

EVEREST REINSURANCE HOLDINGS INC
Form 10-Q
August 15, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: Commission file number:
June 30, 2016 1-14527

EVEREST REINSURANCE HOLDINGS, INC.
(Exact name of registrant as specified in its charter)
Delaware 22-3263609
(State or other jurisdiction of
incorporation or organization) (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.

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 Accelerated filer
Non-accelerated filer X Smaller reporting company
(Do not check if smaller
reporting company)

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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> <u>At August 1, 2016</u>
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.

Table of Contents
Form 10-Q

Page
PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets at June 30, 2016 (unaudited) and December 31, 2015	1
Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2016 and 2015 (unaudited)	2
Consolidated Statements of Changes in Stockholder's Equity for the three and six months ended June 30, 2016 and 2015 (unaudited)	3
Consolidated Statements of Cash Flows for the six months ended June 30, 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	28
--	----

Item 3. Quantitative and Qualitative Disclosures About Market Risk	44
--	----

Item 4. Controls and Procedures	44
---------------------------------	----

PART II

OTHER INFORMATION

Item 1. Legal Proceedings 44

Item 1A. Risk Factors 45

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 45

Item 3. Defaults Upon Senior Securities 45

Item 4. Mine Safety Disclosures 45

Item 5. Other Information 45

Item 6. Exhibits 46

EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value per share)	June 30, 2016 (unaudited)	December 31, 2015
ASSETS:		
Fixed maturities - available for sale, at market value (amortized cost: 2016, \$5,617,412; 2015, \$5,335,472)	\$5,768,749	\$5,356,477
Fixed maturities - available for sale, at fair value	-	2,102
Equity securities - available for sale, at fair value	976,879	1,215,377
Short-term investments	387,705	563,536
Other invested assets (cost: 2016, \$604,512; 2015, \$450,154)	604,512	450,154
Other invested assets, at fair value	1,772,458	1,773,214
Cash	229,927	155,429
Total investments and cash	9,740,230	9,516,289
Note receivable - affiliated	250,000	250,000
Accrued investment income	42,454	41,727
Premiums receivable	1,119,371	1,129,656
Reinsurance receivables - unaffiliated	814,866	716,982
Reinsurance receivables - affiliated	3,676,433	3,742,105
Funds held by reinsureds	185,170	176,712
Deferred acquisition costs	72,696	92,651
Prepaid reinsurance premiums	750,713	772,686
Other assets	272,767	256,395
TOTAL ASSETS	\$16,924,700	\$16,695,203
LIABILITIES:		
Reserve for losses and loss adjustment expenses	\$8,247,764	\$7,940,720
Unearned premium reserve	1,264,499	1,349,799
Funds held under reinsurance treaties	106,611	101,531
Losses in the course of payment	128,048	125,592
Commission reserves	61,254	51,873
Other net payable to reinsurers	860,872	1,225,260
4.868% Senior notes due 6/1/2044	396,654	396,594
6.6% Long term notes due 5/1/2067	236,413	236,364
Accrued interest on debt and borrowings	3,537	3,537
Income taxes	138,621	68,024
Unsettled securities payable	59,891	15,040
Other liabilities	256,483	249,658
Total liabilities	11,760,647	11,763,992
Commitments and Contingencies (Note 5)		
STOCKHOLDER'S EQUITY:		
Common stock, par value: \$0.01; 3,000 shares authorized; 1,000 shares issued and outstanding (2016 and 2015)	-	-
Additional paid-in capital	382,537	374,789
Accumulated other comprehensive income (loss), net of deferred income tax expense		

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

(benefit) of \$29,988 at 2016 and (\$33,458) at 2015	55,682	(62,136)
Retained earnings	4,725,834	4,618,558
Total stockholder's equity	5,164,053	4,931,211
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 16,924,700	\$ 16,695,203

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

1

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

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016 (unaudited)	2015	2016 (unaudited)	2015
REVENUES:				
Premiums earned	\$488,855	\$521,424	\$970,780	\$1,042,486
Net investment income	73,872	70,925	132,317	143,506
Net realized capital gains (losses):				
Other-than-temporary impairments on fixed maturity securities	(1,391)	(8,810)	(24,406)	(32,931)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-	-	-
Other net realized capital gains (losses)	30,556	60,035	(12,806)	105,452
Total net realized capital gains (losses)	29,165	51,225	(37,212)	72,521
Other income (expense)	(10,700)	12,289	2,402	28,122
Total revenues	581,192	655,863	1,068,287	1,286,635
CLAIMS AND EXPENSES:				
Incurred losses and loss adjustment expenses	338,536	322,879	634,598	631,759
Commission, brokerage, taxes and fees	72,126	72,953	140,948	169,484
Other underwriting expenses	58,330	51,573	117,557	100,116
Corporate expenses	2,010	1,785	4,346	3,394
Interest, fee and bond issue cost amortization expense	8,858	8,858	17,717	17,717
Total claims and expenses	479,860	458,048	915,166	922,470
INCOME (LOSS) BEFORE TAXES	101,332	197,815	153,121	364,165
Income tax expense (benefit)	32,982	64,049	45,845	114,455
NET INCOME (LOSS)	\$68,350	\$133,766	\$107,276	\$249,710
Other comprehensive income (loss), net of tax:				
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	39,264	(35,938)	58,864	(19,988)
Less: reclassification adjustment for realized losses (gains) included in net income (loss)	(63)	13,661	25,852	37,326
Total URA(D) on securities arising during the period	39,201	(22,277)	84,716	17,338
Foreign currency translation adjustments	15,489	16,145	30,421	(17,163)
Benefit plan actuarial net gain (loss) for the period	-	-	-	-
Reclassification adjustment for amortization of net (gain) loss included in net income (loss)	1,341	1,609	2,681	3,213
Total benefit plan net gain (loss) for the period	1,341	1,609	2,681	3,213
Total other comprehensive income (loss), net of tax	56,031	(4,523)	117,818	3,388
COMPREHENSIVE INCOME (LOSS)	\$124,381	\$129,243	\$225,094	\$253,098

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

EVEREST REINSURANCE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF
CHANGES IN STOCKHOLDER'S EQUITY

(Dollars in thousands, except share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016 (unaudited)	2015	2016 (unaudited)	2015
COMMON STOCK (shares outstanding):				
Balance, beginning of period	1,000	1,000	1,000	1,000
Balance, end of period	1,000	1,000	1,000	1,000
ADDITIONAL PAID-IN CAPITAL:				
Balance, beginning of period	\$379,582	\$366,258	\$374,789	\$362,293
Share-based compensation plans	2,955	3,026	7,748	6,991
Balance, end of period	382,537	369,284	382,537	369,284
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS),				
NET OF DEFERRED INCOME TAXES:				
Balance, beginning of period	(349)	12,430	(62,136)	4,519
Net increase (decrease) during the period	56,031	(4,523)	117,818	3,388
Balance, end of period	55,682	7,907	55,682	7,907
RETAINED EARNINGS:				
Balance, beginning of period	4,657,484	4,321,849	4,618,558	4,205,905
Net income (loss)	68,350	133,766	107,276	249,710
Balance, end of period	4,725,834	4,455,615	4,725,834	4,455,615
TOTAL STOCKHOLDER'S EQUITY, END OF PERIOD	\$5,164,053	\$4,832,806	\$5,164,053	\$4,832,806

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

EVEREST REINSURANCE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Six Months Ended June 30, 2016 2015 (unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 107,276	\$ 249,710
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease (increase) in premiums receivable	13,635	(19,661)
Decrease (increase) in funds held by reinsureds, net	(3,111)	(1,191)
Decrease (increase) in reinsurance receivables	(9,694)	(167,876)
Decrease (increase) in income taxes	8,190	34,836
Decrease (increase) in prepaid reinsurance premiums	24,418	38,141
Increase (decrease) in reserve for losses and loss adjustment expenses	257,415	75,995
Increase (decrease) in unearned premiums	(89,903)	(99,896)
Increase (decrease) in other net payable to reinsurers	(370,242)	(144,661)
Increase (decrease) in losses in course of payment	1,813	76,607
Change in equity adjustments in limited partnerships	(11,352)	(13,872)
Distribution of limited partnership income	22,822	14,597
Change in other assets and liabilities, net	14,216	2,437
Non-cash compensation expense	5,433	3,955
Amortization of bond premium (accrual of bond discount)	8,972	9,352
Amortization of underwriting discount on senior notes	2	2
Net realized capital (gains) losses	37,212	(72,521)
Net cash provided by (used in) operating activities	17,102	(14,046)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from fixed maturities matured/called - available for sale, at market value	368,179	493,648
Proceeds from fixed maturities sold - available for sale, at market value	296,888	288,211
Proceeds from fixed maturities sold - available for sale, at fair value	1,587	1,613
Proceeds from equity securities sold - available for sale, at market value	-	16
Proceeds from equity securities sold - available for sale, at fair value	421,980	303,477
Distributions from other invested assets	696,889	19,999
Cost of fixed maturities acquired - available for sale, at market value	(923,755)	(850,526)
Cost of fixed maturities acquired - available for sale, at fair value	-	(234)
Cost of equity securities acquired - available for sale, at fair value	(180,406)	(306,602)
Cost of other invested assets acquired	(862,717)	(33,996)
Net change in short-term investments	178,128	30,157
Net change in unsettled securities transactions	36,119	3,008
Net cash provided by (used in) investing activities	32,892	(51,229)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Tax benefit from share-based compensation	2,315	3,036
Net cash provided by (used in) financing activities	2,315	3,036
EFFECT OF EXCHANGE RATE CHANGES ON CASH	22,189	(11,317)
Net increase (decrease) in cash	74,498	(73,556)

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

Cash, beginning of period	155,429	323,975
Cash, end of period	\$229,927	\$250,419

SUPPLEMENTAL CASH FLOW INFORMATION:

Income taxes paid (recovered)	\$35,375	\$77,577
Interest paid	17,608	17,608

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

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the Three and Six Months Ended June 30, 2016 and 2015

1. GENERAL

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) and the "Company" means Holdings and its subsidiaries.

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

2. BASIS OF PRESENTATION

The unaudited consolidated financial statements of the Company for the three and six months ended June 30, 2016 and 2015 include all adjustments, consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair statement of the results on an interim basis. Certain financial information, which is normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), has been omitted since it is not required for interim reporting purposes. The December 31, 2015 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The results for the three and six months ended June 30, 2016 and 2015 are not necessarily indicative of the results for a full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2015, 2014 and 2013 included in the Company's most recent Form 10-K filing.

All intercompany accounts and transactions have been eliminated.

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

Application of Recently Issued Accounting Standard Changes.

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

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

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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. The Company has determined that the guidance will not have a significant impact on its financial statements.

3. INVESTMENTS

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

	At June 30, 2016				OTTI in
(Dollars in thousands)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	AOCI (a)
Fixed maturity securities					
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$383,388	\$ 8,705	\$ (149)	\$391,944	\$ -
Obligations of U.S. states and political subdivisions	701,171	49,219	(478)	749,912	-
Corporate securities	2,032,340	54,062	(20,239)	2,066,163	4,451
Asset-backed securities	167,478	1,592	(157)	168,913	-
Mortgage-backed securities					
Commercial	73,543	1,623	(65)	75,101	-
Agency residential	756,403	11,867	(574)	767,696	-
Non-agency residential	103	17	-	120	-
Foreign government securities	512,414	28,986	(7,997)	533,403	-
Foreign corporate securities	990,572	35,288	(10,363)	1,015,497	2,123
Total fixed maturity securities	\$5,617,412	\$ 191,359	\$ (40,022)	\$5,768,749	\$ 6,574
Equity securities	\$-	\$ -	\$ -	\$-	\$ -

	At December 31, 2015				OTTI in
(Dollars in thousands)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	AOCI (a)
Fixed maturity securities					
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$329,281	\$ 2,422	\$ (718)	\$330,985	\$ -
Obligations of U.S. states and political subdivisions	669,945	34,020	(890)	703,075	-
Corporate securities	2,011,997	27,286	(70,725)	1,968,558	(86)
Asset-backed securities	145,755	290	(1,063)	144,982	-
Mortgage-backed securities					
Commercial	61,527	1,430	(511)	62,446	-
Agency residential	714,907	3,994	(6,603)	712,298	-
Non-agency residential	126	24	-	150	-
Foreign government securities	447,244	24,255	(8,425)	463,074	-
Foreign corporate securities	954,690	27,616	(11,397)	970,909	17

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

Total fixed maturity securities	\$5,335,472	\$ 121,337	\$ (100,332)	\$5,356,477	\$ (69)
---------------------------------	-------------	------------	---------------	-------------	----------

^(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.

6

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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 June 30, 2016		At December 31, 2015	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Fixed maturity securities – available for sale				
Due in one year or less	\$406,621	\$405,264	\$330,029	\$330,509
Due after one year through five years	2,809,371	2,856,628	2,617,079	2,618,056
Due after five years through ten years	692,168	717,637	870,266	856,230
Due after ten years	711,725	777,390	595,783	631,806
Asset-backed securities	167,478	168,913	145,755	144,982
Mortgage-backed securities				
Commercial	73,543	75,101	61,527	62,446
Agency residential	756,403	767,696	714,907	712,298
Non-agency residential	103	120	126	150
Total fixed maturity securities	\$5,617,412	\$5,768,749	\$5,335,472	\$5,356,477

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 June 30, 2016		Six Months Ended June 30, 2016	
	2016	2015	2016	2015
Increase (decrease) during the period between the market value and cost of investments carried at market value, and deferred taxes thereon:				
Fixed maturity securities	\$53,863	\$(34,272)	\$123,689	\$16,939
Fixed maturity securities, other-than-temporary impairment	6,446	-	6,643	9,735
Equity Securities	-	(1)	-	(1)
Change in unrealized appreciation (depreciation), pre-tax	60,309	(34,273)	130,332	26,673
Deferred tax benefit (expense)	(18,852)	11,996	(43,291)	(5,928)
Deferred tax benefit (expense), other-than-temporary impairment	(2,256)	-	(2,325)	(3,407)
Change in unrealized appreciation (depreciation), net of deferred taxes, included in stockholder's equity	\$39,201	\$(22,277)	\$84,716	\$17,338

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.

7

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.

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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 June 30, 2016 By Security Type					
	Less than 12 months		Greater than 12 months		Total	Gross Unrealized
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$4,759	\$ (149)	\$ -	\$ -	\$4,759	\$ (149)
Obligations of U.S. states and political subdivisions	-	-	562	(478)	562	(478)
Corporate securities	261,660	(4,945)	293,977	(15,294)	555,637	(20,239)
Asset-backed securities	13,337	(71)	30,016	(86)	43,353	(157)
Mortgage-backed securities						
Commercial	3,470	(20)	3,352	(45)	6,822	(65)
Agency residential	32,558	(106)	107,907	(468)	140,465	(574)
Non-agency residential	29	-	-	-	29	-
Foreign government securities	9,456	(209)	66,601	(7,788)	76,057	(7,997)
Foreign corporate securities	100,483	(3,051)	83,260	(7,312)	183,743	(10,363)
Total fixed maturity securities	\$425,752	\$ (8,551)	\$ 585,675	\$ (31,471)	\$ 1,011,427	\$ (40,022)
Equity securities	-	-	-	-	-	-
Total	\$425,752	\$ (8,551)	\$ 585,675	\$ (31,471)	\$ 1,011,427	\$ (40,022)

(Dollars in thousands)	Duration of Unrealized Loss at June 30, 2016 By Maturity					
	Less than 12 months		Greater than 12 months		Total	Gross Unrealized
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	
Fixed maturity securities						
Due in one year or less	\$19,629	\$ (664)	\$ 29,635	\$ (3,386)	\$ 49,264	\$ (4,050)
Due in one year through five years	217,063	(4,758)	325,768	(22,222)	542,831	(26,980)
Due in five years through ten years	136,768	(2,909)	87,271	(5,149)	224,039	(8,058)
Due after ten years	2,898	(23)	1,726	(115)	4,624	(138)
Asset-backed securities	13,337	(71)	30,016	(86)	43,353	(157)
Mortgage-backed securities	36,057	(126)	111,259	(513)	147,316	(639)
Total fixed maturity securities	\$425,752	\$ (8,551)	\$ 585,675	\$ (31,471)	\$ 1,011,427	\$ (40,022)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at June 30, 2016 were \$1,011,427 thousand and \$40,022 thousand, respectively. The market value of securities for the single

issuer whose securities comprised the largest unrealized loss position at June 30, 2016, did not exceed 0.9% 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 \$8,551 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 net unrealized foreign exchange losses, \$6,030 thousand, as the U.S. dollar has strengthened against other currencies. The \$31,471 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to domestic and foreign corporate securities and foreign government securities. The majority of these unrealized losses are attributable to net unrealized foreign

8

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

exchange losses, \$22,677 thousand, as the U.S. dollar has strengthened against other currencies. The Company did not have any sub-prime or alt-A loans with gross unrealized depreciation at June 30, 2016. In all instances, there were no projected cash flow shortfalls to recover the full book value of the investments and the related interest obligations. The mortgage-backed securities still have excess credit coverage and are current on interest and principal payments.

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

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

	Duration of Unrealized Loss at December 31, 2015 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
	Gross Unrealized		Gross Unrealized		Gross Unrealized	
	Market Value	Depreciation	Market Value	Depreciation	Market Value	Depreciation
(Dollars in thousands)						
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of						
U.S. government agencies and corporations	\$216,352	\$ (712)	\$ 692	\$ (6)	\$217,044	\$ (718)
Obligations of U.S. states and political subdivisions	6,434	(84)	4,917	(806)	11,351	(890)
Corporate securities	866,715	(49,034)	307,215	(21,691)	1,173,930	(70,725)
Asset-backed securities	102,506	(791)	28,048	(272)	130,554	(1,063)
Mortgage-backed securities						
Commercial	26,483	(511)	-	-	26,483	(511)
Agency residential	320,285	(3,094)	150,095	(3,509)	470,380	(6,603)
Non-agency residential	-	-	-	-	-	-
Foreign government securities	61,498	(2,182)	77,911	(6,243)	139,409	(8,425)
Foreign corporate securities	324,904	(6,289)	76,951	(5,108)	401,855	(11,397)
Total fixed maturity securities	\$1,925,177	\$ (62,697)	\$ 645,829	\$ (37,635)	\$2,571,006	\$ (100,332)

	Duration of Unrealized Loss at December 31, 2015 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
	Gross Unrealized		Gross Unrealized		Gross Unrealized	
	Market Value	Depreciation	Market Value	Depreciation	Market Value	Depreciation
(Dollars in thousands)						
Fixed maturity securities						
Due in one year or less	\$21,780	\$ (1,577)	\$ 12,212	\$ (1,171)	\$33,992	\$ (2,748)
Due in one year through five years	1,023,437	(23,255)	347,203	(21,582)	1,370,640	(44,837)

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

Due in five years through ten years	394,978	(31,423)	99,335	(10,131)	494,313	(41,554)
Due after ten years	35,708	(2,046)	8,936	(970)	44,644	(3,016)
Asset-backed securities	102,506	(791)	28,048	(272)	130,554	(1,063)
Mortgage-backed securities	346,768	(3,605)	150,095	(3,509)	496,863	(7,114)
Total fixed maturity securities	\$1,925,177	\$ (62,697)	\$ 645,829	\$ (37,635)	\$2,571,006	\$ (100,332)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at December 31, 2015 were \$2,571,006 thousand and \$100,332 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 0.07% 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 \$62,697 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, agency residential mortgage-backed securities and foreign government securities. The majority of these unrealized losses are attributable to unrealized losses in the energy sector, \$35,978 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, \$6,090 thousand, as the U.S. dollar has strengthened against other currencies. The \$37,635 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to domestic and foreign corporate securities, foreign government securities and agency residential mortgage-backed securities. The majority of these unrealized losses are attributable to unrealized foreign exchange losses, \$14,807 thousand, as the U.S. dollar has strengthened against other currencies and unrealized losses in the energy sector, \$6,959 thousand, as falling oil prices disrupted the market values for this sector, particularly for oil exploration, production and servicing companies. The Company did not have any sub-prime or alt-A loans with gross unrealized depreciation at December 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.

Other invested assets, at fair value, as of June 30, 2016, and December 31, 2015, were comprised of preferred shares held in Everest Preferred International Holdings ("Preferred Holdings"), an affiliated company.

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

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2016	2015	2016	2015
Fixed maturities	\$ 44,795	\$ 46,443	\$ 90,121	\$ 94,415
Equity securities	8,734	9,892	17,882	18,634
Short-term investments and cash	251	321	555	485
Other invested assets				
Limited partnerships	14,192	7,276	11,678	14,655
Dividends from Parent's shares	-	9,234	-	18,468
Dividends from preferred shares of affiliate	7,758	-	15,516	-
Other	729	983	(183)	1,608
Gross investment income before adjustments	76,459	74,149	135,569	148,265
Funds held interest income (expense)	974	865	3,628	3,386
Interest income from Parent	1,075	1,075	2,150	2,150
Gross investment income	78,508	76,089	141,347	153,801
Investment expenses	(4,636)	(5,164)	(9,030)	(10,295)
Net investment income	\$ 73,872	\$ 70,925	\$ 132,317	\$ 143,506

(Some amounts may not reconcile due to rounding.)

The Company records results from limited partnership investments on the equity method of accounting with changes in value reported through net investment income. Due to the timing of receiving financial information from these partnerships, the results are generally reported on a one month or quarter lag. If the Company determines there has been a significant decline in value of a limited partnership during this lag period, a loss will be recorded in the period in which the Company identifies the decline.

The Company had contractual commitments to invest up to an additional \$290,398 thousand in limited partnerships at June 30, 2016. These commitments will be funded when called in accordance with the partnership agreements, which have investment periods that expire, unless extended, through 2020.

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

The components of net realized capital gains (losses) are presented in the table below for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Fixed maturity securities, market value:				
Other-than-temporary impairments	\$ (1,391)	\$ (8,810)	\$ (24,406)	\$ (32,931)
Gains (losses) from sales	2,244	(12,208)	(14,611)	(23,726)
Fixed maturity securities, fair value:				
Gain (losses) from sales	(1,854)	14	(1,854)	42
Gains (losses) from fair value adjustments	1,571	(6)	1,339	56
Equity securities, market value:				
Gains (losses) from sales	-	1	-	1
Equity securities, fair value:				
Gains (losses) from sales	(7,636)	(289)	(15,586)	(354)
Gains (losses) from fair value adjustments	36,987	(5,334)	18,662	15,612
Other invested assets, fair value:				
Gains (losses) from fair value adjustments	(756)	77,857	(756)	113,821
Total net realized capital gains (losses)	\$ 29,165	\$ 51,225	\$ (37,212)	\$ 72,521

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Proceeds from sales of fixed maturity securities	\$ 110,429	\$ 175,742	\$ 298,475	\$ 289,824
Gross gains from sales	6,154	5,096	7,618	7,638
Gross losses from sales	(5,764)	(17,290)	(24,083)	(31,322)
Proceeds from sales of equity securities	\$ 335,831	\$ 169,533	\$ 421,980	\$ 303,493
Gross gains from sales	4,853	7,272	6,635	12,414
Gross losses from sales	(12,489)	(7,561)	(22,221)	(12,768)

4. 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.

11

The levels in the hierarchy are defined as follows:

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

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

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

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

In limited instances where prices are not provided by pricing services or in rare instances when a manager may not agree with the pricing service, price quotes on a non-binding basis are obtained from investment brokers. The investment asset managers do not make any changes to prices received from either the pricing services or the investment brokers. In addition, the investment asset managers have procedures in place to review the reasonableness of the prices from the service providers and may request verification of the prices. In addition, the Company continually performs analytical reviews of price changes and tests the prices on a random basis to an independent pricing source. No material variances were noted during these price validation procedures. In limited situations, where financial markets are inactive or illiquid, the Company may use its own assumptions about future cash flows and risk-adjusted discount rates to determine fair value. Due to the unavailability of prices for fifteen private placement securities, the Company valued the fifteen securities at \$34,431 thousand at June 30, 2016. Due to the unavailability of prices for two private placement securities, the Company valued the two securities at \$3,593 thousand at December 31, 2015.

The Company internally manages a small public equity portfolio which had a fair value at June 30, 2016 and December 31, 2015 of \$124,776 thousand and \$131,219 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.

Other invested assets, at fair value, was categorized as Level 3 at June 30, 2016 and December 31, 2015, since it represented a privately placed convertible preferred stock issued by an affiliate. The stock was received in exchange for shares of the Company's parent, which were valued on a public securities exchange on December 21, 2015. The fair value of the preferred stock at June 30, 2016 was determined using a pricing model and at December 31, 2015 represented the original exchange value.

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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:

		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)
(Dollars in thousands)	June 30, 2016			
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	\$ 391,944	\$-	\$391,944	\$ -
Obligations of U.S. States and political subdivisions	749,912	-	749,912	-
Corporate securities	2,066,163	-	2,033,753	32,410
Asset-backed securities	168,913	-	168,913	-
Mortgage-backed securities				
Commercial	75,101	-	75,101	-
Agency residential	767,696	-	767,696	-
Non-agency residential	120	-	120	-
Foreign government securities	533,403	-	533,403	-
Foreign corporate securities	1,015,497	-	1,013,476	2,021
Total fixed maturities, market value	5,768,749	-	5,734,318	34,431
Equity securities, fair value	976,879	915,003	61,876	-
Other invested assets, fair value	1,772,458	-	-	1,772,458

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

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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, 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	\$ 330,985	\$ -	\$330,985	\$ -
Obligations of U.S. States and political subdivisions	703,075	-	703,075	-
Corporate securities	1,968,558	-	1,964,625	3,933
Asset-backed securities	144,982	-	144,982	-
Mortgage-backed securities				
Commercial	62,446	-	62,446	-
Agency residential	712,298	-	712,298	-
Non-agency residential	150	-	150	-
Foreign government securities	463,074	-	463,074	-
Foreign corporate securities	970,909	-	969,316	1,593
Total fixed maturities, market value	5,356,477	-	5,350,951	5,526
Fixed maturities, fair value	2,102	-	2,102	-
Equity securities, fair value	1,215,377	1,153,310	62,067	-
Other invested assets, fair value	1,773,214	-	-	1,773,214

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 June 30, 2016			Six Months Ended June 30, 2016		
	Corporate Securities	Foreign Corporate	Total	Corporate Securities	Foreign Corporate	Total
Beginning balance	\$ 15,706	\$ 596	\$ 16,302	\$ 3,933	\$ 1,593	\$ 5,526
Total gains or (losses) (realized/unrealized)						
Included in earnings	(18)	-	(18)	(10)	(997)	(1,007)
Included in other comprehensive income (loss)	(27)	1,425	1,398	(33)	1,425	1,392
Purchases, issuances and settlements	16,749	-	16,749	28,520	-	28,520
Transfers in and/or (out) of Level 3	-	-	-	-	-	-
Ending balance	\$ 32,410	\$ 2,021	\$ 34,431	\$ 32,410	\$ 2,021	\$ 34,431

The amount of total gains or losses for the
period included
in earnings (or changes in net assets)
attributable to the
change in unrealized gains or losses relating to
assets

still held at the reporting date	\$ -	\$ -	\$ -	\$ -	\$ (997)	\$ (997)
----------------------------------	------	------	------	------	-----------	-----------

(Some amounts may not reconcile due to
rounding.)

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

(Dollars in thousands)	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015			
	Corporate Securities	Foreign Corporate	Total	Corporate Securities	CMBS	Foreign Corporate	Total
Beginning balance	\$ 2,653	\$ 6,125	\$ 8,778	\$-	\$8,597	\$ 7,166	\$15,763
Total gains or (losses) (realized/unrealized)							
Included in earnings	2	58	60	4	-	115	119
Included in other comprehensive income (loss)	(3)	1,169	1,166	(2)	-	71	69
Purchases, issuances and settlements	(12)	-	(12)	1,928	-	-	1,928
Transfers in and/or (out) of Level 3	(682)	485	(197)	28	(8,597)	485	(8,084)
Ending balance	\$ 1,958	\$ 7,837	\$ 9,795	\$1,958	\$-	\$ 7,837	\$9,795

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

\$ - \$ - \$ - \$ - \$ - \$ - \$ -

(Some amounts may not reconcile due to rounding.)

The net transfers from level 3, fair value measurements using significant unobservable inputs, of \$0 thousand and \$8,084 thousand of investments for the six months ended June 30, 2016 and 2015, respectively, primarily relate to securities that were priced using single non-binding broker quotes as of December 31, 2014. The securities were subsequently priced using a recognized pricing service as of June 30, 2015, and were classified as level 2 as of that date.

The following table presents the activity under Level 3, fair value measurements using significant unobservable inputs by other invested assets, for the periods indicated:

(Dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Other invested assets, fair value:				
Beginning balance	\$ 1,773,214	\$ -	\$ 1,773,214	\$ -
Total gains or (losses) (realized/unrealized)				
Included in earnings	(756)	-	(756)	-
Included in other comprehensive income (loss)	-	-	-	-
Purchases, issuances and settlements	-	-	-	-
Transfers in and/or (out) of Level 3	-	-	-	-
Ending balance	\$ 1,772,458	\$ -	\$ 1,772,458	\$ -

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.)

5. 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.

16

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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 June 30, 2016	At December 31, 2015
(Dollars in thousands)		
The Prudential	\$ 141,562	\$ 142,427
Unaffiliated life insurance company	32,545	33,062

6. 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:

	Three Months Ended June 30, 2016			Six Months Ended June 30, 2016		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
(Dollars in thousands)						
Unrealized appreciation (depreciation) ("URA(D)") on securities - temporary	\$ 53,960	\$ (18,886)	\$ 35,074	\$ 83,916	\$ (29,370)	\$ 54,546
URA(D) on securities - OTTI	6,446	(2,256)	4,190	6,643	(2,325)	4,318
Reclassification of net realized losses (gains) included in net income (loss)	(97)	34	(63)	39,773	(13,921)	25,852
Foreign currency translation adjustments	23,830	(8,341)	15,489	46,807	(16,386)	30,421
Benefit plan actuarial net gain (loss)	-	-	-	-	-	-
Reclassification of amortization of net gain (loss) included in net income (loss)	2,063	(722)	1,341	4,125	(1,444)	2,681
Total other comprehensive income (loss)	\$ 86,202	\$ (30,171)	\$ 56,031	\$ 181,264	\$ (63,446)	\$ 117,818

(Some amounts may not reconcile due to rounding)

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
(Dollars in thousands)						
Unrealized appreciation (depreciation) ("URA(D)") on securities - temporary	\$ (55,290)	\$ 19,352	\$ (35,938)	\$ (39,718)	\$ 13,402	\$ (26,316)
URA(D) on securities - OTTI	-	-	-	9,735	(3,407)	6,328
	21,017	(7,356)	13,661	56,656	(19,330)	37,326

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

Reclassification of net realized losses
(gains) included in net income (loss)

Foreign currency translation adjustments	24,839	(8,694)	16,145	(26,404)	9,241	(17,163)
Benefit plan actuarial net gain (loss)	-	-	-	-	-	-
Reclassification of amortization of net gain (loss) included in net income (loss)	2,476	(867)	1,609	4,943	(1,730)	3,213
Total other comprehensive income (loss)	\$ (6,958)	\$ 2,435	\$ (4,523)	\$ 5,212	\$ (1,824)	\$ 3,388

(Some amounts may not reconcile due to
rounding)

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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

	Three Months Ended		Six Months Ended		
	June 30,		June 30,		Affected line item within the
AOCI component	2016	2015	2016	2015	statements of
(Dollars in thousands)					operations and comprehensive
					income (loss)
					Other net realized capital gains
URA(D) on securities	\$ (97)	\$ 21,017	\$ 39,773	\$ 56,656	(losses)
	34	(7,356)	(13,921)	(19,330)	Income tax expense (benefit)
	\$ (63)	\$ 13,661	\$ 25,852	\$ 37,326	Net income (loss)
Benefit plan net gain (loss)	\$ 2,063	\$ 2,476	\$ 4,125	\$ 4,943	Other underwriting expenses
	(722)	(867)	(1,444)	(1,730)	Income tax expense (benefit)
	\$ 1,341	\$ 1,609	\$ 2,681	\$ 3,213	Net income (loss)

(Some amounts may not reconcile
due to rounding)

The following table presents the components of accumulated other comprehensive income (loss), net of tax, in the consolidated balance sheets for the periods indicated:

(Dollars in thousands)	Six Months Ended June 30, 2016	Twelve Months Ended December 31, 2015
Beginning balance of URA (D) on securities	\$ 13,654	\$ 37,628
Current period change in URA (D) of investments - temporary	80,398	(30,257)
Current period change in URA (D) of investments - non-credit OTTI	4,318	6,283
Ending balance of URA (D) on securities	98,370	13,654
Beginning balance of foreign currency translation adjustments	(12,701)	41,877
Current period change in foreign currency translation adjustments	30,421	(54,578)
Ending balance of foreign currency translation adjustments	17,720	(12,701)
Beginning balance of benefit plan net gain (loss)	(63,089)	(74,986)
Current period change in benefit plan net gain (loss)	2,681	11,897
Ending balance of benefit plan net gain (loss)	(60,408)	(63,089)
Ending balance of accumulated other comprehensive income (loss)	\$ 55,682	\$ (62,136)

7. REINSURANCE AND TRUST AGREEMENTS

A subsidiary of the Company, Everest Re, has established a trust agreement, which effectively uses Everest Re's investments as collateral, as security for assumed losses payable to a non-affiliated ceding company. At June 30, 2016, the total amount on deposit in the trust account was \$297,465 thousand.

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.

18

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.

8. SENIOR NOTES

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

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

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

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

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Interest expense incurred	\$ 4,868	\$ 4,868	\$ 9,736	\$ 9,736

9. 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.

(Dollars in thousands)	Date Issued	Original Principal Amount	Maturity Date		June 30, 2016		December 31, 2015	
			Scheduled	Final	Consolidated Sheet Amount	Market Value	Consolidated Sheet Amount	Market Value
6.6% Long term subordinated notes	04/26/2007	\$ 400,000	05/15/2037	05/01/2067	\$ 236,413	\$ 189,893	\$ 236,364	\$ 208,978

During the fixed rate interest period from May 3, 2007 through May 14, 2017, interest will be at the annual rate of 6.6%, payable semi-annually in arrears on November 15 and May 15 of each year, commencing on November 15, 2007, subject to Holdings' right to defer interest on one or more 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 June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Interest expense incurred	\$ 3,937	\$ 3,937	\$ 7,874	\$ 7,874

10. 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, Singapore and through offices in Brazil, Miami and New Jersey. The Insurance operation writes property and casualty insurance directly and through general agents, brokers and surplus lines brokers mainly within the U.S.

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.

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

Underwriting results include earned premium less losses and LAE incurred, commission and brokerage expenses and other underwriting expenses. Underwriting results are measured 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.

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:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
<u>U.S. Reinsurance</u>				
(Dollars in thousands)	2016	2015	2016	2015
Gross written premiums	\$405,530	\$451,059	\$942,236	\$1,013,706
Net written premiums	161,031	184,707	384,458	425,401
Premiums earned	\$224,618	\$235,426	\$459,861	\$490,838
Incurred losses and LAE	110,152	116,473	226,322	227,928
Commission and brokerage	50,130	34,703	99,861	93,067
Other underwriting expenses	12,133	11,807	25,591	23,336
Underwriting gain (loss)	\$52,203	\$72,443	\$108,087	\$146,507

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
<u>International</u>				
(Dollars in thousands)	2016	2015	2016	2015
Gross written premiums	\$348,178	\$311,653	\$586,656	\$645,268
Net written premiums	124,438	147,399	212,154	269,080
Premiums earned	\$131,285	\$157,922	\$244,458	\$298,621
Incurred losses and LAE	91,427	110,027	164,842	211,472
Commission and brokerage	26,140	31,243	52,250	65,242
Other underwriting expenses	7,969	8,049	15,792	16,164
Underwriting gain (loss)	\$5,749	\$8,603	\$11,574	\$5,743

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
<u>Insurance</u>				
(Dollars in thousands)	2016	2015	2016	2015
Gross written premiums	\$424,083	\$326,729	\$778,803	\$657,230
Net written premiums	155,786	140,358	308,712	286,410
Premiums earned	\$132,952	\$128,076	\$266,461	\$253,027
Incurred losses and LAE	136,957	96,379	243,434	192,359
Commission and brokerage	(4,144)	7,007	(11,163)	11,175
Other underwriting expenses	38,228	31,717	76,174	60,616
Underwriting gain (loss)	\$(38,089)	\$(7,027)	\$(41,984)	\$(11,123)

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Underwriting gain (loss)	\$19,863	\$74,019	\$77,677	\$141,127
Net investment income	73,872	70,925	132,317	143,506
Net realized capital gains (losses)	29,165	51,225	(37,212)	72,521
Corporate expense	(2,010)	(1,785)	(4,346)	(3,394)
Interest, fee and bond issue cost amortization expense	(8,858)	(8,858)	(17,717)	(17,717)
Other income (expense)	(10,700)	12,289	2,402	28,122
Income (loss) before taxes	\$101,332	\$197,815	\$153,121	\$364,165

The Company produces business in the U.S. and internationally. The net income deriving from 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Canada gross written premiums	\$34,630	\$30,160	\$58,216	\$53,672

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

11. RELATED-PARTY TRANSACTIONS

Parent

Group entered into a \$250,000 thousand long term promissory note agreement with Holdings as of December 31, 2014. The note will mature on December 31, 2023 and has an interest rate of 1.72% that will be paid annually, on December 15th of each year. This transaction is presented as a Note Receivable – Affiliated in the Consolidated Balance Sheets of Holdings. Interest income in the amount of \$2,150 thousand was recorded by Holdings for the six months ended June 30, 2016, and June 30, 2015, respectively.

Group's Board of Directors approved an amended share repurchase program authorizing Group and/or its subsidiary Holdings to purchase Group's common shares through open market transactions, privately negotiated transactions or both. The table below represents the amendments to the share repurchase program for the common shares approved for repurchase.

	Common Shares Authorized for Repurchase
<u>Amendment Date</u>	
(Dollars in thousands)	

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

09/21/2004	5,000,000
07/21/2008	5,000,000
02/24/2010	5,000,000
02/22/2012	5,000,000
05/15/2013	5,000,000
11/19/2014	5,000,000
	30,000,000

Through December, 2015, Holdings had purchased and held 9,719,971 Common Shares of Group, which were purchased in the open market between February 2007 and March 2011.

22

In December, 2015, Holdings transferred the 9,719,971 Common Shares of Group, which it held as other invested assets, at fair value, valued at \$1,773,214 thousand, to Preferred Holdings, an affiliated entity and subsidiary of Group, in exchange for 1,773.214 preferred shares of Preferred Holdings with a \$1,000 thousand par value and 1.75% annual dividend rate. After the exchange, Holdings no longer holds any shares or has any ownership interest in Group.

Holdings reported both its Parent Shares and preferred shares in Preferred Holdings, as other invested assets, fair value, in the consolidated balance sheets with changes in fair value re-measurement recorded in net realized capital gains (losses) in the consolidated statements of operations and comprehensive income (loss). The following table presents the dividends received on the preferred shares of preferred Holdings and on the Parent shares that are reported as net investment income in the consolidated statements of operations and comprehensive income (loss) for the period indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Dividends received on Parent shares	\$ -	\$ 9,234	\$ -	\$ 18,468
Dividends received on preferred stock of affiliate	7,758	-	15,516	-

Affiliated Companies

Everest Global Services, Inc. ("Global Services"), an affiliate of Holdings, provides centralized management and home office services, through a management agreement, to Holdings and other affiliated companies within Holdings' consolidated structure. Services provided by Everest Global include executive managerial services, legal services, actuarial services, accounting services, information technology services and others.

The following table presents the expenses incurred by Holdings from services provided by Everest Global for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Expenses incurred	\$ 20,289	\$ 19,833	\$ 41,459	\$ 38,196

Affiliates

The table below represents affiliated quota share reinsurance agreements ("whole account quota share") for all new and renewal business for the indicated coverage period:

(Dollars in thousands)

Coverage Period	Ceding Company	Percent Ceded	Assuming Company	Type of Business	Single Occurrence Limit	Aggregate Limit	
01/01/2002-12/31/2002	Everest Re	20.0 %	Bermuda Re	property / casualty business	\$ -	\$ -	
01/01/2003-12/31/2003	Everest Re	25.0 %	Bermuda Re	property / casualty business	-	-	
01/01/2004-12/31/2005	Everest Re	22.5 %	Bermuda Re	property / casualty business	-	-	
	Everest Re	2.5 %	Everest International	property / casualty business	-	-	
01/01/2006-12/31/2006	Everest Re	18.0 %	Bermuda Re	property business	125,000	(1)	-
	Everest Re	2.0 %	Everest International	property business	-	-	
01/01/2006-12/31/2007	Everest Re	31.5 %	Bermuda Re	casualty business	-	-	
	Everest Re	3.5 %	Everest International	casualty business	-	-	
01/01/2007-12/31/2007	Everest Re	22.5 %	Bermuda Re	property business	130,000	(1)	-
	Everest Re	2.5 %	Everest International	property business	-	-	
01/01/2008-12/31/2008	Everest Re	36.0 %	Bermuda Re	property / casualty business	130,000	(1)	275,000 (2)
	Everest Re	4.0 %	Everest International	property / casualty business	-	-	
01/01/2009-12/31/2009	Everest Re	36.0 %	Bermuda Re	property / casualty	150,000	(1)	325,000 (2)

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

	Everest Re	8.0 %	Everest International	business property / casualty business	-	-		
01/01/2010-12/31/2010	Everest Re	44.0 %	Bermuda Re	property / casualty business	150,000		325,000	
01/01/2011-12/31/2011	Everest Re	50.0 %	Bermuda Re	property / casualty business	150,000		300,000	
01/01/2012-12/31/2014	Everest Re	50.0 %	Bermuda Re	property / casualty business	100,000		200,000	
01/01/2015	Everest Re	50.0 %	Bermuda Re	property / casualty business	162,500		325,000	
01/01/2003-12/31/2006	Everest Re-Canadian Branch	50.0 %	Bermuda Re	property business	-		-	
01/01/2007-12/31/2009	Everest Re-Canadian Branch	60.0 %	Bermuda Re	property business	-		-	
01/01/2010-12/31/2010	Everest Re-Canadian Branch	60.0 %	Bermuda Re	property business	350,000	(3)	-	
01/01/2011-12/31/2011	Everest Re-Canadian Branch	60.0 %	Bermuda Re	property business	350,000	(3)	-	
01/01/2012-12/31/2012	Everest Re-Canadian Branch	75.0 %	Bermuda Re	property / casualty business	206,250	(3)	412,500	(3)
01/01/2013-12/31/2013	Everest Re-Canadian Branch	75.0 %	Bermuda Re	property / casualty business	150,000	(3)	412,500	(3)
01/01/2014	Everest Re-Canadian Branch	75.0 %	Bermuda Re	property / casualty business	262,500	(3)	412,500	(3)
01/01/2012	Everest Canada	80.0%	Everest Re- Canadian Branch	property business	-	-		

(1) The single occurrence limit is applied before the loss cessions to either Bermuda Re or Everest International.

(2) The aggregate limit is applied before the loss cessions to either Bermuda Re or Everest International.

(3) Amounts shown are Canadian dollars.

The table below represents loss portfolio transfer reinsurance agreements whereby net insurance exposures and reserves were transferred to an affiliate.

Effective Date	Transferring Company	Assuming Company	% of Business or Amount of Transfer	Covered Period of Transfer
09/19/2000	Mt. McKinley	Bermuda Re	100	% All years
10/01/2001	Everest Re (Belgium Branch)	Bermuda Re	100	% All years
10/01/2008	Everest Re	Bermuda Re	\$ 747,022	01/01/2002-12/31/2007

On July 13, 2015, the Company sold Mt. McKinley to Clearwater Insurance Company, a Delaware domiciled insurance company. As of that date, Mt. McKinley is no longer deemed an affiliated company or related party.

The following tables summarize the premiums and losses ceded by the Company to Bermuda Re and Everest International, respectively, and premiums and losses assumed by the Company from Everest Canada and Lloyd's syndicate 2786 for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
<u>Bermuda Re</u> (Dollars in thousands)	2016	2015	2016	2015
Ceded written premiums	\$544,495	\$528,468	\$1,061,178	\$1,067,501
Ceded earned premiums	593,349	563,100	1,132,302	1,117,151
Ceded losses and LAE (a)	404,667	345,580	695,143	640,711

	Three Months Ended June 30,		Six Months Ended June 30,	
<u>Everest International</u> (Dollars in thousands)	2016	2015	2016	2015
Ceded written premiums	\$ 62	\$ 147	\$ 31	\$ 145
Ceded earned premiums	63	192	39	233
Ceded losses and LAE	756	1,702	898	880

	Three Months Ended June 30,		Six Months Ended June 30,	
<u>Everest Canada</u> (Dollars in thousands)	2016	2015	2016	2015
Assumed written premiums	\$ 16,228	\$ 11,823	\$ 26,427	\$ 18,487
Assumed earned premiums	12,675	8,625	23,129	17,324
Assumed losses and LAE	14,440	6,292	21,427	11,021

	Three Months Ended June 30,		Six Months Ended June 30,	
<u>Lloyd's Syndicate 2786</u> (Dollars in thousands)	2016	2015	2016	2015
Assumed written premiums	\$ (157)	\$ -	\$ 539	\$ -

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

Assumed earned premiums	28	-	116	-
Assumed losses and LAE	-	-	-	-

(a) Ceded losses and LAE include the Mt. McKinley loss portfolio transfer that constitutes losses ceded under retroactive reinsurance and therefore, in accordance with FASB guidance, amortization of deferred gain on retroactive reinsurance is reflected in other income on the consolidated statements of operations and comprehensive income (loss). Upon the sale of Mt. McKinley, the value of the remaining deferred gain on retroactive reinsurance was included in the calculation of the realized gain on sale of subsidiary.

Everest Re sold net assets of its UK branch to Bermuda Re and provided Bermuda Re with a reserve indemnity agreement allowing for indemnity payments of up to 90% of 25.0 million of the excess of 2002 and prior reserves, provided that any recognition of profit from the reserves for 2002 and prior underwriting years is taken into account.

25

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

Effective February 27, 2013, Group established a new subsidiary, Mt. Logan Re, which is a Class 3 insurer based in Bermuda. Effective July 1, 2013, Mt. Logan Re established separate segregated accounts for its business activity, which will invest in a diversified set of catastrophe exposures.

The following table summarizes the premiums and losses that are ceded by the Company to Mt. Logan Re segregated accounts and assumed by the Company from Mt. Logan Re segregated accounts.

<u>Mt. Logan Re Segregated Accounts</u> (Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Ceded written premiums	\$ 29,450	\$ 32,892	\$ 70,381	\$ 94,562
Ceded earned premiums	39,356	47,751	74,228	86,434
Ceded losses and LAE	16,232	13,157	25,330	21,471
Assumed written premiums	3,074	3,412	6,634	7,396
Assumed earned premiums	3,074	3,412	6,634	7,396
Assumed losses and LAE	-	-	-	-

12. 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 June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Service cost	\$ 2,896	\$ 3,255	\$ 5,793	\$ 6,195
Interest cost	2,361	2,711	4,722	5,168
Expected return on plan assets	(2,484)	(2,903)	(4,968)	(5,806)
Amortization of prior service cost	-	6	-	11
Amortization of net (income) loss	2,014	2,261	4,028	4,512
Net periodic benefit cost	\$ 4,787	\$ 5,330	\$ 9,575	\$ 10,080

<u>Other Benefits</u>	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Service cost	\$ 438	\$ 599	\$ 876	\$ 1,000
Interest cost	296	395	592	658
Amortization of net (income) loss	48	210	96	421
Net periodic benefit cost	\$ 782	\$ 1,204	\$ 1,564	\$ 2,079

The Company did not make any contributions to the qualified pension benefit plan for the three and six months ended June 30, 2016 and 2015.

26

13. INCOME TAXES

The Company is domiciled in the United States and has subsidiaries domiciled within the United States with significant branches in Canada and Singapore. The Company's non-U.S. branches are subject to income taxation at varying rates in their respective domiciles.

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.

14. PENDING DISPOSITION

The Company has signed a letter of intent to sell Heartland Crop Insurance, Inc., its crop Managing General Agent to CGB Diversified Services, Inc. The pending agreement includes a provision for a long term strategic reinsurance relationship with CGB Diversified Services, Inc. Under the terms of the letter of intent, there will not be a material gain or loss on the sale and with the proposed reinsurance arrangement, there will not be a material fluctuation in the level of crop business, although it will be reflected as reinsurance rather than insurance.

15. SUBSEQUENT EVENTS

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Industry Conditions.

The worldwide reinsurance and insurance businesses are highly competitive, as well as cyclical by product and market. As such, financial results tend to fluctuate with periods of constrained availability, high rates and strong profits followed by periods of abundant capacity, low rates and constrained profitability. Competition in the types of reinsurance and insurance business that we underwrite is based on many factors, including the perceived overall financial strength of the reinsurer or insurer, ratings of the reinsurer or insurer by A.M. Best and/or Standard & Poor's, underwriting expertise, the jurisdictions where the reinsurer or insurer is licensed or otherwise authorized, capacity and coverages offered, premiums charged, other terms and conditions of the reinsurance and insurance business offered, services offered, speed of claims payment and reputation and experience in lines written. Furthermore, the market impact from these competitive factors related to reinsurance and insurance is generally not consistent across lines of business, domestic and international geographical areas and distribution channels.

We compete in the U.S. 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. During the first half of 2016, there has been an increase in catastrophes, such as the Fort McMurray Canadian wildfire, storms and an earthquake in Ecuador; however, the aggregate of these losses are below historical levels of catastrophe losses. 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 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.

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 stockholder's equity for the periods indicated:

	Three Months Ended June 30,		Percentage Increase/ (Decrease)		Six Months Ended June 30,		Percentage Increase/ (Decrease)	
(Dollars in millions)	2016	2015			2016	2015		
Gross written premiums	\$1,177.8	\$1,089.4	8.1	%	\$2,307.7	\$2,316.2	-0.4	%
Net written premiums	441.3	472.5	-6.6	%	905.3	980.9	-7.7	%

REVENUES:

Premiums earned	\$488.9	\$521.4	-6.2	%	\$970.8	\$1,042.5	-6.9	%
Net investment income	73.9	70.9	4.2	%	132.3	143.5	-7.8	%
Net realized capital gains (losses)	29.2	51.2	-43.1	%	(37.2)	72.5	-151.3	%
Other income (expense)	(10.7)	12.3	-187.1	%	2.4	28.1	-91.5	%
Total revenues	581.2	655.9	-11.4	%	1,068.3	1,286.6	-17.0	%

CLAIMS AND EXPENSES:

Incurring losses and loss adjustment expenses	338.5	322.9	4.8	%	634.6	631.8	0.4	%
Commission, brokerage, taxes and fees	72.1	73.0	-1.1	%	140.9	169.5	-16.8	%
Other underwriting expenses	58.3	51.6	13.1	%	117.6	100.1	17.4	%
Corporate expense	2.0	1.8	12.6	%	4.3	3.4	28.0	%
Interest, fee and bond issue cost amortization expense	8.9	8.9	0.0	%	17.7	17.7	0.0	%
Total claims and expenses	479.9	458.0	4.8	%	915.2	922.5	-0.8	%

INCOME (LOSS) BEFORE

TAXES	101.3	197.8	-48.8	%	153.1	364.2	-58.0	%
Income tax expense (benefit)	33.0	64.0	-48.5	%	45.8	114.5	-59.9	%
NET INCOME (LOSS)	\$68.4	\$133.8	-48.9	%	\$107.3	\$249.7	-57.0	%

RATIOS:	Point Change					Point Change				
Loss ratio	69.3	%	61.9	%	7.4	65.4	%	60.6	%	4.8
Commission and brokerage ratio	14.8	%	14.0	%	0.8	14.5	%	16.3	%	(1.8)
Other underwriting expense ratio	11.8	%	9.9	%	1.9	12.1	%	9.6	%	2.5
Combined ratio	95.9	%	85.8	%	10.1	92.0	%	86.5	%	5.5

	At June 30, 2016	At December 31, 2015	Percentage Increase/ (Decrease)	
(Dollars in millions)				
Balance sheet data:				
Total investments and cash	\$9,740.2	\$9,516.3	2.4	%

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

Total assets	16,924.7	16,695.2	1.4	%
Loss and loss adjustment expense reserves	8,247.8	7,940.7	3.9	%
Total debt	633.1	633.0	0.0	%
Total liabilities	11,760.6	11,764.0	0.0	%
Stockholder's equity	5,164.1	4,931.2	4.7	%

(Some amounts may not reconcile due to rounding)

Revenues.

Premiums. Gross written premiums increased by 8.1% to \$1,177.8 million for the three months ended June 30, 2016, compared to \$1,089.4 million for the three months ended June 30, 2015, reflecting, a \$97.4 million, or 29.8%, increase in our insurance business, partially offset by a \$9.0 million, or 1.2%, decrease in our reinsurance 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 due mainly to a negative impact of approximately \$17.2 million from the year over year movement in foreign exchange rates. Gross written premiums decreased slightly to \$2,307.7 million for the six months

29

ended June 30, 2016, compared to \$2,316.2 million for the six months ended June 30, 2015, reflecting a \$130.1 million, or 7.8%, decrease in our reinsurance business, partially offset by a \$121.6 million, or 18.5%, increase in our insurance business. The decline in reinsurance premiums were due mainly to a decrease in treaty property business, a decrease in international premiums related to quota share agreements and a negative impact of approximately \$32.4 million from the year over year movement in foreign exchange rates. The rise in insurance premiums was primarily due to increases in most lines of business, as we have focused on expanding the insurance operations.

Net written premiums decreased by 6.6% to \$441.3 million for the three months ended June 30, 2016, compared to \$472.5 million for the three months ended June 30, 2015, and decreased by 7.7% to \$905.3 million for the six months ended June 30, 2016 compared to \$980.9 million for the six months ended June 30, 2015. The difference between the change in gross written premiums compared to the change in net written premiums is primarily due to higher utilization of reinsurance mainly related to new insurance business and to quota share agreements. Premiums earned decreased by 6.2% to \$488.9 million for the three months ended June 30, 2016, compared to \$521.4 million for the three months ended June 30, 2015, and decreased by 6.9% to \$970.8 million for the six months ended June 30, 2016, compared to \$1,042.5 million for the six months ended June 30, 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 increased by 4.2% to \$73.9 million for the three months ended June 30, 2016, compared with net investment income of \$70.9 million for the three months ended June 30, 2015, and decreased by 7.8% to \$132.3 million for six months ended June 30, 2016, compared with net investment income of \$143.5 million for the six months ended June 30, 2015. Net pre-tax investment income, as a percentage of average invested assets, was 3.2% for the three months ended June 30, 2016, compared to 3.4% for the three months ended June 30, 2015 and was 2.8% for the six months ended June 30, 2016 compared to 3.5% for the six months ended June 30, 2015. The increase in income for the three months ended June 30, 2016 compared to the prior period was primarily due to higher income from our limited partnerships, partially offset by lower reinvestment rates for the fixed income portfolios. The decline in income and yield for the six months ended June 30, 2016 compared to the prior period was primarily the result of lower reinvestment rates for the fixed income portfolios and lower income from our limited partnerships.

Net Realized Capital Gains (Losses). Net realized capital gains were \$29.2 million and \$51.2 million for the three months ended June 30, 2016 and 2015, respectively. The net realized capital gains of \$29.2 million were comprised of \$37.7 million of gains from fair value re-measurements on fixed maturity securities, equity securities and other invested assets, partially offset by \$7.3 million of losses from sales on our fixed maturity and equity securities and \$1.4 million of other-than-temporary impairments. The net realized capital gains of \$51.2 million for the three months ended June 30, 2015 were the result of \$72.5 million of gains from fair value re-measurements on equity securities and other invested assets, partially offset by \$12.4 million of losses from sales on our fixed maturity and equity securities and \$8.8 million of other-than-temporary impairments.

Net realized capital losses were \$37.2 million and net realized capital gains were \$72.5 million for the six months ended June 30, 2016 and 2015, respectively. The net realized capital losses of \$37.2 million were comprised of \$32.1 million of losses from sales on our fixed maturity and equity securities and \$24.4 million of other-than-temporary impairments, partially offset by \$19.2 million of gains from fair value re-measurements on fixed maturity securities, equity securities and other invested assets. The net realized capital gains of \$72.5 million for the six months ended June 30, 2015 were the result of \$129.5 million of gains from fair value re-measurements on fixed maturity securities, equity securities and other invested assets, partially offset by \$32.9 million of other-than-temporary impairments and \$24.0 million of losses from sales on our fixed maturity and equity securities.

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

Other Income (Expense). We recorded other expense of \$10.7 million and other income of \$2.4 million for the three and six months ended June 30, 2016, respectively. We recorded other income of \$12.3 million and \$28.1 million for the three and six months ended June 30, 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 tables present our incurred losses and loss adjustment expenses ("LAE") for the periods indicated.

(Dollars in millions)	Three Months Ended June 30,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
<u>2016</u>						
Attritional	\$300.9	61.6 %	\$2.8	0.6 %	\$303.7	62.2 %
Catastrophes	51.5	10.5 %	(16.7)	-3.4 %	34.8	7.1 %
Total segment	\$352.4	72.1 %	\$(13.9)	-2.8 %	\$338.5	69.3 %

<u>2015</u>						
Attritional	\$309.3	59.3 %	\$0.4	0.0 %	\$309.7	59.3 %
Catastrophes	18.1	3.5 %	(4.9)	-0.9 %	13.2	2.6 %
Total segment	\$327.4	62.8 %	\$(4.5)	-0.9 %	\$322.9	61.9 %

Variance 2016/2015

Attritional	\$(8.4)	2.3	pts	\$2.4	0.6	pts	\$(6.0)	2.9	pts
Catastrophes	33.4	7.0	pts	(11.8)	(2.5)	pts	21.6	4.5	pts
Total segment	\$25.0	9.3	pts	\$(9.4)	(1.9)	pts	\$15.6	7.4	pts

(Dollars in millions)	Six Months Ended June 30,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
<u>2016</u>						
Attritional	\$594.2	61.3 %	\$0.8	0.1 %	\$595.0	61.4 %
Catastrophes	56.7	5.8 %	(17.2)	-1.8 %	39.6	4.0 %
Total segment	\$651.0	67.1 %	\$(16.4)	-1.7 %	\$634.6	65.4 %

<u>2015</u>						
Attritional	\$622.1	59.7 %	\$(1.3)	-0.1 %	\$620.8	59.6 %
Catastrophes	18.1	1.7 %	(7.1)	-0.7 %	11.0	1.0 %
Total segment	\$640.2	61.4 %	\$(8.4)	-0.8 %	\$631.8	60.6 %

Variance 2016/2015

Attritional	\$(27.9)	1.6	pts	\$2.1	0.2	pts	\$(25.8)	1.8	pts
Catastrophes	38.6	4.1	pts	(10.1)	(1.1)	pts	28.6	3.0	pts
Total segment	\$10.8	5.7	pts	\$(8.0)	(0.9)	pts	\$2.8	4.8	pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE increased by 4.8% to \$338.5 million for the three months ended June 30, 2016 compared to \$322.9 million for the three months ended June 30, 2015, primarily due to an increase in current year catastrophe losses of \$33.4 million, partially offset by a decrease in current year attritional losses of \$8.4 million and a decrease in prior years' catastrophe losses of \$11.8 million, mainly related to the 2011 Japan earthquake. The current year catastrophe losses of \$51.5 million for the three months ended June 30, 2016 were related to the Fort McMurray Canada Wildfire (\$21.9 million), U.S. Storms (\$18.2 million) and the Ecuador earthquake (\$11.4 million). Current year catastrophe losses were \$18.1 million for the three months ended June 30, 2015 and related to the Northern Chile storms (\$10.0 million) and the New South Wales storms (\$8.1 million).

31

Incurred losses and LAE increased slightly to \$634.6 million for the six months ended June 30, 2016 compared to \$631.8 million for the six months ended June 30, 2015, primarily due to an increase in current year catastrophe losses of \$38.6 million, partially offset by a decrease in current year attritional losses of \$27.9 million and a decrease in prior years' catastrophe losses of \$10.1 million, mainly related to the 2011 Japan earthquake. The current year catastrophe losses of \$56.7 million for the six months ended June 30, 2016 were related to the Fort McMurray Canada Wildfire (\$21.9 million), U.S. Storms (\$18.2 million), the Ecuador earthquake (\$11.4 million) and the Taiwan earthquake (\$5.2 million). The current year catastrophe losses were \$18.1 million for the six months ended June 30, 2015 and related to the Northern Chile storms (\$10.0 million) and the New South Wales storms (\$8.1 million).

Commission, Brokerage, Taxes and Fees. Commission, brokerage, taxes and fees decreased by 1.1% to \$72.1 million for the three months ended June 30, 2016 compared to \$73.0 million for the three months ended June 30, 2015. Commission, brokerage, taxes and fees decreased by 16.8% to \$140.9 million for the six months ended June 30, 2016 compared to \$169.5 million for the six months ended June 30, 2015. These changes were primarily due to the impact of the decline in premiums earned and changes in the mix of business.

Other Underwriting Expenses. Other underwriting expenses were \$58.3 million and \$51.6 million for the three months ended June 30, 2016 and 2015, respectively. Other underwriting expenses were \$117.6 million and \$100.1 million for the six months ended June 30, 2016 and 2015, respectively. The increases in other underwriting expenses were mainly due to costs incurred related to the expansion of the insurance operations.

Corporate Expenses. Corporate expenses, which are general operating expenses that are not allocated to segments, were \$2.0 million and \$1.8 million for the three months ended June 30, 2016 and 2015, respectively, and \$4.3 million and \$3.4 million for the six months ended June 30, 2016 and 2015, respectively.

Interest, Fees and Bond Issue Cost Amortization Expense. Interest, fees and other bond amortization expense remained the same at \$8.9 million for the three months ended June 30, 2016 and 2015. Interest, fees and other bond amortization remained the same at \$17.7 million for the six months ended June 30, 2016 and 2015.

Income Tax Expense (Benefit). Income tax expense was \$33.0 million and \$64.0 million for the three months ended June 30, 2016 and 2015, respectively. Income tax expense was \$45.8 million and \$114.5 million for the six months ended June 30, 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. Variations in the income tax expense 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 decreases in income tax expenses for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015 were mainly due to the increase in current year catastrophe losses.

Net Income (Loss).

Our net income was \$68.4 million and \$133.8 million for the three months ended June 30, 2016 and 2015, respectively. Our net income was \$107.3 million and \$249.7 million for the six months ended June 30, 2016 and 2015, respectively. The changes were primarily driven by the financial component fluctuations explained above.

Ratios.

Our combined ratio increased by 10.1 points to 95.9% for the three months ended June 30, 2016, compared to 85.8% for the three months ended June 30, 2015, and increased by 5.5 points to 92.0% for the six months ended June 30, 2016, compared to 86.5% for the six months ended June 30, 2015. The loss ratio component increased by 7.4 points and 4.8 points for the three and six months ended June 30, 2016, respectively, over the same period last year mainly due to the increases of \$33.4 million and \$38.6 million in current year catastrophe losses. The commission and brokerage ratio components increased 0.8 points for the three months ended June 30, 2016, over the same period last year and decreased 1.8 points

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

for the six months ended June 30, 2016 compared to the same period last year. The variances are due to the impact of affiliated quota share agreements and changes in the mix of business. The other underwriting expense ratio components increased 1.9 points and 2.5 points for the three and six months ended June 30, 2016, respectively, over the same period last year mainly due to the increased focus on the expansion of the insurance business.

Stockholder's Equity.

Stockholders' equity increased by \$232.8 million to \$5,164.1 million at June 30, 2016 from \$4,931.2 million at December 31, 2015, principally as a result of \$107.3 million of net income, \$84.7 million of net unrealized appreciation on investments, net of tax, \$30.4 million of net foreign currency translation adjustments, \$7.7 million of share-based compensation transactions and \$2.7 million of net benefit plan obligation adjustments.

Consolidated Investment Results

Net Investment Income.

Net investment income increased 4.2% to \$73.9 million for the three months ended June 30, 2016 compared to \$70.9 million for the three months ended June 30, 2015, primarily due to an increase in limited partnership income, partially offset by lower reinvestment rates for the fixed income portfolios. Net investment income decreased by 7.8% to \$132.3 million for the six months ended June 30, 2016 compared to \$143.5 million for the six months ended June 30, 2015, primarily due to a decline in income from fixed maturities, reflective of lower reinvestment rates, and a decline in income from limited partnerships.

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

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Fixed maturities	\$ 44.8	\$ 46.4	\$ 90.1	\$ 94.4
Equity securities	8.8	9.9	17.9	18.6
Short-term investments and cash	0.3	0.3	0.6	0.5
Other invested assets				
Limited partnerships	14.2	7.3	11.7	14.7
Dividends from Parent's shares	-	9.3	-	18.5
Dividends from preferred shares of affiliate	7.7	-	15.5	-
Other	0.7	1.0	(0.2)	1.6
Gross investment income before adjustments	76.5	74.2	135.6	148.3
Funds held interest income (expense)	0.9	0.9	3.6	3.4
Interest income from Parent	1.1	1.1	2.2	2.2
Gross investment income	78.5	76.1	141.3	153.8
Investment expenses	(4.6)	(5.2)	(9.0)	(10.3)
Net investment income	\$ 73.9	\$ 70.9	\$ 132.3	\$ 143.5

(Some amounts may not reconcile due to rounding.)

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

At	At
June 30,	December 31,
2016	2015

Imbedded pre-tax yield of cash and invested assets at December 31	2.8%	2.9%
Imbedded after-tax yield of cash and invested assets at December 31	2.0%	2.1%

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Annualized pre-tax yield on average cash and invested assets	3.2%	3.4%	2.8%	3.5%
Annualized after-tax yield on average cash and invested assets	2.2%	2.4%	2.0%	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 June 30,			Six Months Ended June 30,		
	2016	2015	Variance	2016	2015	Variance
<u>Gains (losses) from sales:</u>						
Fixed maturity securities, market value						
Gains	\$ 6.1	\$ 5.1	\$ 1.0	\$ 7.6	\$ 7.6	\$ -
Losses	(3.9)	(17.3)	13.4	(22.2)	(31.3)	9.1
Total	2.2	(12.2)	14.4	(14.6)	(23.7)	9.1
Fixed maturity securities, fair value						
Gains	-	-	-	-	-	-
Losses	(1.9)	-	(1.9)	(1.9)	-	(1.9)
Total	(1.9)	-	(1.9)	(1.9)	-	(1.9)
Equity securities, fair value						
Gains	4.8	7.3	(2.5)	6.6	12.4	(5.8)
Losses	(12.5)	(7.6)	(4.9)	(22.2)	(12.8)	(9.4)
Total	(7.7)	(0.3)	(7.4)	(15.6)	(0.4)	(15.2)
Total net realized gains (losses) from sales						
Gains	10.9	12.4	(1.5)	14.2	20.1	(5.9)
Losses	(18.2)	(24.9)	6.7	(46.3)	(44.1)	(2.2)
Total	(7.3)	(12.4)	5.2	(32.1)	(24.0)	(8.1)
<u>Other than temporary impairments:</u>						
	(1.4)	(8.8)	7.4	(24.4)	(32.9)	8.5
<u>Gains (losses) from fair value adjustments:</u>						
Fixed maturities, fair value	1.5	-	1.5	1.3	0.1	1.2
Equity securities, fair value	37.0	(5.3)	42.3	18.7	15.6	3.1
Other invested assets, fair value	(0.8)	77.8	(78.6)	(0.8)	113.8	(114.6)
Total	37.7	72.5	(34.8)	19.2	129.5	(110.3)
Total net realized gains (losses)	\$ 29.2	\$ 51.2	\$ (22.0)	\$ (37.2)	\$ 72.5	\$ (109.7)

(Some amounts may not reconcile due to rounding)

Net realized capital gains were \$29.2 million and \$51.2 million for the three months ended June 30, 2016 and 2015, respectively. For the three months ended June 30, 2016, we recorded \$37.7 million of net realized capital gains due to fair value re-measurements on fixed maturity securities, equity securities and other invested assets, partially offset by \$7.3 million of net realized capital losses from sales of fixed maturity and equity securities and \$1.4 million of other-than-temporary impairments. For the three months ended June 30, 2015, we recorded \$72.5 million of net realized capital gains due to fair value re-measurements on equity securities and other invested assets, partially offset by \$12.4 million of net realized capital losses from sales of fixed maturity and equity securities and \$8.8 million of other-than-temporary impairments. The fixed maturity and equity sales for the three months ended June 30, 2016 and June 30, 2015, respectively, related primarily to adjusting the portfolios for overall market changes and individual credit shifts.

Net realized capital losses were \$37.2 million and net realized capital gains were \$72.5 million for the six months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016, we recorded \$32.1 million of net realized capital losses from sales of fixed maturity and equity securities and \$24.4 million of other-than-temporary impairments, partially offset by \$19.2 million of net realized capital gains due to fair value re-measurements on fixed maturity securities, equity securities and other invested assets. For the six months ended June 30, 2015, we recorded \$129.5 million of net realized capital gains due to fair value re-measurements on fixed maturity securities, equity securities and other invested assets, partially offset by \$32.9 million of other-than-temporary impairments and \$24.0 million of net realized capital losses from sales of fixed maturity and equity securities. The fixed maturity and equity sales for the six months ended June 30, 2016 and June 30, 2015, respectively, related primarily to adjusting the portfolios for overall market changes and individual credit shifts.

Segment Results.

The U.S. Reinsurance operation writes property and casualty reinsurance and specialty lines of business, including Marine, Aviation, Surety and 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, Singapore and through offices in Brazil, Miami and New Jersey. The Insurance operation writes property and casualty insurance directly and through general agents, brokers and surplus lines brokers mainly within the U.S.

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 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.

Our loss and LAE reserves are management's best estimate of our ultimate liability for unpaid claims. We re-evaluate our estimates on an ongoing basis, including all prior period reserves, taking into consideration all available information and, in particular, recently reported loss claim experience and trends related to prior periods. Such re-evaluations are recorded in incurred losses in the period in which the re-evaluation is made.

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

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 June 30,				Six Months Ended June 30,			
	2016	2015	Variance	% Change	2016	2015	Variance	% Change
Gross written premiums	\$405.5	\$451.1	\$ (45.6)	-10.1 %	\$942.2	\$1,013.7	\$ (71.5)	-7.1 %
Net written premiums	161.0	184.7	(23.7)	-12.8 %	384.5	425.4	(40.9)	-9.6 %
Premiums earned	\$224.6	\$235.4	\$ (10.8)	-4.6 %	\$459.9	\$490.8	\$ (31.0)	-6.3 %
Incurred losses and LAE	110.2	116.5	(6.3)	-5.4 %	226.3	227.9	(1.6)	-0.7 %
Commission and brokerage	50.1	34.7	15.4	44.4 %	99.9	93.1	6.8	7.3 %
Other underwriting expenses	12.1	11.8	0.3	2.8 %	25.6	23.3	2.3	9.7 %
Underwriting gain (loss)	\$52.2	\$72.4	\$ (20.2)	-27.9 %	\$108.1	\$146.5	\$ (38.4)	-26.2 %
Loss ratio	49.0 %	49.5 %	Point Chg (0.4)		49.2 %	46.4 %	Point Chg 2.8	
Commission and brokerage ratio	22.3 %	14.7 %	7.6		21.7 %	19.0 %	2.7	
Other underwriting ratio	5.5 %	5.0 %	0.5		5.6 %	4.8 %	0.8	
Combined ratio	76.8 %	69.2 %	7.6		76.5 %	70.2 %	6.2	

(Some amounts may not reconcile due to rounding.)

Premiums. Gross written premiums decreased by 10.1% to \$405.5 million for the three months ended June 30, 2016 from \$451.1 million for the three months ended June 30, 2015, primarily due to a decrease in treaty property business, partially offset by an increase in treaty casualty business. Net written premiums decreased by 12.8% to \$161.0 million for the three months ended June 30, 2016 compared to \$184.7 million for the three months ended June 30, 2015, which is consistent with the change in written premiums. Premiums earned decreased 4.6% to \$224.6 million for the three months ended June 30, 2016 compared to \$235.4 million for the three months ended June 30, 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.

Gross written premiums decreased by 7.1% to \$942.2 million for the six months ended June 30, 2016 from \$1,013.7 million for the six months ended June 30, 2015, primarily due to a decrease in treaty property business. Net written premiums decreased by 9.6% to \$384.5 million for the six months ended June 30, 2016 compared to \$425.4 million for the six months ended June 30, 2015, which is consistent with the change in written premiums. Premiums earned decreased 6.3% to \$459.9 million for the six months ended June 30, 2016 compared to \$490.8 million for the six months ended June 30, 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.

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

Incurred Losses and LAE. The following tables present the incurred losses and LAE for the U.S. Reinsurance segment for the periods indicated.

(Dollars in millions)	Three Months Ended June 30,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
<u>2016</u>						
Attritional	\$117.1	52.2 %	\$1.9	0.8 %	\$119.0	53.1 %
Catastrophes	1.4	0.6 %	(10.2)	-4.6 %	(8.8)	-3.9 %
Total segment	\$118.5	52.9 %	\$(8.4)	-3.8 %	\$110.2	49.0 %

<u>2015</u>						
Attritional	\$135.4	57.5 %	\$(15.3)	-6.5 %	\$120.1	51.0 %
Catastrophes	-	0.0 %	(3.6)	-1.5 %	(3.6)	-1.5 %
Total segment	\$135.4	57.5 %	\$(18.9)	-8.0 %	\$116.5	49.5 %

Variance 2016/2015

Attritional	\$(18.3)	(5.3)	pts	\$17.2	7.3	pts	\$(1.1)	2.1	pts
Catastrophes	1.4	0.6	pts	(6.6)	(3.1)	pts	(5.2)	(2.4)	pts
Total segment	\$(16.9)	(4.7)	pts	\$10.6	4.2	pts	\$(6.3)	(0.4)	pts

(Dollars in millions)	Six Months Ended June 30,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
<u>2016</u>						
Attritional	\$235.4	51.2 %	\$(0.4)	-0.1 %	\$235.1	51.1 %
Catastrophes	1.4	0.3 %	(10.2)	-2.2 %	(8.8)	-1.9 %
Total segment	\$236.9	51.5 %	\$(10.6)	-2.3 %	\$226.3	49.2 %

<u>2015</u>						
Attritional	\$252.9	51.5 %	\$(18.9)	-3.9 %	\$233.9	47.6 %
Catastrophes	-	0.0 %	(6.0)	-1.2 %	(6.0)	-1.2 %
Total segment	\$252.9	51.5 %	\$(24.9)	-5.1 %	\$227.9	46.4 %

Variance 2016/2015

Attritional	\$(17.5)	(0.3)	pts	\$18.5	3.8	pts	\$1.2	3.5	pts
Catastrophes	1.4	0.3	pts	(4.2)	(1.0)	pts	(2.8)	(0.7)	pts
Total segment	\$(16.0)	-	pts	\$14.3	2.8	pts	\$(1.6)	2.8	pts

(Some amounts may not reconcile due to rounding.)

Incurred losses decreased by 5.4% to \$110.2 million for the three months ended June 30, 2016 compared to \$116.5 million for the three months ended June 30, 2015, primarily due to an \$18.3 million decrease in current year attritional losses resulting primarily from the impact of the decline in premiums earned and favorable year over year development of \$6.6 million on prior years' catastrophe losses mainly related to the 2011 Japan earthquake. These declines were partially offset by in a reduction in favorable development on prior years' attritional losses related to

treaty casualty and marine business in 2015 and \$1.4 million in current year catastrophe losses. The \$1.4 million of current year catastrophe losses were mainly due to the 2016 U.S. storms. There were no current year catastrophe losses for the three months ended June 30, 2015.

Incurred losses decreased by 0.7% to \$226.3 million for the six months ended June 30, 2016 compared to \$227.9 million for the six months ended June 30, 2015, primarily due to a \$17.5 million decrease in current year attritional losses resulting primarily from the impact of the decline in premiums earned and favorable year over year development of \$4.2 million on prior years' catastrophe losses mainly related to the 2011 Japan earthquake. These declines were partially offset by a reduction in favorable development on prior years' attritional losses related to treaty casualty and marine business in 2015 and \$1.4 million in current

37

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

year catastrophe losses. The \$1.4 million of current year catastrophe losses were mainly due to the 2016 U.S. storms. There were no current year catastrophe losses for the six months ended June 30, 2015.

Segment Expenses. Commission and brokerage increased by 44.4% to \$50.1 million for the three months ended June 30, 2016 compared to \$34.7 million for the three months ended June 30, 2015. Commission and brokerage increased by 7.3% to \$99.9 million for the six months ended June 30, 2016 compared to \$93.1 million for the six months ended June 30, 2015. The increases were mainly due to the impact from affiliated quota share agreements and changes in the mix of business.

Segment other underwriting expenses were comparable at \$12.1 million for the three months ended June 30, 2016 and \$11.8 million for the three months ended June 30, 2015. Segment other underwriting expenses increased to \$25.6 million for the six months ended June 30, 2016 from \$23.3 million for the six months ended June 30, 2015, which was mainly due to increased compensation and benefit plan 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 June 30,				Six Months Ended June 30,				
	2016	2015	Variance	% Change	2016	2015	Variance	% Change	
Gross written premiums	\$348.2	\$311.7	\$ 36.5	11.7	% \$586.7	\$645.3	\$ (58.6)	-9.1	%
Net written premiums	124.4	147.4	(23.0)	-15.6	% 212.2	269.1	(56.9)	-21.2	%
Premiums earned	\$131.3	\$157.9	\$ (26.6)	-16.9	% \$244.5	\$298.6	\$ (54.2)	-18.1	%
Incurred losses and LAE	91.4	110.0	(18.6)	-16.9	% 164.8	211.5	(46.6)	-22.1	%
Commission and brokerage	26.1	31.2	(5.1)	-16.3	% 52.3	65.2	(13.0)	-19.9	%
Other underwriting expenses	8.0	8.0	-	NM	15.8	16.2	(0.4)	-2.3	%
Underwriting gain (loss)	\$5.7	\$8.6	\$ (2.9)	-33.2	% \$11.6	\$5.7	\$ 5.8	101.8	%
				Point Chg				Point Chg	
Loss ratio	69.6 %	69.7 %		(0.1)	67.4 %	70.8 %		(3.4)	
Commission and brokerage ratio	19.9 %	19.8 %		0.1	21.4 %	21.8 %		(0.4)	
Other underwriting ratio	6.1 %	5.1 %		1.0	6.5 %	5.5 %		1.0	
Combined ratio	95.6 %	94.6 %		1.0	95.3 %	98.1 %		(2.8)	

(NM, not meaningful)

Premiums. Gross written premiums increased by 11.7% to \$348.2 million for the three months ended June 30, 2016 compared to \$311.7 million for the three months ended June 30, 2015, primarily due to a negative impact on premiums during the second quarter of 2015 related to quota share agreements, partially offset by declines in Latin American and Asian business and the negative impact of approximately \$17.1 million from the movement of foreign exchange rates. Net written premiums decreased by 15.6% to \$124.4 million for the three months ended June 30, 2016 compared to \$147.4 million for the three months ended June 30, 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 16.9% to \$131.3 million for the three months ended June 30, 2016 compared to \$157.9 million for the three months ended June 30, 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.

Gross written premiums decreased by 9.1% to \$586.7 million for the six months ended June 30, 2016 compared to \$645.3 million for the six months ended June 30, 2015, primarily due to declines in Latin American and Asian business and the negative impact of approximately \$31.9 million from the movement of foreign exchange rates, partially offset by the negative impact on premiums during the second quarter of 2015 related to quota share agreements. Net written premiums decreased by 21.1% to \$212.2 million for the six months ended June 30, 2016 compared to \$269.1 million for the six months ended June 30, 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.

38

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

Premiums earned decreased 18.1% to \$244.5 million for the six months ended June 30, 2016 compared to \$298.6 million for the six months ended June 30, 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 tables present the incurred losses and LAE for the International segment for the periods indicated.

(Dollars in millions)	Three Months Ended June 30,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
<u>2016</u>						
Attritional	\$65.0	49.5 %	\$(0.6)	-0.4 %	\$ 64.4	49.1 %
Catastrophes	33.4	25.4 %	(6.4)	-4.9 %	27.0	20.5 %
Total segment	\$98.4	74.9 %	\$(7.0)	-5.3 %	\$ 91.4	69.6 %

<u>2015</u>						
Attritional	\$94.1	59.7 %	\$(0.9)	-0.7 %	\$ 93.2	59.0 %
Catastrophes	18.1	11.5 %	(1.3)	-0.8 %	16.8	10.7 %
Total segment	\$112.2	71.2 %	\$(2.2)	-1.5 %	\$ 110.0	69.7 %

Variance 2016/2015

Attritional	\$(29.1)	(10.2)	pts	\$0.3	0.3	pts	\$(28.8)	(9.9)	pts
Catastrophes	15.3	13.9	pts	(5.1)	(4.1)	pts	10.2	9.9	pts
Total segment	\$(13.8)	3.8	pts	\$(4.8)	(3.8)	pts	\$(18.6)	(0.1)	pts

(Dollars in millions)	Six Months Ended June 30,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
<u>2016</u>						
Attritional	\$136.4	55.8 %	\$(3.4)	-1.4 %	\$ 133.0	54.4 %
Catastrophes	38.6	15.8 %	(6.8)	-2.8 %	31.8	13.0 %
Total segment	\$175.0	71.6 %	\$(10.2)	-4.2 %	\$ 164.8	67.4 %

<u>2015</u>						
Attritional	\$193.8	65.0 %	\$0.7	0.1 %	\$ 194.5	65.1 %
Catastrophes	18.1	6.1 %	(1.2)	-0.4 %	17.0	5.7 %
Total segment	\$211.9	71.1 %	\$(0.5)	-0.3 %	\$ 211.5	70.8 %

Variance 2016/2015

Attritional	\$(57.4)	(9.2)	pts	\$(4.1)	(1.5)	pts	\$(61.5)	(10.7)	pts
Catastrophes	20.5	9.7	pts	(5.6)	(2.4)	pts	14.8	7.3	pts
Total segment	\$(36.9)	0.5	pts	\$(9.7)	(3.9)	pts	\$(46.6)	(3.4)	pts

(Some amounts may not reconcile due to rounding.)

Incurring losses and LAE decreased by 16.9% to \$91.4 million for the three months ended June 30, 2016 compared to \$110.0 million for the three months ended June 30, 2015, primarily due to a decrease in current year attritional losses of \$29.1 million, mainly due to the impact of the decrease in premiums earned, partially offset by an increase in current year catastrophe losses of \$15.3 million. The \$33.4 million of current year catastrophe losses for the three months ended June 30, 2016 were due to the Fort McMurray Canada wildfire (\$21.7 million) and the Ecuador earthquake (\$11.6 million). The \$18.1 million of current year catastrophe losses for the three months ended June 30, 2015 were due to the Northern Chile storms (\$10.0 million) and the New South Wales storms (\$8.1 million).

Incurring losses and LAE decreased by 22.1% to \$164.8 million for the six months ended June 30, 2016 compared to \$211.5 million for the six months ended June 30, 2015, primarily due to a decrease in current year attritional losses of \$57.4 million, mainly due to the impact of the decrease in premiums earned,

39

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

partially offset by an increase of \$20.5 million in current year catastrophe losses. The \$38.6 million of current year catastrophe losses for the six months ended June 30, 2016 were due to the Fort McMurray Canada wildfire (\$21.7 million), the Ecuador earthquake (\$11.6 million) and the Taiwan earthquake (\$5.3 million). The \$18.1 million of current year catastrophe losses for the six months ended June 30, 2015 were due to the Northern Chile storms (\$10.0 million) and the New South Wales storms (\$8.1 million).

Segment Expenses. Commission and brokerage decreased 16.3% to \$26.1 million for the three months ended June 30, 2016 compared to \$31.2 million for the three months ended June 30, 2015. Commission and brokerage decreased 19.9% to \$52.3 million for the six months ended June 30, 2016 compared to \$65.2 million for the six months ended June 30, 2015. The variances were primarily due to the impact of the decreases in premiums earned.

Segment other underwriting expenses remained the same at \$8.0 million for the three months ended June 30, 2016 and 2015. Segment other underwriting expenses decreased slightly to \$15.8 million for the six months ended June 30, 2016 compared to \$16.2 million for the six months ended June 30, 2015.

Insurance.

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

	Three Months Ended June 30,					Six Months Ended June 30,				
	2016	2015	Variance	%	Change	2016	2015	Variance	%	Change
(Dollars in millions)										
Gross written premiums	\$424.1	\$326.7	\$ 97.4	29.8	%	\$778.8	\$657.2	\$ 121.6	18.5	%
Net written premiums	155.8	140.4	15.4	11.0	%	308.7	286.4	22.3	7.8	%
Premiums earned	\$133.0	\$128.1	\$ 4.9	3.8	%	\$266.5	\$253.0	\$ 13.4	5.3	%
Incurred losses and LAE	137.0	96.4	40.6	42.1	%	243.4	192.4	51.1	26.6	%
Commission and brokerage	(4.1)	7.0	(11.2)	NM		(11.2)	11.2	(22.3)	NM	
Other underwriting expenses	38.2	31.7	6.5	20.5	%	76.2	60.6	15.6	25.7	%
Underwriting gain (loss)	\$(38.1)	\$(7.0)	\$ (31.1)	NM		\$(42.0)	\$(11.1)	\$ (30.9)	NM	
				Point					Point	
				Chg					Chg	
Loss ratio	103.0%	75.3 %		27.8		91.4 %	76.0 %		15.3	
Commission and brokerage ratio	-3.1 %	5.5 %		(8.6)		-4.2 %	4.4 %		(8.6)	
Other underwriting ratio	28.7 %	24.7 %		4.0		28.6 %	24.0 %		4.6	
Combined ratio	128.6%	105.5 %		23.2		115.8%	104.4 %		11.4	

(NM, not meaningful)

Premiums. Gross written premiums increased by 29.8% to \$424.1 million for the three months ended June 30, 2016 compared to \$326.7 million for the three months ended June 30, 2015. This increase was primarily driven by increases in the crop, non-standard auto and accident and health lines of business and additional expansion of other insurance lines of business. Net written premiums increased by 11.0% to \$155.8 million for the three months ended June 30, 2016 compared to \$140.4 million for the three months ended June 30, 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. Premiums earned increased 3.8% to \$133.0 million for the three months ended June 30, 2016 compared to \$128.1 million for the three months ended June 30, 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.

Gross written premiums increased by 18.5% to \$778.8 million for the six months ended June 30, 2016 compared to \$657.2 million for the six months ended June 30, 2015. This increase was primarily driven by increases in the crop, non-standard auto and accident and health lines of business and additional expansion of other insurance lines of business. Net written premiums increased by 7.8% to \$308.7 million for the six months ended June 30, 2016 compared to \$286.4 million for the six months ended June 30, 2015. The

40

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q

difference between the change in gross written premiums compared to the change in net written premiums is primarily due to varying utilization of reinsurance. Premiums earned increased 5.3% to \$266.5 million for the six months ended June 30, 2016 compared to \$253.0 million for the six months ended June 30, 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 tables present the incurred losses and LAE for the Insurance segment for the periods indicated.

(Dollars in millions)	Three Months Ended June 30,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
<u>2016</u>						
Attritional	\$118.8	89.3 %	\$1.5	1.2 %	\$120.3	90.5 %
Catastrophes	16.7	12.5 %	-	0.0 %	16.7	12.5 %
Total segment	\$135.5	101.8%	\$1.5	1.2 %	\$137.0	103.0%

<u>2015</u>						
Attritional	\$79.7	62.3 %	\$16.6	13.0 %	\$96.3	75.3 %
Catastrophes	-	0.0 %	0.1	0.0 %	0.1	0.0 %
Total segment	\$79.7	62.3 %	\$16.7	13.0 %	\$96.4	75.3 %

Variance 2016/2015

Attritional	\$39.1	27.0	pts	\$(15.1)	(11.8)	pts	\$24.0	15.2	pts
Catastrophes	16.7	12.5	pts	(0.1)	-	pts	16.6	12.5	pts
Total segment	\$55.8	39.5	pts	\$(15.2)	(11.8)	pts	\$40.6	27.8	pts

(Dollars in millions)	Six Months Ended June 30,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
<u>2016</u>						
Attritional	\$222.4	83.5%	\$4.5	1.7 %	\$226.9	85.2%
Catastrophes	16.7	6.3 %	(0.2)	-0.1 %	16.5	6.2 %
Total segment	\$239.1	89.8%	\$4.3	1.6 %	\$243.4	91.4%

<u>2015</u>						
Attritional	\$175.4	69.3%	\$17.0	6.7 %	\$192.4	76.0%
Catastrophes	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	\$175.4	69.3%	\$17.0	6.7 %	\$192.4	76.0%

Variance 2016/2015

Attritional	\$47.0	14.2	pts	\$(12.5)	(5.0)	pts	\$34.5	9.2	pts
Catastrophes	16.7	6.3	pts	(0.2)	(0.1)	pts	16.5	6.2	pts
Total segment	\$63.7	20.5	pts	\$(12.7)	(5.1)	pts	\$51.1	15.3	pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE increased by 42.1% to \$137.0 million for the three months ended June 30, 2016 compared to \$96.4 million for the three months ended June 30, 2015, mainly due to an increase of \$39.1 million in current year attritional losses, primarily related to the impact of the increase in premiums earned and the impact of affiliated quota share agreements, and an increase of \$16.7 million in current year catastrophe losses, partially offset by the impact from favorable quarter over quarter development of \$15.1 million on prior years' attritional losses related to run-off umbrella and construction liability business. The \$16.7 million of current year catastrophe losses for the three months ended June 30, 2016 were due to the U.S. storms (\$15.0 million) and the Fort McMurray Canada wildfire (\$1.7 million). There were no current year catastrophe losses for the three months ended June 30, 2015.

Incurred losses and LAE increased by 26.6% to \$243.4 million for the six months ended June 30, 2016 compared to \$192.4 million for the six months ended June 30, 2015, mainly due to an increase of \$47.0 million in current year attritional losses, primarily related to the impact of the increase in premiums earned and the impact of affiliated quota share agreements, and an increase of \$16.7 million in current year catastrophe losses, partially offset by the impact from favorable year over year development of \$12.5 million in prior year attritional losses related to run-off umbrella and construction liability business. The \$16.7 million of current year catastrophe losses for the six months ended June 30, 2016 were due to the U.S. storms (\$15.0 million) and the Fort McMurray Canada wildfire (\$1.7 million). There were no current year catastrophe losses for the six months ended June 30, 2015.

Segment Expenses. Commission and brokerage decreased to (\$4.1) million for the three months ended June 30, 2016 compared to \$7.0 million for the three months ended June 30, 2015. Commission and brokerage decreased to (\$11.2) million for the six months ended June 30, 2016 compared to \$11.2 million for the six months ended June 30, 2015. The decreases were mainly due to the impact from affiliated quota share agreements and changes in mix of business.

Segment other underwriting expenses increased to \$38.2 million for the three months ended June 30, 2016 compared to \$31.7 million for the three months ended June 30, 2015 and increased to \$76.2 million for the six months ended June 30, 2016 compared to \$60.6 million for the six months ended June 30, 2015. The increases were primarily due to the impact of the increases in premiums earned and increased expenses due to the build out of our insurance platform.

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 \$9.7 billion investment portfolio, at June 30, 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 \$842.9 million of mortgage-backed securities in the \$5,768.7 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 \$387.7 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 for mortgage-backed securities, changes in prepayment expectations under different interest rate environments were taken into account. For legal entities with 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 June 30, 2016									
(Dollars in millions)	-200		-100		0		100		200	
Total Market/Fair Value	\$6,471.3		\$6,313.0		\$6,156.5		\$5,989.3		\$5,814.8	
Market/Fair Value Change from Base (%)	5.1	%	2.5	%	0.0	%	-2.7	%	-5.5	%
Change in Unrealized Appreciation										
After-tax from Base (\$)	\$204.6		\$101.7		\$-		\$(108.6)		\$(222.0)	

We had \$8,247.8 million and \$7,940.7 million of gross reserves for losses and LAE as of June 30, 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 that is reasonably consistent with our fixed income portfolio.

Equity Risk. Equity risk is the potential change in fair and/or market value of the common stock and preferred stock portfolios arising from changing prices. Our equity investments consist of a diversified portfolio of individual securities. The primary objective of the equity portfolio is to obtain greater total return relative to 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 periods indicated.

Impact of Percentage Change in Equity Fair/Market Values					
At June 30, 2016					
(Dollars in millions)	-20%	-10%	0%	10%	20%
Fair/Market Value of the Equity Portfolio	\$ 781.5	\$ 879.2	\$ 976.9	\$ 1,074.6	\$ 1,172.3
After-tax Change in Fair/Market Value	(127.0)	(63.5)	-	63.5	127.0

Foreign Exchange 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. ("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 Singapore and Canadian Dollars. 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, the impact on the market value of available for sale fixed maturities due to changes in foreign currency exchange rates, in relation to functional currency, is reflected as part of other comprehensive income. Conversely, the impact of changes in foreign currency exchange rates, in relation to functional currency, on other assets and liabilities is reflected through net income as a component of other income (expense). In addition, 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 reported as a component of other comprehensive income.

43

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 our provision for uncollectible balances, estimates of our catastrophe exposure, the effects of catastrophic events on our financial statements and the ability of our subsidiaries to pay dividends.

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" in the Company's most recent 10-K filing. 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 "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 we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the 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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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 Reinsurance Holdings, Inc.

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
Reinsurance
Holdings, Inc.
(Registrant)

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

(Duly
Authorized
Officer and
Principal
Financial
Officer)

Dated:
August
15, 2016