for sale, at market value	188,815	207,534
Proceeds from fixed maturities matured/called - available for sale, at fair value	-	875
Proceeds from fixed maturities sold - available for sale, at market value	112,846	149,578
Proceeds from fixed maturities sold - available for sale, at fair value	1,236	20,763
Proceeds from equity securities sold - available for sale, at fair value	133,960	176,116
Distributions from other invested assets	10,797	9,828
Cost of fixed maturities acquired - available for sale, at market value	(293,848)	(689,205)
Cost of fixed maturities acquired - available for sale, at fair value	-	(1,309)
Cost of equity securities acquired - available for sale, at fair value	(164,112)	(77,427)
Cost of other invested assets acquired	(16,600)	(4,961)
Net change in short-term investments	(860)	113,571
Net change in unsettled securities transactions	(31,296)	(8,812)
Net cash provided by (used in) investing activities	(59,062)	(103,449)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Tax benefit from share-based compensation	2,020	1,665
Net cash provided by (used in) financing activities	2,020	1,665
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(31,845)	3,987

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Net increase (decrease) in cash	(56,488)	(43,542)
Cash, beginning of period	323,975	316,807
Cash, end of period	\$ 267,487	\$ 273,265

SUPPLEMENTAL CASH FLOW INFORMATION:

Income taxes paid (recovered)	\$ 18,077	\$ 12,474
Interest paid	-	42

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

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2015 and 2014

1. GENERAL

As used in this document, “Holdings” means Everest Reinsurance Holdings, Inc., a Delaware company and direct subsidiary of Everest Underwriting Group (Ireland) Limited (“Holdings Ireland”); “Group” means Everest Re Group, Ltd. (Holdings Ireland’s parent); “Bermuda Re” means Everest Reinsurance (Bermuda), Ltd., a subsidiary of Group; “Everest Re” means Everest Reinsurance Company and its subsidiaries, a subsidiary of Holdings (unless the context otherwise requires); “Mt. Logan Re” means Mt. Logan Re Ltd., a subsidiary of Group; and the “Company” means Holdings and its subsidiaries.

2. BASIS OF PRESENTATION

The unaudited consolidated financial statements of the Company for the three months ended March 31, 2015 and 2014 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, 2014 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, 2015 and 2014 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, 2014, 2013 and 2012 included in the Company’s most recent Form 10-K filing.

All intercompany accounts and transactions have been eliminated.

Application of Recently Issued Accounting Standard Changes

No accounting standards or guidance have been issued recently that would have a material impact on the Company’s financial statements or financial reporting process.

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, 2015				OTTI in AOCI (a)
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	
Fixed maturity securities					
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 174,065	\$ 3,541	\$ (83)	\$ 177,523	\$ -
Obligations of U.S. states and political subdivisions	750,672	39,084	(914)	788,842	-
Corporate securities	1,941,982	53,670	(24,416)	1,971,236	-
Asset-backed securities	115,357	826	(96)	116,087	-
Mortgage-backed securities					
Commercial	55,527	2,752	-	58,279	-
Agency residential	568,152	8,658	(1,449)	575,361	-
Non-agency residential	240	37	-	277	-
Foreign government securities	459,079	30,882	(7,684)	482,277	-
Foreign corporate securities	1,043,011	41,601	(27,575)	1,057,037	-
Total fixed maturity securities	\$ 5,108,085	\$ 181,051	\$ (62,217)	\$ 5,226,919	\$ -
Equity securities	\$ 15	\$ 1	\$ -	\$ 16	\$ -

(Dollars in thousands)	At December 31, 2014				OTTI in AOCI (a)
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	
Fixed maturity securities					
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 135,724	\$ 1,416	\$ (304)	\$ 136,836	\$ -
Obligations of U.S. states and political subdivisions	783,129	41,969	(626)	824,472	-
Corporate securities	1,992,200	39,954	(53,219)	1,978,935	(9,735)
Asset-backed securities	94,470	727	(374)	94,823	-
Mortgage-backed securities					
Commercial	57,027	2,292	(51)	59,268	-
Agency residential	596,140	6,697	(4,720)	598,117	-
Non-agency residential	271	44	-	315	-
Foreign government securities	515,016	27,415	(5,344)	537,087	-
Foreign corporate securities	1,061,546	27,832	(25,820)	1,063,558	-
Total fixed maturity securities	\$ 5,235,523	\$ 148,346	\$ (90,458)	\$ 5,293,411	\$ (9,735)
Equity securities	\$ 15	\$ 1	\$ -	\$ 16	\$ -

(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, 2015		At December 31, 2014	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Fixed maturity securities – available for sale				
Due in one year or less	\$353,025	\$352,544	\$385,721	\$384,022
Due after one year through five years	2,447,447	2,468,119	2,387,533	2,369,917
Due after five years through ten years	921,195	943,216	1,025,221	1,029,077
Due after ten years	647,142	713,036	689,140	757,872
Asset-backed securities	115,357	116,087	94,470	94,823
Mortgage-backed securities				
Commercial	55,527	58,279	57,027	59,268
Agency residential	568,152	575,361	596,140	598,117
Non-agency residential	240	277	271	315
Total fixed maturity securities	\$5,108,085	\$5,226,919	\$5,235,523	\$5,293,411

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

(Dollars in thousands)	Three Months Ended	
	2015	March 31, 2014
Increase (decrease) during the period between the market value and cost of investments carried at market value, and deferred taxes thereon:		
Fixed maturity securities	\$51,211	\$33,993
Fixed maturity securities, other-than-temporary impairment	9,735	-
Change in unrealized appreciation (depreciation), pre-tax	60,946	33,993
Deferred tax benefit (expense)	(17,924)	(11,898)
Deferred tax benefit (expense), other-than-temporary impairment	(3,407)	-
Change in unrealized appreciation (depreciation), net of deferred taxes, included in stockholder's equity	\$39,615	\$22,095

The Company frequently reviews all of its fixed maturity, available for sale securities for declines in market value and focuses its attention on securities whose fair value has fallen below 80% of their amortized cost at the time of review. The Company then assesses whether the decline in value is temporary or other-than-temporary. In making its assessment, the Company evaluates the current market and interest rate environment as well as specific issuer information. Generally, a change in a security's value caused by a change in the market, interest rate or foreign exchange environment does not constitute an other-than-temporary impairment, but rather a temporary decline in market value. Temporary declines in market value are recorded as unrealized losses in accumulated other comprehensive income (loss). If the Company determines that the decline is other-than-temporary and the Company does not have the intent to sell the security; and it is more likely than not that the Company will not have to sell the security before recovery of its cost basis, the carrying value of the investment is written down to fair value. The fair value adjustment that is credit or foreign exchange related is recorded in net realized capital gains (losses) in the Company's consolidated statements of operations and comprehensive income (loss). The fair value adjustment that is

non-credit related is recorded as a component of other comprehensive income (loss), net of tax, and is included in accumulated other comprehensive income (loss) in the Company's consolidated balance sheets. The Company's assessments are based on the issuers current and expected future financial position, timeliness with respect to interest and/or principal payments, speed of repayments and any applicable credit enhancements or breakeven constant default rates on mortgage-backed and asset-backed securities, as well as relevant information provided by rating agencies, investment advisors and analysts.

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

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

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

	Duration of Unrealized Loss at March 31, 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
(Dollars in thousands)						
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of						
U.S. government agencies and corporations	\$200	\$ (1)	\$ 2,043	\$ (82)	\$ 2,243	\$ (83)
Obligations of U.S. states and political subdivisions	26,973	(579)	18,171	(335)	45,144	(914)
Corporate securities	362,527	(22,140)	153,423	(2,276)	515,950	(24,416)
Asset-backed securities	43,245	(96)	-	-	43,245	(96)
Mortgage-backed securities						
Commercial	-	-	-	-	-	-
Agency residential	10,595	(33)	192,684	(1,416)	203,279	(1,449)
Non-agency residential	-	-	-	-	-	-
Foreign government securities	60,663	(3,273)	46,741	(4,411)	107,404	(7,684)
Foreign corporate securities	133,917	(25,626)	47,221	(1,949)	181,138	(27,575)
Total fixed maturity securities	\$ 638,120	\$ (51,748)	\$ 460,283	\$ (10,469)	\$ 1,098,403	\$ (62,217)
Equity securities	-	-	-	-	-	-
Total	\$ 638,120	\$ (51,748)	\$ 460,283	\$ (10,469)	\$ 1,098,403	\$ (62,217)

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	Duration of Unrealized Loss at March 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
(Dollars in thousands)						
Fixed maturity securities						
Due in one year or less	\$19,187	\$ (1,716)	\$ 24,224	\$ (2,820)	\$43,411	\$ (4,536)
Due in one year through five years	307,725	(40,128)	165,952	(4,376)	473,677	(44,504)
Due in five years through ten years	222,882	(9,192)	56,606	(1,070)	279,488	(10,262)
Due after ten years	34,486	(583)	20,817	(787)	55,303	(1,370)
Asset-backed securities	43,245	(96)	-	-	43,245	(96)
Mortgage-backed securities	10,595	(33)	192,684	(1,416)	203,279	(1,449)
Total fixed maturity securities	\$638,120	\$ (51,748)	\$ 460,283	\$ (10,469)	\$1,098,403	\$ (62,217)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at March 31, 2015 were \$1,098,403 thousand and \$62,217 thousand, respectively. The market value of securities for the single issuer whose securities comprised the largest unrealized loss position at March 31, 2015, did not exceed 0.5% 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 \$51,748 thousand of unrealized losses related to fixed maturity securities that have been in an unrealized loss position for less than one year were primarily comprised of foreign and domestic corporate securities and foreign government securities. The majority of these unrealized losses are attributable to unrealized losses in the energy sector, \$36,644 thousand, as falling oil prices disrupted the market values for this sector, particularly for oil exploration, production and servicing companies and unrealized foreign exchange losses, \$13,713 thousand, as the U.S. dollar has strengthened against other currencies. The \$10,469 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to foreign government securities, domestic and foreign corporate securities and agency residential mortgage-backed securities. Of these unrealized losses, \$9,180 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The Company did not have any sub-prime or alt-A loans with gross unrealized depreciation at March 31, 2015. In all instances, there were no projected cash flow shortfalls to recover the full book value of the investments and the related interest obligations. The mortgage-backed securities still have excess credit coverage and are current on interest and principal payments.

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

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

	Duration of Unrealized Loss at December 31, 2014 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 13,187	\$ (20)	\$ 26,897	\$ (284)	\$ 40,084	\$ (304)
Obligations of U.S. states and political subdivisions	20,428	(242)	18,199	(384)	38,627	(626)
Corporate securities	830,928	(48,891)	171,207	(4,328)	1,002,135	(53,219)
Asset-backed securities	62,451	(374)	-	-	62,451	(374)
Mortgage-backed securities						
Commercial	11,742	(51)	-	-	11,742	(51)
Agency residential	24,230	(59)	267,824	(4,661)	292,054	(4,720)
Non-agency residential	-	-	-	-	-	-
Foreign government securities	45,521	(913)	53,086	(4,431)	98,607	(5,344)
Foreign corporate securities	228,733	(21,704)	117,713	(4,116)	346,446	(25,820)

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Total fixed maturity securities	\$1,237,220	\$ (72,254)	\$ 654,926	\$ (18,204)	\$1,892,146	\$ (90,458)
Equity securities	-	-	-	-	-	-
Total	\$1,237,220	\$ (72,254)	\$ 654,926	\$ (18,204)	\$1,892,146	\$ (90,458)

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(Dollars in thousands)	Duration of Unrealized Loss at December 31, 2014 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	\$ 12,858	\$ (550)	\$ 53,528	\$ (4,224)	\$ 66,386	\$ (4,774)
Due in one year through five years	622,137	(51,262)	243,192	(6,306)	865,329	(57,568)
Due in five years through ten years	467,187	(18,958)	66,630	(2,018)	533,817	(20,976)
Due after ten years	36,615	(1,000)	23,752	(995)	60,367	(1,995)
Asset-backed securities	62,451	(374)	-	-	62,451	(374)
Mortgage-backed securities	35,972	(110)	267,824	(4,661)	303,796	(4,771)
Total fixed maturity securities	\$ 1,237,220	\$ (72,254)	\$ 654,926	\$ (18,204)	\$ 1,892,146	\$ (90,458)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at December 31, 2014 were \$1,892,146 thousand and \$90,458 thousand, respectively. The market value of securities for the single issuer whose securities comprised the largest unrealized loss position at December 31, 2014, did not exceed 0.3% of the overall market value of the Company's fixed maturity securities. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The \$72,254 thousand of unrealized losses related to fixed maturity securities that have been in an unrealized loss position for less than one year were primarily comprised of domestic and foreign corporate securities. The majority of these unrealized losses are attributable to unrealized losses in the energy sector, \$53,772 thousand, as falling oil prices disrupted the market values for this sector, particularly for oil exploration, production and servicing companies during the fourth quarter of 2014 and unrealized foreign exchange losses, \$7,298 thousand, as the U.S. dollar has strengthened against other currencies. The \$18,204 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to agency residential mortgage-backed securities, foreign and domestic corporate securities and foreign government securities. Of these unrealized losses, \$16,680 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The Company did not have any sub-prime or alt-A loans with gross unrealized depreciation at December 31, 2014. 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.

Other invested assets, at fair value, are comprised of common shares of the Company's ultimate parent, Group. At March 31, 2015, the Company held 9,719,971 shares of Group representing 18.0% of the total outstanding shares.

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

(Dollars in thousands)	Three Months Ended	
	2015	2014
Fixed maturities	\$ 47,972	\$ 51,079
Equity securities	8,742	8,937
Short-term investments and cash	164	186
Other invested assets		
Limited partnerships	7,379	(3,087)
Dividends from Parent's shares	9,234	7,290

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Other	625	2,021
Gross investment income before adjustments	74,116	66,426
Funds held interest income (expense)	2,521	2,109
Interest income from Parent	1,075	-
Gross investment income	77,712	68,535
Investment expenses	(5,131)	(4,748)
Net investment income	\$ 72,581	\$ 63,787

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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 \$237,637 thousand in limited partnerships at March 31, 2015. 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	
	2015	March 31, 2014
Fixed maturity securities, market value:		
Other-than-temporary impairments	\$ (24,121)	\$ -
Gains (losses) from sales	(11,518)	(1,997)
Fixed maturity securities, fair value:		
Gains (losses) from sales	28	940
Gains (losses) from fair value adjustments	62	-
Equity securities, fair value:		
Gains (losses) from sales	(65)	(1,336)
Gains (losses) from fair value adjustments	20,946	25,753
Other invested assets, fair value:		
Gains (losses) from fair value adjustments	35,964	(27,410)
Short-term investment gains (losses)	-	-
Total net realized capital gains (losses)	\$ 21,296	\$ (4,050)

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	
	2015	March 31, 2014
Proceeds from sales of fixed maturity securities	\$ 114,082	\$ 170,341
Gross gains from sales	2,542	2,475
Gross losses from sales	(14,032)	(3,532)
Proceeds from sales of equity securities	\$ 133,960	\$ 176,116
Gross gains from sales	5,142	6,588
Gross losses from sales	(5,207)	(7,924)

4. FAIR VALUE

The Company's fixed maturity and equity securities are primarily managed by third party investment asset managers. The investment asset managers obtain prices from nationally recognized pricing services. These services seek to utilize market data and observations in their evaluation process. They use pricing applications that vary by asset class and incorporate available market information and when fixed maturity securities do not trade on a daily basis the services will apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. In addition, they use model processes, such as the Option Adjusted Spread model to develop prepayment and interest rate scenarios for securities that have prepayment features.

In limited instances where prices are not provided by pricing services or in rare instances when a manager may not agree with the pricing service, price quotes on a non-binding basis are obtained from investment brokers. The investment asset managers do not make any changes to prices received from either the pricing services or the investment brokers. In addition, the investment asset managers have procedures in place to review the reasonableness of the prices from the service providers and may request verification of the prices. In addition, the Company continually performs analytical reviews of price changes and tests the prices on a random basis to an independent pricing source. No material variances were noted during these price validation procedures. In limited situations, where financial markets are inactive or illiquid, the Company may use its own assumptions about future cash flows and risk-adjusted discount rates to determine fair value. Due to the unavailability of prices for one private placement security, the Company valued the security at \$6,125 thousand at March 31, 2015 and made no such adjustments at December 31, 2014.

The Company internally manages a small public equity portfolio which had a fair value at March 31, 2015 and December 31, 2014 of \$103,866 thousand and \$96,890 thousand, respectively, and all prices were obtained from publically published sources.

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

Fixed maturity securities are generally categorized as Level 2, Significant Other Observable Inputs, since a particular security may not have traded but the pricing services are able to use valuation models with observable market inputs such as interest rate yield curves and prices for similar fixed maturity securities in terms of issuer, maturity and seniority. Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk) are categorized as Level 3, Significant Unobservable Inputs. These securities include broker priced securities.

As of March 31, 2015 and December 31, 2014, all Level 3 fixed maturity securities, except the one security priced by the Company, were priced using single non-binding broker quotes since prices for these securities were not provided by normal pricing service companies. The single broker quotes are provided by market makers or broker-dealers who are recognized as market participants in the markets in which they are providing the quotes. The prices received from brokers are reviewed for reasonableness by the third party asset managers and the Company.

Other invested assets, at fair value, are categorized as Level 1, Quoted Prices in Active Markets for Identical Assets, since the securities are shares of the Company's parent, which are actively traded on an exchange and the price is based on a quoted price.

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

(Dollars in thousands)	March 31, 2015	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 177,523	\$ -	\$ 177,523	\$ -
Obligations of U.S. States and political subdivisions	788,842	-	788,842	-
Corporate securities	1,971,236	-	1,968,583	2,653
Asset-backed securities	116,087	-	116,087	-
Mortgage-backed securities				
Commercial	58,279	-	58,279	-
Agency residential	575,361	-	575,361	-
Non-agency residential	277	-	277	-
Foreign government securities	482,277	-	482,277	-
Foreign corporate securities	1,057,037	-	1,050,912	6,125
Total fixed maturities, market value	5,226,919	-	5,218,141	8,778
Fixed maturities, fair value	363	-	363	-
Equity securities, market value	16	16	-	-
Equity securities, fair value	1,350,070	1,236,565	113,505	-
Other invested assets, fair value	1,691,275	1,691,275	-	-

There were no transfers between Level 1 and Level 2 for the three months ended March 31, 2015.

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

(Dollars in thousands)	December 31, 2014	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of				

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U.S. government agencies and corporations	\$ 136,836	\$ -	\$ 136,836	\$ -
Obligations of U.S. States and political subdivisions	824,472	-	824,472	-
Corporate securities	1,978,935	-	1,978,935	-
Asset-backed securities	94,823	-	94,823	-
Mortgage-backed securities				
Commercial	59,268	-	50,671	8,597
Agency residential	598,117	-	598,117	-
Non-agency residential	315	-	315	-
Foreign government securities	537,087	-	537,087	-
Foreign corporate securities	1,063,558	-	1,056,392	7,166
Total fixed maturities, market value	5,293,411	-	5,277,648	15,763
Fixed maturities, fair value	1,509	-	1,509	-
Equity securities, market value	16	16	-	-
Equity securities, fair value	1,299,037	1,188,613	110,424	-
Other invested assets, fair value	1,655,311	1,655,311	-	-

The following table presents 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, 2015				Three Months Ended March 31, 2014			
	Corporate Securities	CMBS	Foreign Corporate	Total	Asset-backed Securities	Foreign Corporate	Non-agency RMBS	Total
Beginning balance	\$ -	\$ 8,597	\$ 7,166	\$ 15,763	\$ 3,533	\$ 481	\$ 4	\$ 4,018
Total gains or (losses) (realized/unrealized)								
Included in earnings	2	-	57	59	18	1	1	20
Included in other comprehensive income (loss)	1	-	(1,098)	(1,097)	65	-	-	65
Purchases, issuances and settlements	1,940	-	-	1,940	(572)	(9)	(1)	(582)
Transfers in and/or (out) of Level 3	710	(8,597)	-	(7,887)	-	-	-	-
Ending balance	\$ 2,653	\$ -	\$ 6,125	\$ 8,778	\$ 3,044	\$ 473	\$ 4	\$ 3,521
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(Some amounts may not reconcile due to rounding.)

The net transfers from level 3, fair value measurements using significant unobservable inputs, of \$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 and were subsequently priced using a recognized pricing service and were then classified as level 2. There were no transfers from level 3, fair value measurements using significant unobservable inputs, for the three months ended March 31, 2014.

5. CAPITAL TRANSACTIONS

On July 9, 2014, the Company renewed its shelf registration statement on Form S-3ASR with the Securities and Exchange Commission (the "SEC"), as a Well Known Seasoned Issuer. This shelf registration statement can be used by Group to register common shares, preferred shares, debt securities, warrants, share purchase contracts and share purchase units; by Holdings to register debt securities and by Everest Re Capital Trust III ("Capital Trust III") to register trust preferred securities.

6. CONTINGENCIES

In the ordinary course of business, the Company is involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which will determine the Company's rights and obligations under

insurance and reinsurance agreements. In some disputes, the Company seeks to enforce its rights under an agreement or to collect funds owing to it. In other matters, the Company is resisting attempts by others to collect funds or enforce alleged rights. These disputes arise from time to time and are ultimately resolved through both informal and formal means, including negotiated resolution, arbitration and litigation. In all such matters, the Company believes that its positions are legally and commercially reasonable. The Company considers the statuses of these proceedings when determining its reserves for unpaid loss and loss adjustment expenses.

Aside from litigation and arbitrations related to these insurance and reinsurance agreements, the Company is not a party to any other material litigation or arbitration.

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

The table below presents the estimated cost to replace all such annuities for which the Company was contingently liable for the periods indicated:

(Dollars in thousands)	At March 31, 2015	At December 31, 2014
The Prudential	\$ 142,618	\$ 142,653
Unaffiliated life insurance company	31,158	31,964

7. OTHER COMPREHENSIVE INCOME (LOSS)

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

(Dollars in thousands)	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Unrealized appreciation (depreciation) ("URA(D)") on securities - temporary	\$ 15,572	\$ (5,950)	\$ 9,622	\$ 31,996	\$ (11,199)	\$ 20,797
URA(D) on securities - OTTI	9,735	(3,407)	6,328	-	-	-
Reclassification of net realized losses (gains) included in net income (loss)	35,639	(11,974)	23,665	1,997	(699)	1,298
Foreign currency translation adjustments	(51,243)	17,935	(33,308)	(12,055)	4,219	(7,836)
Reclassification of amortization of net gain (loss) included in net income (loss)	2,467	(863)	1,604	1,186	(415)	771
Total other comprehensive income (loss)	\$ 12,170	\$ (4,259)	\$ 7,911	\$ 23,124	\$ (8,094)	\$ 15,030

(Some amounts may not reconcile due to rounding)

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

AOCI component	Three Months Ended March 31,		Affected line item within the statements of operations and comprehensive income (loss)
	2015	2014	
(Dollars in thousands)			
URA(D) on securities	\$ 35,639	\$ 1,997	Other net realized capital gains (losses)
	(11,974)	(699)	Income tax expense (benefit)
	\$ 23,665	\$ 1,298	Net income (loss)
Benefit plan net gain (loss)	\$ 2,467	\$ 1,186	Other underwriting expenses
	(863)	(415)	Income tax expense (benefit)

\$ 1,604	\$ 771	Net income (loss)
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(Some amounts may not reconcile due to rounding)

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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 March 31, 2015	Twelve Months Ended December 31, 2014
Beginning balance of URA (D) on securities	\$ 37,628	\$ 55,457
Current period change in URA (D) of investments - temporary	33,287	(11,501)
Current period change in URA (D) of investments - non-credit OTTI	6,328	(6,328)
Ending balance of URA (D) on securities	77,243	37,628
Beginning balance of foreign currency translation adjustments	41,877	71,087
Current period change in foreign currency translation adjustments	(33,308)	(29,210)
Ending balance of foreign currency translation adjustments	8,569	41,877
Beginning balance of benefit plan net gain (loss)	(74,986)	(38,896)
Current period change in benefit plan net gain (loss)	1,604	(36,090)
Ending balance of benefit plan net gain (loss)	(73,382)	(74,986)