

EVEREST RE GROUP LTD
Form 10-Q
November 09, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: Commission file number:
September 30, 2016 1-15731

EVEREST RE GROUP, LTD.

(Exact name of registrant as specified in its charter)

Bermuda 98-0365432

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

Seon Place – 4th Floor
141 Front Street
PO Box HM 845
Hamilton HM 19, Bermuda
441-295-0006

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

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

YESX NO

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

YESX NO

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

Large accelerated filer X Accelerated filer

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

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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 November 1, 2016</u>
Common Shares, \$0.01 par value	40,873,802

EVEREST RE GROUP, LTD

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EVEREST RE GROUP, LTD.
CONSOLIDATED BALANCE SHEETS

(Dollars and share amounts in thousands, except par value per share)	September 30, 2016 (unaudited)	December 31, 2015
ASSETS:		
Fixed maturities - available for sale, at market value (amortized cost: 2016, \$13,853,790; 2015, \$13,276,206)	\$ 14,266,113	\$ 13,357,294
Fixed maturities - available for sale, at fair value	3,982	2,102
Equity securities - available for sale, at market value (cost: 2016, \$126,729; 2015, \$122,271)	123,296	108,940
Equity securities - available for sale, at fair value	1,090,734	1,337,733
Short-term investments	314,494	799,684
Other invested assets (cost: 2016, \$1,305,174; 2015, \$786,994)	1,305,174	786,994
Cash	435,795	283,658
Total investments and cash	17,539,588	16,676,405
Accrued investment income	101,011	100,942
Premiums receivable	1,667,002	1,483,090
Reinsurance receivables	965,427	894,037
Funds held by reinsureds	241,983	278,673
Deferred acquisition costs	349,317	372,351
Prepaid reinsurance premiums	232,919	164,971
Income taxes	169,867	258,541
Other assets	395,968	316,408
TOTAL ASSETS	\$21,663,082	\$ 20,545,418
LIABILITIES:		
Reserve for losses and loss adjustment expenses	\$ 10,375,470	\$ 9,951,798
Future policy benefit reserve	56,998	58,910
Unearned premium reserve	1,702,390	1,613,390
Funds held under reinsurance treaties	23,567	13,544
Commission reserves	93,733	60,098
Other net payable to reinsurers	262,662	173,087
Losses in course of payment	121,082	112,170
4.868% Senior notes due 6/1/2044	396,684	396,594
6.6% Long term notes due 5/1/2067	236,438	236,364
Accrued interest on debt and borrowings	12,341	3,537
Equity index put option liability	35,219	40,705
Unsettled securities payable	76,813	15,314
Other liabilities	228,593	261,322
Total liabilities	13,621,990	12,936,833
Commitments and contingencies (Note 7)		
SHAREHOLDERS' EQUITY:		
Preferred shares, par value: \$0.01; 50,000 shares authorized; no shares issued and outstanding	-	-

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Common shares, par value: \$0.01; 200,000 shares authorized; (2016) 68,822 and (2015) 68,606 outstanding before treasury shares	688	686
Additional paid-in capital	2,129,311	2,103,638
Accumulated other comprehensive income (loss), net of deferred income tax expense (benefit) of \$56,361 at 2016 and (\$15,863) at 2015	75,830	(231,755)
Treasury shares, at cost; 27,935 shares (2016) and 25,912 shares (2015)	(3,265,184)	(2,885,956)
Retained earnings	9,100,447	8,621,972
Total shareholders' equity	8,041,092	7,608,585
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$21,663,082	\$ 20,545,418

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

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

(Dollars in thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2016 (unaudited)	2015	September 30, 2016 (unaudited)	2015
REVENUES:				
Premiums earned	\$1,371,474	\$1,362,864	\$3,879,201	\$3,920,607
Net investment income	122,657	115,403	357,918	362,959
Net realized capital gains (losses):				
Other-than-temporary impairments on fixed maturity securities	(867)	(20,445)	(31,130)	(62,701)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-	-	-
Other net realized capital gains (losses)	1,247	(139,526)	(10,091)	(131,953)
Total net realized capital gains (losses)	380	(159,971)	(41,221)	(194,654)
Net derivative gain (loss)	6,510	(11,428)	5,486	(5,225)
Other income (expense)	9,435	25,251	(20,998)	74,468
Total revenues	1,510,456	1,332,119	4,180,386	4,158,155
CLAIMS AND EXPENSES:				
Incurred losses and loss adjustment expenses	786,168	871,612	2,344,733	2,364,951
Commission, brokerage, taxes and fees	309,545	295,193	880,053	868,807
Other underwriting expenses	78,563	67,980	222,750	188,623
Corporate expenses	6,400	5,924	21,403	17,312
Interest, fees and bond issue cost amortization expense	8,893	8,990	27,194	27,006
Total claims and expenses	1,189,569	1,249,699	3,496,133	3,466,699
INCOME (LOSS) BEFORE TAXES	320,887	82,420	684,253	691,456
Income tax expense (benefit)	25,493	(6,133)	61,481	70,868
NET INCOME (LOSS)	\$295,394	\$88,553	\$622,772	\$620,588
Other comprehensive income (loss), net of tax:				
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	(9,032)	(91,059)	258,286	(144,335)
Reclassification adjustment for realized losses (gains) included in net income (loss)	(3,222)	24,596	27,711	59,526
Total URA(D) on securities arising during the period	(12,254)	(66,463)	285,997	(84,809)
Foreign currency translation adjustments	2,816	(32,505)	17,639	(80,508)
Benefit plan actuarial net gain (loss) for the period	-	-	-	-
Reclassification adjustment for amortization of net (gain) loss included in net income (loss)	1,268	1,556	3,949	4,769
Total benefit plan net gain (loss) for the period	1,268	1,556	3,949	4,769
Total other comprehensive income (loss), net of tax	(8,170)	(97,412)	307,585	(160,548)

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COMPREHENSIVE INCOME (LOSS)	\$287,224	\$(8,859)) \$930,357	\$460,040
EARNINGS PER COMMON SHARE				
Basic	\$7.11	\$2.02	\$14.80	\$14.04
Diluted	7.06	2.00	14.70	13.92
Dividends declared	1.15	0.95	3.45	2.85

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

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

(Dollars in thousands, except share and dividends per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016 (unaudited)	2015	2016 (unaudited)	2015
COMMON SHARES (shares outstanding):				
Balance, beginning of period	41,883,430	44,192,526	42,694,252	44,685,637
Issued during the period, net	17,621	29,398	215,887	248,665
Treasury shares acquired	(1,013,857)	(1,137,473)	(2,022,945)	(1,849,851)
Balance, end of period	40,887,194	43,084,451	40,887,194	43,084,451
COMMON SHARES (par value):				
Balance, beginning of period	\$688	\$685	\$686	\$683
Issued during the period, net	-	1	2	3
Balance, end of period	688	686	688	686
ADDITIONAL PAID-IN CAPITAL:				
Balance, beginning of period	2,120,581	2,084,636	2,103,638	2,068,807
Share-based compensation plans	8,730	10,214	25,673	26,043
Balance, end of period	2,129,311	2,094,850	2,129,311	2,094,850
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES:				
Balance, beginning of period	84,000	(14,819)	(231,755)	48,317
Net increase (decrease) during the period	(8,170)	(97,412)	307,585	(160,548)
Balance, end of period	75,830	(112,231)	75,830	(112,231)
RETAINED EARNINGS:				
Balance, beginning of period	8,852,512	8,267,038	8,621,972	7,819,210
Net income (loss)	295,394	88,553	622,772	620,588
Dividends declared (\$1.15 per share in third quarter 2016 and \$3.45 year-to-date per share in 2016 and \$0.95 per share in third quarter 2015 and \$2.85 year-to-date per share in 2015)	(47,459)	(41,698)	(144,297)	(125,905)
Balance, end of period	9,100,447	8,313,893	9,100,447	8,313,893
TREASURY SHARES AT COST:				
Balance, beginning of period	(3,072,313)	(2,610,878)	(2,885,956)	(2,485,897)
Purchase of treasury shares	(192,871)	(200,000)	(379,228)	(324,981)
Balance, end of period	(3,265,184)	(2,810,878)	(3,265,184)	(2,810,878)
TOTAL SHAREHOLDERS' EQUITY, END OF PERIOD	\$8,041,092	\$7,486,320	\$8,041,092	\$7,486,320

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

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EVEREST RE GROUP, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Nine Months Ended September 30,	
	2016	2015
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$622,772	\$620,588
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease (increase) in premiums receivable	(185,559)	(278,433)
Decrease (increase) in funds held by reinsureds, net	46,134	(41,745)
Decrease (increase) in reinsurance receivables	(87,807)	(232,472)
Decrease (increase) in income taxes	15,935	(61,627)
Decrease (increase) in prepaid reinsurance premiums	(66,147)	(67,406)
Increase (decrease) in reserve for losses and loss adjustment expenses	470,560	347,729
Increase (decrease) in future policy benefit reserve	(1,912)	(240)
Increase (decrease) in unearned premiums	89,013	1,455
Increase (decrease) in other net payable to reinsurers	85,493	70,103
Increase (decrease) in losses in course of payment	7,673	142,418
Change in equity adjustments in limited partnerships	(33,289)	(12,725)
Distribution of limited partnership income	52,913	42,625
Change in other assets and liabilities, net	(164,782)	21,994
Non-cash compensation expense	20,359	16,150
Amortization of bond premium (accrual of bond discount)	38,151	38,770
Amortization of underwriting discount on senior notes	3	3
Net realized capital (gains) losses	41,221	194,654
Net cash provided by (used in) operating activities	950,731	801,841
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from fixed maturities matured/called - available for sale, at market value	1,439,002	1,687,589
Proceeds from fixed maturities sold - available for sale, at market value	888,761	1,146,000
Proceeds from fixed maturities sold - available for sale, at fair value	1,588	1,824
Proceeds from equity securities sold - available for sale, at market value	155	22,120
Proceeds from equity securities sold - available for sale, at fair value	542,560	439,692
Distributions from other invested assets	3,600,587	41,782
Proceeds from sale of subsidiary (net of cash disposed)	47,721	3,934
Cost of fixed maturities acquired - available for sale, at market value	(2,974,792)	(3,583,990)
Cost of fixed maturities acquired - available for sale, at fair value	(3,940)	(234)
Cost of equity securities acquired - available for sale, at market value	(4,194)	(6,581)
Cost of equity securities acquired - available for sale, at fair value	(269,544)	(460,965)
Cost of other invested assets acquired	(4,131,419)	(140,923)
Net change in short-term investments	488,047	498,902
Net change in unsettled securities transactions	44,494	(18,242)
Net cash provided by (used in) investing activities	(330,974)	(369,092)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common shares issued during the period, net	5,315	9,896
Purchase of treasury shares	(379,228)	(324,981)

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Dividends paid to shareholders	(144,297)	(125,905)
Net cash provided by (used in) financing activities	(518,210)	(440,990)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	50,590	(28,007)
Net increase (decrease) in cash	152,137	(36,248)
Cash, beginning of period	283,658	437,474
Cash, end of period	\$435,795	\$401,226
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid (recovered)	\$40,072	\$123,234
Interest paid	18,227	18,039

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

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the Three and Nine Months Ended September 30, 2016 and 2015

1. GENERAL

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

During the third quarter of 2016, the Company established domestic subsidiaries, Everest Premier Insurance Company ("Everest Premier") and Everest Denali Insurance Company ("Everest Denali"), which will be used in the continued expansion of the Insurance operations.

Effective August 24, 2016, the Company sold its wholly-owned subsidiary, Heartland Crop Insurance Company ("Heartland"), a managing agent for crop insurance, to CGB Diversified Services, Inc. ("CGB"). The operating results of Heartland for the period owned are included within the Company's financial statements.

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

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

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

2. BASIS OF PRESENTATION

The unaudited consolidated financial statements of the Company for the three and nine months ended September 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 nine months ended September 30, 2016 and 2015 are not necessarily indicative of the results for a full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2015, 2014 and 2013 included in the Company's most recent Form 10-K filing.

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

Effective January 1, 2016, the Company adopted Accounting Standards Update 2015-02, "Consolidation (Topic 810) Amendments to the Consolidation Analysis" issued by the United States Financial Accounting Standards Board ("FASB"), which changed the method in which the Company determines whether entities

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are consolidated by the Company. The adoption of this amended accounting guidance has been implemented utilizing a full retrospective application for all periods presented in the Company's unaudited interim consolidated financial statements.

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

All significant intercompany accounts and transactions have been eliminated.

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

Application of Recently Issued Accounting Standard Changes.

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

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

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

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

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS):	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	As previously reported	Effect of adoption of new accounting policy	As adopted	As previously reported	Effect of adoption of new accounting policy	As adopted
(Dollars in thousands)						
REVENUES:						
Premiums earned	\$ 1,413,640	\$ (50,776)	\$ 1,362,864	\$ 4,053,115	\$ (132,508)	\$ 3,920,607
Net investment income	115,511	(108)	115,403	363,140	(181)	362,959

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Other income (expense)	17,413	7,838	25,251	59,561	14,907	74,468
Total revenues	1,375,165	(43,046)	1,332,119	4,275,937	(117,782)	4,158,155
CLAIMS AND EXPENSES:						
Incurred losses and loss adjustment expenses	888,097	(16,485)	871,612	2,401,223	(36,272)	2,364,951
Commission, brokerage, taxes and fees	300,048	(4,855)	295,193	882,132	(13,325)	868,807
Other underwriting expenses	70,667	(2,687)	67,980	195,282	(6,659)	188,623
Total claims and expenses	1,273,726	(24,027)	1,249,699	3,522,955	(56,256)	3,466,699
INCOME (LOSS) BEFORE TAXES						
NET INCOME (LOSS)	101,439	(19,019)	82,420	752,982	(61,526)	691,456
NET INCOME (LOSS)	107,572	(19,019)	88,553	682,114	(61,526)	620,588
Net income (loss) attributable to noncontrolling interests	(19,019)	19,019	-	(61,526)	61,526	-
NET INCOME (LOSS) ATTRIBUTABLE TO EVEREST RE GROUP	88,553	(88,553)	-	620,588	(620,588)	-

CONSOLIDATED STATEMENT OF CASH FLOWS:	Nine Months Ended September 30, 2015		
	As previously reported	Effect of adoption of new accounting policy	As adopted
(Dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 682,114	\$ (61,526)	\$ 620,588
Decrease (increase) in premiums receivable	(274,198)	(4,235)	(278,433)
Decrease (increase) in funds held by reinsureds, net	33,255	(75,000)	(41,745)
Decrease (increase) in reinsurance receivables	(202,329)	(30,143)	(232,472)
Decrease (increase) in prepaid reinsurance premiums	(46,633)	(20,773)	(67,406)
Increase (decrease) in other net payable to reinsurers	67,550	2,553	70,103
Change in other assets and liabilities, net	18,573	3,421	21,994
Net cash provided by (used in) operating activities	987,544	(185,703)	801,841
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net change in short-term investments	83,584	415,318	498,902
Net cash provided by (used in) investing activities	(784,410)	415,318	(369,092)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Third party investment in redeemable noncontrolling interest	296,848	(296,848)	-
Dividends paid on third party investment in redeemable noncontrolling interest	(67,233)	67,233	-
Net cash provided by (used in) financing activities	(211,375)	(229,615)	(440,990)

3. INVESTMENTS

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

(Dollars in thousands)	At September 30, 2016				OTTI in AOCI (a)
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value	
Fixed maturity securities					
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$848,171	\$ 29,639	\$ (708)	\$ 877,102	\$ -
Obligations of U.S. states and political subdivisions	725,149	40,657	(802)	765,004	-
Corporate securities	5,052,073	173,316	(17,817)	5,207,572	6,319
Asset-backed securities	492,224	4,197	(678)	495,743	-
Mortgage-backed securities					
Commercial	296,780	6,923	(1,796)	301,907	-
Agency residential	2,461,073	37,630	(3,352)	2,495,351	-
Non-agency residential	722	45	(45)	722	-

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Foreign government securities	1,313,243	78,086	(35,267)	1,356,062	169
Foreign corporate securities	2,664,355	140,712	(38,417)	2,766,650	2,100
Total fixed maturity securities	\$13,853,790	\$ 511,205	\$ (98,882)	\$14,266,113	\$ 8,588
Equity securities	\$126,729	\$ 4,561	\$ (7,994)	\$123,296	\$ -

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

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

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

(Dollars in thousands)	At September 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	\$ 883,400	\$ 900,635	\$ 1,021,200	\$ 1,036,016
Due after one year through five years	6,732,880	6,906,682	6,193,426	6,220,563
Due after five years through ten years	1,981,191	2,059,270	2,217,075	2,203,932
Due after ten years	1,005,520	1,105,803	795,103	841,836
Asset-backed securities	492,224	495,743	470,320	467,226
Mortgage-backed securities:				
Commercial	296,780	301,907	264,924	266,299
Agency residential	2,461,073	2,495,351	2,313,265	2,320,524
Non-agency residential	722	722	893	898
Total fixed maturity securities	\$ 13,853,790	\$ 14,266,113	\$ 13,276,206	\$ 13,357,294

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 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	\$(13,544)	\$(71,706)	\$324,147	\$(89,616)
Fixed maturity securities, other-than-temporary impairment	(1,836)	(253)	7,088	8,954
Equity securities	2,527	(4,415)	9,898	(6,295)
Change in unrealized appreciation (depreciation), pre-tax	(12,853)	(76,374)	341,133	(86,957)
Deferred tax benefit (expense)	(256)	9,919	(53,666)	5,563
Deferred tax benefit (expense), other-than-temporary impairment	855	(8)	(1,470)	(3,415)
Change in unrealized appreciation (depreciation), net of deferred taxes, included in shareholders' equity	\$(12,254)	\$(66,463)	\$285,997	\$(84,809)

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

The Company's assessments are based on the issuers current and expected future financial position, timeliness with respect to interest and/or principal payments, speed of repayments and any applicable credit enhancements or breakeven constant default rates on mortgage-backed and asset-backed securities, as well as relevant information provided by rating agencies, investment advisors and analysts.

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

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

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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 September 30, 2016 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$61,979	\$ (708)	\$ -	\$ -	\$61,979	\$ (708)
Obligations of U.S. states and political subdivisions	72,100	(391)	633	(411)	72,733	(802)
Corporate securities	338,999	(4,413)	250,068	(13,404)	589,067	(17,817)
Asset-backed securities	3,948	(12)	41,121	(666)	45,069	(678)
Mortgage-backed securities						
Commercial	39,238	(1,443)	5,699	(353)	44,937	(1,796)
Agency residential	355,554	(1,114)	206,611	(2,238)	562,165	(3,352)
Non-agency residential	-	-	125	(45)	125	(45)
Foreign government securities	111,041	(9,496)	206,591	(25,771)	317,632	(35,267)
Foreign corporate securities	186,609	(7,009)	270,275	(31,408)	456,884	(38,417)
Total fixed maturity securities	\$1,169,468	\$ (24,586)	\$981,123	\$ (74,296)	\$2,150,591	\$ (98,882)
Equity securities	-	-	104,105	(7,994)	104,105	(7,994)
Total	\$1,169,468	\$ (24,586)	\$1,085,228	\$ (82,290)	\$2,254,696	\$ (106,876)

(Dollars in thousands)	Duration of Unrealized Loss at September 30, 2016 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities						
Due in one year or less	\$31,407	\$ (1,070)	\$ 68,847	\$ (10,108)	\$100,254	\$ (11,178)
Due in one year through five years	400,970	(14,735)	545,307	(52,699)	946,277	(67,434)
Due in five years through ten years	251,409	(5,661)	101,451	(6,829)	352,860	(12,490)
Due after ten years	86,942	(551)	11,962	(1,358)	98,904	(1,909)
Asset-backed securities	3,948	(12)	41,121	(666)	45,069	(678)
Mortgage-backed securities	394,792	(2,557)	212,435	(2,636)	607,227	(5,193)
Total fixed maturity securities	\$1,169,468	\$ (24,586)	\$981,123	\$ (74,296)	\$2,150,591	\$ (98,882)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at September 30, 2016 were \$2,254,696 thousand and \$106,876 thousand, respectively. The market value of securities for the single issuer whose securities comprised the largest unrealized loss position at September 30, 2016, did not exceed 0.3% of the overall market value of the Company's fixed maturity securities. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The \$24,586 thousand of unrealized losses related to fixed maturity securities that have been in an unrealized loss position for less than one year were generally comprised of foreign government securities, foreign corporate securities and domestic corporate securities. Virtually all of these unrealized losses are attributable to net unrealized foreign exchange losses, as the U.S. dollar has strengthened against other currencies. The \$74,296 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to foreign corporate securities, foreign government securities and domestic corporate securities. Virtually all of these unrealized losses are also attributable to net unrealized foreign exchange losses, as the U.S. dollar has strengthened against other currencies. There was no gross unrealized depreciation for mortgage-backed securities related to sub-prime and alt-A loans. In all instances, there were no projected cash flow shortfalls to recover the full book value of the investments and the related interest obligations. The mortgage-backed securities still have excess credit coverage and are current on interest and principal payments.

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

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

(Dollars in thousands)	Duration of Unrealized Loss at December 31, 2015 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$539,177	\$ (1,855)	\$692	\$ (6)	\$539,869	\$ (1,861)
Obligations of U.S. states and political subdivisions	6,434	(84)	4,917	(806)	11,351	(890)
Corporate securities	1,818,331	(74,161)	440,682	(35,149)	2,259,013	(109,310)
Asset-backed securities	348,545	(2,510)	67,230	(1,303)	415,775	(3,813)
Mortgage-backed securities						
Commercial	145,490	(3,375)	-	-	145,490	(3,375)
Agency residential	1,021,390	(10,014)	326,449	(8,045)	1,347,839	(18,059)
Non-agency residential	152	(2)	38	(44)	190	(46)
Foreign government securities	227,384	(21,996)	216,428	(30,209)	443,812	(52,205)
Foreign corporate securities	821,548	(25,627)	295,389	(40,774)	1,116,937	(66,401)
Total fixed maturity securities	\$4,928,451	\$ (139,624)	\$1,351,825	\$ (116,336)	\$6,280,276	\$ (255,960)
Equity securities	-	-	91,907	(16,732)	91,907	(16,732)
Total	\$4,928,451	\$ (139,624)	\$1,443,732	\$ (133,068)	\$6,372,183	\$ (272,692)

(Dollars in thousands)	Duration of Unrealized Loss at December 31, 2015 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities						
Due in one year or less	\$29,737	\$ (1,840)	\$74,615	\$ (13,440)	\$104,352	\$ (15,280)
Due in one year through five years	2,328,805	(62,329)	651,228	(59,993)	2,980,033	(122,322)
Due in five years through ten years	969,139	(52,725)	206,538	(28,018)	1,175,677	(80,743)

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

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at December 31, 2015 were \$6,372,183 thousand and \$272,692 thousand, respectively. The market value of securities for the single issuer whose securities comprised the largest unrealized loss position at December 31, 2015, did not exceed 0.7% of the overall market value of the Company's fixed maturity securities. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The \$139,624 thousand of unrealized losses related to fixed maturity securities that have been in an unrealized loss position for less than one year were generally comprised of domestic and foreign corporate securities, foreign government securities and agency residential mortgage-backed securities. The majority of these unrealized losses are attributable to unrealized losses in the energy sector, \$46,793 thousand, as falling oil prices have disrupted the market values for this sector, particularly for oil exploration, production and servicing companies and net unrealized foreign exchange losses, \$39,037 thousand, as the U.S. dollar has strengthened against other currencies. The \$116,336 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to foreign and domestic corporate securities, foreign

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government securities and agency residential mortgage-backed securities. The majority of these unrealized losses are attributable to net unrealized foreign exchange losses, \$72,738 thousand, as the U.S. dollar has strengthened against other currencies and to unrealized losses in the energy sector, \$18,447 thousand, as falling oil prices have disrupted the market values for this sector, particularly for oil exploration as well as production and servicing companies. There was no gross unrealized depreciation for mortgage-backed securities related to sub-prime and alt-A loans. In all instances, there were no projected cash flow shortfalls to recover the full book value of the investments and the related interest obligations. The mortgage-backed securities still have excess credit coverage and are current on interest and principal payments.

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Fixed maturities	\$100,752	\$108,134	\$306,128	\$326,970
Equity securities	9,905	11,090	31,967	35,783
Short-term investments and cash	475	273	1,220	903
Other invested assets				
Limited partnerships	17,077	370	33,922	13,993
Other	1,033	(242)	1,334	1,366
Gross investment income before adjustments	129,242	119,625	374,571	379,015
Funds held interest income (expense)	1,538	2,569	5,818	8,162
Future policy benefit reserve income (expense)	(517)	(300)	(1,243)	(1,402)
Gross investment income	130,263	121,894	379,146	385,775
Investment expenses	(7,606)	(6,491)	(21,228)	(22,816)
Net investment income	\$122,657	\$115,403	\$357,918	\$362,959

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 \$493,184 thousand in limited partnerships at September 30, 2016. These commitments will be funded when called in accordance with the partnership agreements, which have investment periods that expire, unless extended, through 2020.

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Fixed maturity securities, market value:				
Other-than-temporary impairments	\$(867)	\$(20,445)	\$(31,130)	\$(62,701)
Gains (losses) from sales	5,912	(5,218)	(7,670)	(15,812)
Fixed maturity securities, fair value:				
Gains (losses) from sales	(1)	(17)	(1,855)	25
Gains (losses) from fair value adjustments	42	-	1,381	56
Equity securities, market value:				
Gains (losses) from sales	-	(3,573)	65	(4,455)
Equity securities, fair value:				
Gains (losses) from sales	5,850	(13,646)	(10,266)	(13,041)
Gains (losses) from fair value adjustments	17,475	(117,087)	36,284	(98,741)
Sale of Subsidiary	(28,032)	-	(28,032)	-
Short-term investments gain (loss)	1	15	2	15
Total net realized capital gains (losses)	\$380	\$(159,971)	\$(41,221)	\$(194,654)

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

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Proceeds from sales of fixed maturity securities	\$293,998	\$414,538	\$890,349	\$1,147,824
Gross gains from sales	15,028	11,826	32,674	37,525
Gross losses from sales	(9,117)	(17,061)	(42,199)	(53,312)
Proceeds from sales of equity securities	\$112,451	\$156,593	\$542,715	\$461,812
Gross gains from sales	7,308	5,250	14,040	18,890
Gross losses from sales	(1,458)	(22,469)	(24,241)	(36,386)

4. DERIVATIVES

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

consolidated statements of operations and comprehensive income (loss).

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The Company sold six equity index put option contracts, based on the Standard & Poor's 500 ("S&P 500") index, for total consideration, net of commissions, of \$22,530 thousand. At September 30, 2016, fair value for these equity index put option contracts was \$28,920 thousand. Based on historical index volatilities and trends and the September 30, 2016 S&P 500 index value, the Company estimates the probability that each equity index put option contract of the S&P 500 index falling below the strike price on the exercise date to be less than 8%. The theoretical maximum payouts under these six equity index put option contracts would occur if on each of the exercise dates the S&P 500 index value were zero. At September 30, 2016, the present value of these theoretical maximum payouts using a 3% discount factor was \$442,320 thousand. Conversely, if the contracts had all expired on September 30, 2016, with the S&P index at \$2,168.27, there would have been no settlement amount.

The Company sold one equity index put option contract based on the FTSE 100 index for total consideration, net of commissions, of \$6,706 thousand. At September 30, 2016, fair value for this equity index put option contract was \$6,299 thousand. Based on historical index volatilities and trends and the September 30, 2016 FTSE 100 index value, the Company estimates the probability that the equity index put option contract of the FTSE 100 index will fall below the strike price on the exercise date to be less than 28%. The theoretical maximum payout under the equity index put option contract would occur if on the exercise date the FTSE 100 index value was zero. At September 30, 2016, the present value of the theoretical maximum payout using a 3% discount factor and current exchange rate was \$39,170 thousand. Conversely, if the contract had expired on September 30, 2016, with the FTSE index at 6,899.33, there would have been no settlement amount.

The fair value of the equity index put options can be found in the Company's consolidated balance sheets as follows:

(Dollars in thousands)

Derivatives not designated as hedging instruments	Location of fair value in balance sheets	At September 30, 2016	At December 31, 2015
Equity index put option contracts	Equity index put option liability	\$ 35,219	\$ 40,705
Total		\$ 35,219	\$ 40,705

The change in fair value of the equity index put option contracts can be found in the Company's statement of operations and comprehensive income (loss) as follows:

(Dollars in thousands) Derivatives not designated as hedging instruments	Location of gain (loss) in statements of operations and comprehensive income (loss)	For the Three Months Ended		For the Nine Months Ended	
		September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Equity index put option contracts	Net derivative gain (loss)	\$ 6,510	\$ (11,428)	\$ 5,486	\$ (5,225)
Total		\$ 6,510	\$ (11,428)	\$ 5,486	\$ (5,225)

5. FAIR VALUE

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

The levels in the hierarchy are defined as follows:

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

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

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

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

In limited instances where prices are not provided by pricing services or in rare instances when a manager may not agree with the pricing service, price quotes on a non-binding basis are obtained from investment brokers. The investment asset managers do not make any changes to prices received from either the pricing services or the investment brokers. In addition, the investment asset managers have procedures in place to review the reasonableness of the prices from the service providers and may request verification of the prices. In addition, the Company continually performs analytical reviews of price changes and tests the prices on a random basis to an independent pricing source. No material variances were noted during these price validation procedures. In limited situations, where financial markets are inactive or illiquid, the Company may use its own assumptions about future cash flows and risk-adjusted discount rates to determine fair value. Due to the unavailability of prices for twenty eight private placement securities, the Company valued the twenty eight securities at \$59,289 thousand at September 30, 2016. Due to the unavailability of prices for two private placement securities, the Company valued the two securities at \$3,593 thousand at December 31, 2015.

The Company internally manages a public equity portfolio which had a fair value at September 30, 2016 and December 31, 2015 of \$265,577 thousand and \$253,575 thousand, respectively, and all prices were obtained from publically published sources.

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

All categories of fixed maturity securities listed in the tables below are generally categorized as level 2, since a particular security may not have traded but the pricing services are able to use valuation models with observable market inputs such as interest rate yield curves and prices for similar fixed maturity securities in terms of issuer, maturity and seniority. For foreign government securities and foreign corporate securities, the fair values provided by the third party pricing services in local currencies, and where applicable, are converted to U.S. dollars using currency exchange rates from nationally recognized sources.

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

brokers. The single broker quotes are provided by market makers or broker-dealers who are recognized as market participants in the markets in which they are providing the quotes. The prices received from brokers are reviewed for reasonableness by the third party asset managers and the Company. If the

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

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

U.S. Treasury securities and obligations of U.S. government agencies and corporations are primarily comprised of U.S. Treasury bonds and the fair value is based on observable market inputs such as quoted prices, reported trades, quoted prices for similar issuances or benchmark yields;

Obligations of U.S. states and political subdivisions are comprised of state and municipal bond issuances and the fair values are based on observable market inputs such as quoted market prices, quoted prices for similar securities, benchmark yields and credit spreads;

Corporate securities are primarily comprised of U.S. corporate and public utility bond issuances and the fair values are based on observable market inputs such as quoted market prices, quoted prices for similar securities, benchmark yields and credit spreads;

Asset-backed and mortgage-backed securities fair values are based on observable inputs such as quoted prices, reported trades, quoted prices for similar issuances or benchmark yields and cash flow models using observable inputs such as prepayment speeds, collateral performance and default spreads;

Foreign government securities are comprised of global non-U.S. sovereign bond issuances and the fair values are based on observable market inputs such as quoted market prices, quoted prices for similar securities and models with observable inputs such as benchmark yields and credit spreads and then, where applicable, converted to U.S. dollars using an exchange rate from a nationally recognized source;

Foreign corporate securities are comprised of global non-U.S. corporate bond issuances and the fair values are based on observable market inputs such as quoted market prices, quoted prices for similar securities and models with observable inputs such as benchmark yields and credit spreads and then, where applicable, converted to U.S. dollars using an exchange rate from a nationally recognized source.

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

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

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

(Dollars in thousands)	September 30, 2016	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	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	\$ 877,102	\$-	\$877,102	\$ -
Obligations of U.S. States and political subdivisions	765,004	-	765,004	-
Corporate securities	5,207,572	-	5,151,277	56,295
Asset-backed securities	495,743	-	495,743	-
Mortgage-backed securities				
Commercial	301,907	-	298,042	3,865
Agency residential	2,495,351	-	2,495,351	-
Non-agency residential	722	-	722	-
Foreign government securities	1,356,062	-	1,356,062	-
Foreign corporate securities	2,766,650	-	2,763,656	2,994
Total fixed maturities, market value	14,266,113	-	14,202,959	63,154
Fixed maturities, fair value	3,982	-	3,982	-
Equity securities, market value	123,296	104,105	19,191	-
Equity securities, fair value	1,090,734	1,025,025	65,709	-
Liabilities:				
Equity index put option contracts	\$ 35,219	\$-	\$-	\$ 35,219

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

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

(Dollars in thousands)	December 31, 2015	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 816,877	\$-	\$816,877	\$ -
Obligations of U.S. States and political subdivisions	703,075	-	703,075	-
Corporate securities	4,804,863	-	4,800,930	3,933
Asset-backed securities	467,226	-	467,226	-
Mortgage-backed securities				
Commercial	266,299	-	266,299	-
Agency residential	2,320,524	-	2,320,524	-
Non-agency residential	898	-	898	-
Foreign government securities	1,259,181	-	1,259,181	-
Foreign corporate securities	2,718,351	-	2,716,758	1,593
Total fixed maturities, market value	13,357,294	-	13,351,768	5,526
Fixed maturities, fair value	2,102	-	2,102	-
Equity securities, market value	108,940	91,907	17,033	-
Equity securities, fair value	1,337,733	1,275,666	62,067	-
Liabilities:				
Equity index put option contracts	\$ 40,705	\$-	\$-	\$ 40,705

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

(Dollars in thousands)	Three Months Ended September 30, 2016				Nine Months Ended September 30, 2016			
	Corporate Securities	CMBS	Foreign Corporate	Total	Corporate Securities	CMBS	Foreign Corporate	Total
Beginning balance	\$ 32,410	\$-	\$ 2,021	\$ 34,431	\$ 3,933	\$-	\$ 1,593	\$ 5,526
Total gains or (losses) (realized/unrealized)								
Included in earnings	(12)	-	27	15	(22)	-	(970)	(992)
Included in other comprehensive income (loss)	(48)	(38)	(1,285)	(1,371)	(81)	(38)	140	21

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Purchases, issuances and settlements	25,877	(44)	2,231	28,064	54,397	(44)	2,231	56,584
Transfers in and/or (out) of Level 3	(1,932)	3,947	-	2,015	(1,932)	3,947	-	2,015
Ending balance	\$ 56,295	\$ 3,865	\$ 2,994	\$ 63,154	\$ 56,295	\$ 3,865	\$ 2,994	\$ 63,154

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)
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(Some amounts may not reconcile due to rounding.)

(Dollars in thousands)	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015			
	Corporate Securities	Foreign Corporate	Total	Corporate Securities	CMBS	Foreign Corporate	Total
Beginning balance	\$ 1,958	\$ 7,837	\$ 9,795	\$ -	\$ 8,597	\$ 7,166	\$ 15,763
Total gains or (losses) (realized/unrealized)							
Included in earnings	(8)	62	54	(4)	-	177	173
Included in other comprehensive income (loss)	(137)	(1,287)	(1,424)	(139)	-	(1,216)	(1,355)
Purchases, issuances and settlements	1,723	-	1,723	3,651	-	-	3,651
Transfers in and/or (out) of Level 3	4,030	(487)	3,543	4,058	(8,597)	(2)	(4,541)
Ending balance	\$ 7,566	\$ 6,125	\$ 13,691	\$ 7,566	\$ -	\$ 6,125	\$ 13,691

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 to/(from) level 3, fair value measurements using significant unobservable inputs were \$2,015 thousand and (\$4,541) thousand of investments for the nine months ended September 30, 2016 and 2015, respectively. The \$2,015 thousand related to the net impact of securities no longer priced by a recognized pricing service. The \$4,541 thousand primarily related 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 September 30, 2015, and were classified as level 2 as of that date.

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

(Dollars in thousands)	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
Liabilities:				
Balance, beginning of period	\$ 41,729	\$ 40,819	\$ 40,705	\$ 47,022
Total (gains) or losses (realized/unrealized)				
Included in earnings	(6,510)	11,428	(5,486)	5,225
Included in other comprehensive income (loss)	-	-	-	-
Purchases, issuances and settlements	-	-	-	-
Transfers in and/or (out) of Level 3	-	-	-	-
Balance, end of period	\$ 35,219	\$ 52,247	\$ 35,219	\$ 52,247

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

(Some amounts may not reconcile due to rounding.)

6. EARNINGS PER COMMON SHARE

Basic earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share reflect the potential dilution that would occur if options granted under various share-based compensation plans were exercised resulting in the issuance of common shares that would participate in the earnings of the entity.

Net income (loss) per common share has been computed as per below, based upon weighted average common basic and dilutive shares outstanding.

(Dollars in thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income (loss) per share:				
Numerator				
Net income (loss)	\$295,394	\$88,553	\$622,772	\$620,588
Less: dividends declared-common shares and nonvested common shares	(47,463)	(41,698)	(144,299)	(125,905)
Undistributed earnings	247,932	46,855	478,472	494,683
Percentage allocated to common shareholders ⁽¹⁾	98.9 %	99.0 %	98.9 %	98.9 %
	245,248	46,364	473,372	489,434
Add: dividends declared-common shareholders	46,985	41,293	142,839	124,638
Numerator for basic and diluted earnings per common share	\$292,233	\$87,657	\$616,211	\$614,072
Denominator				
Denominator for basic earnings per weighted-average common shares	41,101	43,361	41,626	43,728
Effect of dilutive securities:				
Options	284	367	305	392
Denominator for diluted earnings per adjusted weighted-average common shares	41,386	43,728	41,931	44,120
Per common share net income (loss)				
Basic	\$7.11	\$2.02	\$14.80	\$14.04
Diluted	\$7.06	\$2.00	\$14.70	\$13.92
(1)Basic weighted-average common shares outstanding	41,101	43,361	41,626	43,728
Basic weighted-average common shares outstanding and nonvested common shares expected to vest	41,551	43,820	42,074	44,197
Percentage allocated to common shareholders	98.9 %	99.0 %	98.9 %	98.9 %

(Some amounts may not reconcile due to rounding.)

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

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

7. CONTINGENCIES

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

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

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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 September 30, 2016	At December 31, 2015
(Dollars in thousands)		
The Prudential	\$ 140,826	\$ 142,427
Unaffiliated life insurance company	33,195	33,062

8. OTHER COMPREHENSIVE INCOME (LOSS)

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

(Dollars in thousands)	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Unrealized appreciation (depreciation) ("URA(D)") on securities - temporary	\$ (5,972)	\$ (2,079)	\$ (8,051)	\$ 295,311	\$ (42,643)	\$ 252,668
URA(D) on securities - OTTI	(1,836)	855	(981)	7,088	(1,470)	5,618
Reclassification of net realized losses (gains) included in net income (loss)	(5,045)	1,823	(3,222)	38,734	(11,023)	27,711
Foreign currency translation adjustments	1,393	1,423	2,816	32,601	(14,962)	17,639
Benefit plan actuarial net gain (loss)	-	-	-	-	-	-
Reclassification of benefit plan liability amortization included in net income (loss)	1,951	(683)	1,268	6,076	(2,127)	3,949
Total other comprehensive income (loss)	\$ (9,510)	\$ 1,340	\$ (8,170)	\$ 379,809	\$ (72,224)	\$ 307,585

(Dollars in thousands)	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Unrealized appreciation (depreciation) ("URA(D)") on securities - temporary	\$ (105,356)	\$ 14,558	\$ (90,798)	\$ (178,878)	\$ 29,004	\$ (149,874)
URA(D) on securities - OTTI	(253)	(8)	(261)	8,954	(3,415)	5,539
	29,235	(4,639)	24,596	82,967	(23,441)	59,526

Reclassification of net realized losses (gains) included in net income (loss)						
Foreign currency translation adjustments	(47,298)	14,793	(32,505)	(104,542)	24,034	(80,508)
Benefit plan actuarial net gain (loss)	-	-	-	-	-	-
Reclassification of benefit plan liability amortization included in net income (loss)	2,393	(837)	1,556	7,336	(2,567)	4,769
Total other comprehensive income (loss)	\$ (121,279)	\$ 23,867	\$ (97,412)	\$ (184,163)	\$ 23,615	\$ (160,548)

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

AOCI component (Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,		Affected line item within the statements of operations and comprehensive income (loss)
	2016	2015	2016	2015	
URA(D) on securities	\$ (5,045)	\$ 29,235	\$ 38,734	\$ 82,967	Other net realized capital gains (losses)
	1,823	(4,639)	(11,023)	(23,441)	Income tax expense (benefit)
	\$ (3,222)	\$ 24,596	\$ 27,711	\$ 59,526	Net income (loss)
Benefit plan net gain (loss)	\$ 1,951	\$ 2,393	\$ 6,076	\$ 7,336	Other underwriting expenses
	(683)	(837)	(2,127)	(2,567)	Income tax expense (benefit)
	\$ 1,268	\$ 1,556	\$ 3,949	\$ 4,769	Net income (loss)

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

(Dollars in thousands)	Nine Months Ended September 30, 2016	Twelve Months Ended December 31, 2015
Beginning balance of URA (D) on securities	\$ 42,811	\$ 223,250
Current period change in URA (D) of investments - temporary	280,379	(185,467)
Current period change in URA (D) of investments - non-credit OTTI	5,618	5,028
Ending balance of URA (D) on securities	328,808	42,811
Beginning balance of foreign currency translation adjustments	(211,477)	(99,947)
Current period change in foreign currency translation adjustments	17,639	(111,530)
Ending balance of foreign currency translation adjustments	(193,838)	(211,477)
Beginning balance of benefit plan net gain (loss)	(63,089)	(74,986)
Current period change in benefit plan net gain (loss)	3,949	11,897
Ending balance of benefit plan net gain (loss)	(59,140)	(63,089)
Ending balance of accumulated other comprehensive income (loss)	\$ 75,830	\$ (231,755)

9. CREDIT FACILITIES

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

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Credit facility interest and fees incurred	\$ 35	\$ 132	\$ 618	\$ 431

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

Group Credit Facility

Effective May 26, 2016, Group, Everest Reinsurance (Bermuda), Ltd. ("Bermuda Re") and Everest International Reinsurance, Ltd. ("Everest International"), both direct subsidiaries of Group, entered into a five year, \$800,000 thousand senior credit facility with a syndicate of lenders, which amended and restated in its entirety the June 22, 2012, four year, \$800,000 thousand senior credit facility. Both the May 26, 2016 and June 22, 2012 senior credit facilities, which have similar terms, are referred to as the "Group Credit Facility". Wells Fargo Corporation ("Wells Fargo Bank") is the administrative agent for the Group Credit Facility, which consists of two tranches. Tranche one provides up to \$200,000 thousand of unsecured revolving credit for liquidity and general corporate purposes, and for the issuance of unsecured standby letters of credit. The interest on the revolving loans shall, at the Company's option, be either (1) the Base Rate (as defined below) or (2) an adjusted London Interbank Offered Rate ("LIBOR") plus a

margin. The Base Rate is the higher of (a) the prime commercial lending rate established by Wells Fargo Bank, (b) the Federal Funds Rate plus 0.5% per annum or (c) the one month LIBOR Rate plus 1.0% per annum. The amount of margin and the fees payable for the Group Credit Facility depends on Group's senior unsecured debt rating. Tranche two exclusively provides up to \$600,000 thousand for the issuance of standby letters of credit on a collateralized basis.

The Group Credit Facility requires Group to maintain a debt to capital ratio of not greater than 0.35 to 1 and to maintain a minimum net worth. Minimum net worth is an amount equal to the sum of \$5,370,979 thousand plus 25% of consolidated net income for each of Group's fiscal quarters, for which statements are available ending on or after March 31, 2016 and for which consolidated net income is positive, plus 25% of

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any increase in consolidated net worth during such period attributable to the issuance of ordinary and preferred shares, which at September 30, 2016, was \$5,488,121 thousand. As of September 30, 2016, the Company was in compliance with all Group Credit Facility covenants.

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

(Dollars in thousands)		At September 30, 2016			At December 31, 2015		
		Commitment	Use	Date of Expiry	Commitment	Use	Date of Expiry
Bank							
Wells Fargo Bank Group Credit Facility	Tranche One	\$200,000	\$-		\$200,000	\$-	
	Tranche Two	600,000	2,488	12/12/2016	600,000	2,488	12/12/2016
			450,452	12/31/2016		447,178	12/31/2016
Total Wells Fargo Bank Group Credit Facility		\$800,000	\$452,940		\$800,000	\$449,666	

Bermuda Re Letter of Credit Facility

Effective December 31, 2015, Bermuda Re renewed its \$300,000 thousand letter of credit issuance facility with Citibank N.A. referred to as the "Bermuda Re Letter of Credit Facility", which commitment is reconfirmed annually with updated fees. The Bermuda Re Letter of Credit Facility provides for the issuance of up to \$300,000 thousand of secured letters of credit to collateralize reinsurance obligations as a non-admitted reinsurer. The interest on drawn letters of credit shall be (A) 0.35% per annum of the principal amount of issued standard letters of credit (expiry of 15 months or less) and (B) 0.45% per annum of the principal amount of issued extended tenor letters of credit (expiry maximum of up to 60 months). The commitment fee on undrawn credit shall be 0.15% per annum.

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

(Dollars in thousands)		At September 30, 2016			At December 31, 2015		
		Commitment	Use	Date of Expiry	Commitment	Use	Date of Expiry
Bank							
Citibank Bilateral Letter of Credit Agreement		\$300,000	\$3,672	11/24/2016	\$300,000	\$3,672	11/24/2016
			63,124	12/31/2016		67,783	12/31/2016
			4,058	2/28/2017		179	8/30/2017
			287	8/30/2017		316	12/31/2017
			3,421	12/31/2017		-	-
			100,329	9/30/2020		99,521	12/31/2019
Total Citibank Bilateral Agreement		\$300,000	\$174,891		\$300,000	\$171,471	

Everest International Credit Facility

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

available under the facility and (2) the aggregate amount of drawings outstanding under the facility. The Company pays a credit commission fee of 0.35% per annum on drawings outstanding under the facility.

The Everest International Credit Facility requires Group to maintain a debt to capital ratio of not greater than 0.35 to 1 and to maintain a minimum net worth. Minimum net worth is an amount equal to the sum of \$5,215,784 thousand (70% of consolidated net worth as of December 31, 2014), plus 25% of consolidated net income for each of Group's fiscal quarters, for which statements are available ending on or after January 1, 2015 and for which net income is positive, plus 25% of any increase in consolidated net worth of Group during such period attributable to the issuance of ordinary and preferred shares, which at September 30, 2016, was \$5,631,071 thousand. As of September 30, 2016, the Company was in compliance with all Everest International Credit Facility requirements.

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

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

10. REINSURANCE AND TRUST AGREEMENTS

Certain subsidiaries of Group have established trust agreements, which effectively use the Company's investments as collateral, as security for assumed losses payable to certain non-affiliated ceding companies. At September 30, 2016, the total amount on deposit in trust accounts was \$472,283 thousand.

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

Each segregated account is permitted to assume net risk exposures equal to its amount of preferred shares and posted collateral, which in the aggregate was \$932,243 thousand and \$798,548 thousand at September 30, 2016 and December 31, 2015, respectively. Of this amount, Group had invested \$55,636 thousand and \$50,000 thousand at September 30, 2016 and December 31, 2015, respectively, in the preferred shares.

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

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

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

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

11. SENIOR NOTES

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

(Dollars in thousands)	Date Issued	Date Due	Principal Amounts	September 30, 2016		December 31, 2015	
				Consolidated Balance Sheet Amount	Market Value	Consolidated Balance Sheet Amount	Market Value
4.868% Senior notes	06/05/2014	06/01/2044	400,000	\$396,684	\$ 423,660	\$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		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Interest expense incurred	\$ 4,868	\$ 4,868	\$ 14,604	\$ 14,604

12. LONG TERM SUBORDINATED NOTES

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

(Dollars in thousands)	Date Issued	Original Principal Amount	Maturity Date		September 30, 2016		December 31, 2015	
			Scheduled	Final	Consolidated Balance Sheet Amount	Market Value	Consolidated Balance Sheet Amount	Market Value
6.6% Long term subordinated notes	04/26/2007	\$ 400,000	05/15/2037	05/01/2067	\$236,438	\$ 197,706	\$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

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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		Nine Months Ended	
	September 30,		September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Interest expense incurred	\$ 3,937	\$ 3,937	\$ 11,811	\$ 11,811

13. SEGMENT REPORTING

The U.S. Reinsurance operation writes property and casualty reinsurance and specialty lines of business, including Marine, Aviation, Surety and Accident and Health ("A&H") business, on both a treaty and facultative basis, through reinsurance brokers, as well as directly with ceding companies primarily within the U.S. The International operation writes non-U.S. property and casualty reinsurance through Everest Re's branches in Canada and Singapore and through offices in Brazil, Miami and New Jersey. The Bermuda operation provides reinsurance and insurance to worldwide property and casualty markets through brokers and directly with ceding companies from its Bermuda office and reinsurance to the United Kingdom and European markets through its UK branch and Ireland Re. The Insurance operation writes property and casualty insurance directly and through general agents, brokers and surplus lines brokers within the U.S. and Canada.

These segments are managed independently, but conform with corporate guidelines with respect to pricing, risk management, control of aggregate catastrophe exposures, capital, investments and support operations. Management generally monitors and evaluates the financial performance of these operating segments based upon their underwriting results.

Underwriting results include earned premium less losses and loss adjustment expenses ("LAE") incurred, commission and brokerage expenses and other underwriting expenses. We measure our underwriting results using ratios, in particular loss, commission and brokerage and other underwriting expense ratios, which, respectively, divide incurred losses, commissions and brokerage and other underwriting expenses by premiums earned.

For inter-affiliate reinsurance and business written through the Lloyd's Syndicate, business is generally reported within the segment in which the business was first produced, consistent with how the business is managed.

The Company does not maintain separate balance sheet data for its operating segments. Accordingly, the Company does not review and evaluate the financial results of its operating segments based upon balance sheet data.

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The following tables present the underwriting results for the operating segments for the periods indicated:

<u>U.S. Reinsurance</u> (Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Gross written premiums	\$ 654,770	\$ 601,570	\$ 1,597,005	\$ 1,615,276
Net written premiums	678,848	511,238	1,491,155	1,383,647
Premiums earned	\$ 519,160	\$ 488,485	\$ 1,478,974	\$ 1,480,427
Incurred losses and LAE	276,272	225,944	732,306	699,575
Commission and brokerage	116,667	121,050	354,608	364,005
Other underwriting expenses	14,265	13,718	39,856	37,054
Underwriting gain (loss)	\$ 111,956	\$ 127,773	\$ 352,204	\$ 379,793

<u>International</u> (Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Gross written premiums	\$ 348,812	\$ 363,092	\$ 925,028	\$ 989,920
Net written premiums	316,207	318,478	799,908	896,872
Premiums earned	\$ 282,442	\$ 291,396	\$ 823,493	\$ 935,228
Incurred losses and LAE	122,181	229,013	531,580	630,752
Commission and brokerage	78,384	70,894	209,348	226,321
Other underwriting expenses	11,030	9,128	26,822	25,292
Underwriting gain (loss)	\$ 70,847	\$ (17,639)	\$ 55,743	\$ 52,863

<u>Bermuda</u> (Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Gross written premiums	\$ 245,995	\$ 271,157	\$ 612,657	\$ 626,420
Net written premiums	229,373	251,678	562,128	557,453
Premiums earned	\$ 215,761	\$ 222,240	\$ 610,466	\$ 616,241
Incurred losses and LAE	127,236	154,327	348,586	372,572
Commission and brokerage	59,605	52,980	169,413	151,356
Other underwriting expenses	8,785	9,457	26,290	27,045
Underwriting gain (loss)	\$ 20,135	\$ 5,476	\$ 66,177	\$ 65,268

<u>Insurance</u> (Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Gross written premiums	\$ 533,039	\$ 489,124	\$ 1,364,465	\$ 1,173,012
Net written premiums	340,216	418,960	1,047,863	1,022,389

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Premiums earned	\$354,111	\$360,742	\$966,268	\$888,711
Incurred losses and LAE	260,479	262,328	732,261	662,052
Commission and brokerage	54,889	50,268	146,684	127,125
Other underwriting expenses	44,483	35,677	129,782	99,232
Underwriting gain (loss)	\$(5,740)	\$12,469	\$(42,459)	\$302

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

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Underwriting gain (loss)	\$197,198	\$128,079	\$431,665	\$498,226
Net investment income	122,657	115,403	357,918	362,959
Net realized capital gains (losses)	380	(159,971)	(41,221)	(194,654)
Net derivative gain (loss)	6,510	(11,428)	5,486	(5,225)
Corporate expenses	(6,400)	(5,924)	(21,403)	(17,312)
Interest, fee and bond issue cost amortization expense	(8,893)	(8,990)	(27,194)	(27,006)
Other income (expense)	9,435	25,251	(20,998)	74,468
Income (loss) before taxes	\$320,887	\$82,420	\$684,253	\$691,456

The Company produces business in the U.S., Bermuda and internationally. The net income deriving from and assets residing in the individual foreign countries in which the Company writes business are not identifiable in the Company's financial records. Based on gross written premium, the table below presents the largest country, other than the U.S., in which the Company writes business, for the periods indicated:

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
United Kingdom gross written premium	\$182,786	\$212,039	\$511,994	\$565,143

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

14. SHARE-BASED COMPENSATION PLANS

For the three months ended September 30, 2016, share-based compensation awards granted were 5,566 restricted shares, granted on September 08, 2016, with a fair value of \$194.165 per shares.

15. RETIREMENT BENEFITS

The Company maintains both qualified and non-qualified defined benefit pension plans and a retiree health plan for its U.S. employees employed prior to April 1, 2010.

Net periodic benefit cost for U.S. employees included the following components for the periods indicated:

<u>Pension Benefits</u>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Service cost	\$ 2,731	\$ 3,203	\$ 8,524	\$ 9,398
Interest cost	2,371	2,758	7,093	7,926
Expected return on plan assets	(2,789)	(2,904)	(7,757)	(8,710)
Amortization of prior service cost	-	4	-	15
Amortization of net (income) loss	1,984	2,312	6,012	6,824
Net periodic benefit cost	\$ 4,297	\$ 5,373	\$ 13,872	\$ 15,453

<u>Other Benefits</u>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Service cost	\$ 354	\$ 498	\$ 1,230	\$ 1,498
Interest cost	252	329	844	987
Amortization of prior service cost	(33)	-	(33)	-
Amortization of net (income) loss	-	76	96	497
Net periodic benefit cost	\$ 573	\$ 903	\$ 2,137	\$ 2,982

The Company contributed \$30,000 thousand to the qualified pension benefit plan for the three and nine months ended September 30, 2016. The Company did not make any contributions to the qualified pension benefit plan for the three and nine months ended September 30, 2015.

16. INCOME TAXES

The Company is domiciled in Bermuda and has significant subsidiaries and/or branches in Canada, Ireland, Singapore, the United Kingdom, and the United States. The Company's Bermuda domiciled subsidiaries are exempt from income taxation under Bermuda law until 2035. Pre-tax income generated by Group's non-Bermuda subsidiaries and the UK branch of Bermuda is subject to applicable federal, foreign, state and local taxes on corporations. Company subsidiaries domiciled in the US as well as the Canadian and Singapore branches of Everest Re generate US pre-tax income (loss). Foreign domiciled subsidiaries, including the UK branch of Bermuda Re, generate non-US pre-tax income (loss). Fluctuations in US and non-US pre-tax income (loss) primarily result from the impact of catastrophe losses and realized investment gains (losses).

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

preceding year-to-date period. Management considers the impact of all known events in its estimation of the Company's annual pre-tax income and AETR.

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17. DISPOSITION

The Company sold Heartland, its crop Managing General Agent to CGB for \$49,000 thousand. The sale agreement includes a provision for a long term strategic reinsurance relationship with CGB. The Company has recognized an after-tax loss on the sale of Heartland of \$12,942 thousand. Under the terms of the 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.

18. SUBSEQUENT EVENTS

The Company has evaluated known recognized and non-recognized subsequent events. During the early part of October, Hurricane Matthew impacted the Caribbean and the southeastern United States. Based upon current early overall industry loss projections of \$3 billion to \$9 billion and applying the Company's estimated market share, the Company's best estimated range of loss from this event is \$75,000 thousand to \$200,000 thousand. The Company does not have any other subsequent events to report.

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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, higher rates and stronger profits followed by periods of abundant capacity, lower rates and constrained profitability. Competition in the types of reinsurance and insurance business that we underwrite is based on many factors, including the perceived overall financial strength of the reinsurer or insurer, ratings of the reinsurer or insurer by A.M. Best and/or Standard & Poor's, underwriting expertise, the jurisdictions where the reinsurer or insurer is licensed or otherwise authorized, capacity and coverages offered, premiums charged, other terms and conditions of the reinsurance and insurance business offered, services offered, speed of claims payment and reputation and experience in lines written. Furthermore, the market impact from these competitive factors related to reinsurance and insurance is generally not consistent across lines of business, domestic and international geographical areas and distribution channels.

We compete in the U.S., Bermuda and international reinsurance and insurance markets with numerous global competitors. Our competitors include independent reinsurance and insurance companies, subsidiaries or affiliates of established worldwide insurance companies, reinsurance departments of certain insurance companies, domestic and international underwriting operations, including underwriting syndicates at Lloyd's of London and certain government sponsored risk transfer vehicles. Some of these competitors have greater financial resources than we do and have established long term and continuing business relationships, which can be a significant competitive advantage. In addition, the lack of strong barriers to entry into the reinsurance business and recently, the securitization of reinsurance and insurance risks through capital markets provide additional sources of potential reinsurance and insurance capacity and competition.

Worldwide insurance and reinsurance market conditions continued to be very competitive, particularly in the property catastrophe and casualty reinsurance lines of business. Generally, there was ample insurance and reinsurance capacity relative to demand, as well as, additional capital from the capital markets through insurance linked financial instruments. These financial instruments such as side cars, catastrophe bonds and collateralized reinsurance funds, provide capital markets with access to insurance and reinsurance risk exposure. The capital markets demand for these products is being primarily driven by the current low interest environment and the desire to achieve greater risk diversification and potentially higher returns on their investments. This increased competition is generally having a negative impact on rates, terms and conditions; however, the impact varies widely by market and coverage.

Rates tend to fluctuate by specific region and products, particularly areas recently impacted by large catastrophic events. Although there have been flooding and wind storm events and earthquakes in parts of the world, the overall 2013, 2014 and 2015 catastrophe losses for the industry were considerably lower than average. 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 the first part of October, Hurricane Matthew affected a large area of the Caribbean and southeastern United States. While the future impact on market conditions from this storm cannot be determined at this time, it is unlikely to have a significant impact on the overall markets, but may impact loss affected areas.

During 2015, we initiated a strategic build out of our insurance platform through the investment in key leadership hires which in turn has brought significant underwriting talent and stronger direction in achieving our insurance program strategic goals of increased premium volume and improved underwriting results. Recent growth is coming from highly diversified areas including newly launched lines of business, as well as, product and geographic expansion in existing lines of business. We are building a world-class insurance platform capable of offering products across lines and geographies, complementing our leading global reinsurance franchise. As part of this initiative, we

received approval from Lloyd's of London to launch a new syndicate, which will provide us access to additional international business and new product opportunities to further diversify and broaden our insurance portfolio in 2016.

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

Financial Summary.

We monitor and evaluate our overall performance based upon financial results. The following table displays a summary of the consolidated net income (loss), ratios and shareholders' equity for the periods indicated.

(Dollars in millions)	Three Months Ended September 30,		Percentage Increase/ (Decrease)	Nine Months Ended September 30,		Percentage Increase/ (Decrease)				
	2016	2015		2016	2015					
Gross written premiums	\$1,782.6	\$1,724.9	3.3	%	\$4,499.2	\$4,404.6	2.1	%		
Net written premiums	1,564.6	1,500.4	4.3	%	3,901.1	3,860.4	1.1	%		
REVENUES:										
Premiums earned	\$1,371.5	\$1,362.9	0.6	%	\$3,879.2	\$3,920.6	-1.1	%		
Net investment income	122.7	115.4	6.3	%	357.9	363.0	-1.4	%		
Net realized capital gains (losses)	0.4	(160.0)	-100.2	%	(41.2)	(194.7)	-78.8	%		
Net derivative gain (loss)	6.5	(11.4)	-157.0	%	5.5	(5.2)	-205.0	%		
Other income (expense)	9.4	25.3	-62.6	%	(21.0)	74.5	-128.2	%		
Total revenues	1,510.5	1,332.1	13.4	%	4,180.4	4,158.2	0.5	%		
CLAIMS AND EXPENSES:										
Incurred losses and loss adjustment expenses	786.2	871.6	-9.8	%	2,344.7	2,365.0	-0.9	%		
Commission, brokerage, taxes and fees	309.5	295.2	4.9	%	880.1	868.8	1.3	%		
Other underwriting expenses	78.6	68.0	15.6	%	222.8	188.6	18.1	%		
Corporate expenses	6.4	5.9	8.0	%	21.4	17.3	23.6	%		
Interest, fees and bond issue cost amortization expense	8.9	9.0	-1.1	%	27.2	27.0	0.7	%		
Total claims and expenses	1,189.6	1,249.7	-4.8	%	3,496.1	3,466.7	0.8	%		
INCOME (LOSS) BEFORE TAXES										
	320.9	82.4	NM		684.3	691.5	-1.0	%		
Income tax expense (benefit)	25.5	(6.1)	NM		61.5	70.9	-13.2	%		
NET INCOME (LOSS)	\$295.4	\$88.6	233.6	%	\$622.8	\$620.6	0.4	%		
RATIOS:										
Loss ratio	57.3	%	63.9	%	(6.6)	60.4	%	60.3	%	0.1
Commission and brokerage ratio	22.6	%	21.7	%	0.9	22.7	%	22.2	%	0.5
Other underwriting expense ratio	5.7	%	5.0	%	0.7	5.8	%	4.8	%	1.0
Combined ratio	85.6	%	90.6	%	(5.0)	88.9	%	87.3	%	1.6

	At September 30, 2016	At December 31, 2015	Percentage Increase/ (Decrease)
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(Dollars in millions, except per share amounts)

Balance sheet data:

Total investments and cash	\$17,539.6	\$ 16,676.4	5.2	%
Total assets	21,663.1	20,545.4	5.4	%
Loss and loss adjustment expense reserves	10,375.5	9,951.8	4.3	%
Total debt	633.1	633.0	0.0	%
Total liabilities	13,622.0	12,936.8	5.3	%
Shareholders' equity	8,041.1	7,608.6	5.7	%
Book value per share	196.67	178.21	10.4	%

(NM, not meaningful)

(Some amounts may not reconcile due to rounding.)

Revenues.

Premiums. Gross written premiums increased by 3.3% to \$1,782.6 million for the three months ended September 30, 2016, compared to \$1,724.9 million for the three months ended September 30, 2015, reflecting a \$43.9 million, or 9.0%, increase in our insurance business and a \$13.8 million, or 1.1%, increase 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 increase in reinsurance premiums was mainly due to increases in treaty and facultative casualty business. These increases were partially offset by lower premiums in treaty property business and a higher negative impact of \$14.2 million from the year over year movement in foreign exchange rates. Gross written premiums increased by 2.1% to \$4,499.2 million for the nine months ended September 30, 2016, compared to \$4,404.6 million for the nine months ended September 30, 2015, reflecting a \$191.5 million, or 16.3%, increase in our insurance business, partially offset by a \$96.9 million, or 3.0%, 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 mainly due to a decrease in treaty property business, a decline in international premiums related to quota share agreements and a negative impact of \$55.2 million from the year over year movement in foreign exchange rates.

Net written premiums increased by 4.3% to \$1,564.6 million for the three months ended September 30, 2016, compared to \$1,500.4 million for the three months ended September 30, 2015, and increased by 1.1% to \$3,901.1 million for the nine months ended September 30, 2016, compared to \$3,860.4 million for the nine months ended September 30, 2015. The changes are consistent with the changes in gross written premiums. Premiums earned increased by 0.6% to \$1,371.5 million for the three months ended September 30, 2016, compared to \$1,362.9 million for the three months ended September 30, 2015, and decreased by 1.1% to \$3,879.2 million for the nine months ended September 30, 2016, compared to \$3,920.6 million for the nine months ended September 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 6.3% to \$122.7 million for the three months ended September 30, 2016, compared with investment income of \$115.4 million for the three months ended September 30, 2015. Net investment income decreased by 1.4% to \$357.9 million for the nine months ended September 30, 2016, compared with investment income of \$363.0 million for the nine months ended September 30, 2015. Net pre-tax investment income, as a percentage of average invested assets, was 2.9% for the three months ended September 30, 2016, compared to 2.8% for the three months ended September 30, 2015. Net pre-tax investment income, as a percentage of average invested assets, was 2.9% for the nine months ended September 30, 2016, compared to 3.0% for the nine months ended September 30, 2015. The increase in income and yields for the three months ended September 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 nine months ended September 30, 2016 compared to the prior period was primarily the result of lower reinvestment rates for the fixed income portfolios, partially offset by higher income from our limited partnerships.

Net Realized Capital Gains (Losses). Net realized capital gains were \$0.4 million and net realized capital losses were \$160.0 million for the three months ended September 30, 2016 and 2015, respectively. The net realized capital gains of \$0.4 million were comprised of \$17.6 million of net gains from fair value re-measurements and \$11.6 million of net realized capital gains from sales on our fixed maturity and equity securities, partially offset by net realized capital losses of \$28.0 million from the sale of our Heartland subsidiary and \$0.8 million of other-than-temporary impairments. The net realized capital losses of \$160.0 million for the three months ended September 30, 2015 were the result of \$117.1 million of net losses from fair value re-measurements, \$22.5 million of net realized capital losses from sales on our fixed maturity and equity securities and \$20.4 million of other-than-temporary impairments.

Net realized capital losses were \$41.2 million and \$194.7 million for the nine months ended September 30, 2016 and 2015, respectively. The net realized capital losses of \$41.2 million were comprised of \$31.1 million of other-than-temporary impairments, net realized capital losses of \$28.0 million from the sale of our Heartland subsidiary and \$19.8 million of net realized capital losses from sales on our fixed maturity and equity securities, partially offset by \$37.7 million of net gains from fair value re-measurements. The net realized capital losses of \$194.7 million for the nine months ended September 30, 2015 were the result of \$98.7 million of net losses from fair value re-measurements, \$62.7 million of other-than-temporary impairments and \$33.3 million of net realized capital losses from sales on our fixed maturity and equity securities.

Net Derivative Gain (Loss). In 2005 and prior, we sold seven equity index put option contracts, which remain outstanding. These contracts meet the definition of a derivative in accordance with FASB guidance and as such, are fair valued each quarter with the change recorded as net derivative gain or loss in the consolidated statements of operations and comprehensive income (loss). As a result of these adjustments in value, we recognized net derivative gains of \$6.5 million and \$5.5 million for the three and nine months ended September 30, 2016, respectively, and net derivative losses of \$11.4 million and \$5.2 million for the three and nine months ended September 30, 2015, respectively. The change in the fair value of these equity index put option contracts is indicative of the change in the equity markets and interest rates over the same periods.

Other Income (Expense). We recorded other income of \$9.4 million and other expense of \$21.0 million for the three and nine months ended September 30, 2016, respectively. We recorded other income of \$25.3 million and \$74.5 million for the three and nine months ended September 30, 2015, respectively. The changes were primarily the result of fluctuations in foreign currency exchange rates for the corresponding periods. The foreign exchange losses for the nine months ended September 30, 2016 were primarily a result of the decline in the Great British Pound (Sterling) in relation to other major currencies resulting from the United Kingdom vote to leave the European Union.

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 September 30,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2016						
Attritional	\$769.3	56.0%	\$(0.7)	0.0 %	\$ 768.7	56.0%
Catastrophes	59.7	4.4 %	(42.2)	-3.1 %	17.5	1.3 %
Total Segment	\$829.0	60.4%	\$(42.9)	-3.1 %	\$ 786.2	57.3%

2015						
Attritional	\$837.4	61.4%	\$-	0.0 %	\$ 837.4	61.4%
Catastrophes	34.6	2.5 %	(0.4)	0.0 %	34.2	2.5 %
Total Segment	\$872.0	63.9%	\$(0.4)	0.0 %	\$ 871.6	63.9%

Variance 2016/2015

Attritional	\$(68.1)	(5.4) pts	\$(0.7)	- pts	\$(68.7)	(5.4) pts
Catastrophes	25.1	1.9 pts	(41.8)	(3.1) pts	(16.7)	(1.2) pts
Total Segment	\$(43.0)	(3.5) pts	\$(42.4)	(3.1) pts	\$(85.4)	(6.6) pts

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Nine Months Ended September 30,

(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
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2016

Attritional	\$2,197.4	56.6%	\$(3.8)	-0.1 %	\$2,193.7	56.5 %
Catastrophes	219.2	5.7 %	(68.2)	-1.8 %	151.0	3.9 %
Total Segment	\$2,416.6	62.3%	\$(72.0)	-1.9 %	\$2,344.7	60.4%

2015

Attritional	\$2,304.7	58.8%	\$(0.8)	0.0 %	\$2,303.8	58.8%
Catastrophes	71.6	1.8 %	(10.4)	-0.3 %	61.2	1.5 %
Total Segment	\$2,376.3	60.6%	\$(11.2)	-0.3 %	\$2,365.0	60.3%

Variance 2016/2015

Attritional	\$(107.3)	(2.2)	pts	\$(3.0)	(0.1)	pts	\$(110.1)	(2.3)	pts
Catastrophes	147.6	3.9	pts	(57.8)	(1.5)	pts	89.8	2.4	pts
Total Segment	\$40.3	1.7	pts	\$(60.8)	(1.6)	pts	\$(20.3)	0.1	pts

Incurred losses and LAE decreased by 9.8% to \$786.2 million for the three months ended September 30, 2016, compared to \$871.6 million for the three months ended September 30, 2015, primarily due to a decrease in current year attritional losses of \$68.1 million, as the 2015 attritional loss ratio reflected a \$60.0 million loss estimate for the explosions at the Chinese Port of Tianjin, and a \$41.8 million decrease in prior years catastrophe losses, partially offset by a \$25.1 million increase in current year catastrophe losses. The \$42.2 million favorable loss development for prior years catastrophes for the three months ended September 30, 2016 related primarily to the 2015 Chilean earthquake (\$24.9 million) and the 2013 U.S. storms (\$12.0 million). The current year catastrophe losses of \$59.7 million for the three months ended September 30, 2016 related to the Fort McMurray Canada wildfire (\$27.8 million), Hurricane Hermine (\$13.5 million), 2016 U.S. storms (\$13.4 million), the 2016 Taiwan Earthquake (\$4.6 million) and the Ecuador earthquake (\$0.3 million). The current year catastrophe losses of \$34.6 million for the three months ended September 30, 2015 related mainly to the Chilean earthquake (\$34.8 million).

Incurred losses and LAE decreased by 0.9% to \$2,344.7 million for the nine months ended September 30, 2016, compared to \$2,365.0 million for the nine months ended September 30, 2015, primarily due to a decrease in current year attritional losses of \$107.3 million and a decrease in prior years catastrophe development of \$57.8 million compared to the prior year, partially offset by an increase of \$147.6 million in current year catastrophe losses. The \$107.3 million decline in the current year attritional loss ratio was primarily due to the \$60.0 million attritional losses in 2015 related to the explosions at the Chinese Port of Tianjin and the 1.1% decline in premiums earned. The \$68.2 million of favorable prior years catastrophe losses for the nine months ended September 30, 2016 related primarily to the 2015 Chilean earthquake (\$24.8 million), the 2011 Japanese earthquake (\$21.3 million) and the 2013 U.S. storms (\$9.5 million). The current year catastrophe losses of \$219.2 million for the nine months ended September 30, 2016 related to the Fort McMurray Canada wildfire (\$117.6 million), 2016 U.S. storms (\$49.9 million), the Ecuador earthquake (\$23.2 million), the 2016 Taiwan earthquake (\$15.1 million) and Hurricane Hermine (\$13.5 million). The current year catastrophe losses of \$71.6 million for the nine months ended September 30, 2015 related to the Chilean earthquake (\$34.8 million), the Northern Chile storms (\$20.0 million) and the New South Wales storms (\$16.8 million).

Commission, Brokerage, Taxes and Fees. Commission, brokerage, taxes and fees increased by 4.9% to \$309.5 million for the three months ended September 30, 2016 compared to \$295.2 million for the three months ended September 30, 2015. Commission, brokerage, taxes and fees increased by 1.3% to \$880.1 million for the nine months ended September 30, 2016 compared to \$868.8 million for the nine months ended September 30, 2015. These increases were primarily due to changes in the mix of business.

Other Underwriting Expenses. Other underwriting expenses were \$78.6 million and \$68.0 million for the three months ended September 30, 2016 and 2015, respectively. Other underwriting expenses were \$222.8 million and \$188.6 million for the nine months ended September 30, 2016 and 2015, respectively. The increases in other underwriting expenses were mainly due to costs incurred related to the expansion of the insurance business.

Corporate Expenses. Corporate expenses, which are general operating expenses that are not allocated to segments, were \$6.4 million and \$5.9 million for the three months ended September 30, 2016 and 2015, respectively, and \$21.4 million and \$17.3 million for the nine months ended September 30, 2016 and 2015, respectively. The increases in corporate expenses were mainly due to increased compensation and benefit expenses.

Interest, Fees and Bond Issue Cost Amortization Expense. Interest, fees and other bond amortization expense was \$8.9 million and \$9.0 million for the three months ended September 30, 2016 and 2015, respectively. Interest, fees and other bond amortization expense was \$27.2 million and \$27.0 million for the nine months ended September 30, 2016 and 2015, respectively.

Income Tax Expense (Benefit). We had income tax expenses of \$25.5 million and income tax benefits of \$6.1 million for the three months ended September 30, 2016 and 2015, respectively, and income tax expenses of \$61.5 million and \$70.9 million for the nine months ended September 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 and as calculated under the annualized effective tax rate ("AETR") method. Variations in the AETR generally result from changes in the relative levels of pre-tax income, including the impact of catastrophe losses and net capital gains (losses), among jurisdictions with different tax rates. The increase in income tax expenses for the three months ended September 30, 2016 compared to the three ended September 30, 2015 was mainly due to the decrease in losses incurred and lower capital losses.

Net Income (Loss).

Our net income was \$295.4 million and \$88.6 million for the three months ended September 30, 2016 and 2015, respectively. Our net income was \$622.8 million and \$620.6 million for the nine months ended September 30, 2016 and 2015, respectively. The changes were primarily driven by the financial component fluctuations explained above.

Ratios.

Our combined ratio decreased by 5.0 points to 85.6% for the three months ended September 30, 2016, compared to 90.6% for the three months ended September 30, 2015, and increased by 1.6 points to 88.9% for the nine months ended September 30, 2016, compared to 87.3% for the nine months ended September 30, 2015. The loss ratio components decreased 6.6 points and increased 0.1 points for the three and nine months ended September 30, 2016, respectively, over the same periods last year. The change for the three month period was mainly due to lower current year attritional losses and favorable prior year development on catastrophe losses in 2016 compared to 2015. The commission and brokerage ratio components were comparable at 22.6% and 21.7% for the three months ended September 30, 2016 and 2015, respectively, and 22.7% and 22.2% for the nine months ended September 30, 2016 and 2015, respectively. The other underwriting expense ratio components increased by 0.7 points and 1.0 points for the three and nine months ended September 30, 2016 over the same periods last year due primarily to the increased focus on the expansion of the insurance business.

Shareholders' Equity.

Shareholders' equity increased by \$432.5 million to \$8,041.1 million at September 30, 2016 from \$7,608.6 million at December 31, 2015, principally as a result of \$622.8 million of net income, \$286.0 million of unrealized appreciation on investments, net of tax, \$25.7 million of share-based compensation transactions, \$17.6 million of net foreign currency translation adjustments and \$3.9 million of net benefit plan obligation adjustments, partially offset by repurchases of 2.0 million common shares for \$379.2 million and \$144.3 million of shareholder dividends.

Consolidated Investment Results

Net Investment Income.

Net investment income increased by 6.3% to \$122.7 million for the three months ended September 30, 2016 compared to \$115.4 million for the three months ended September 30, 2015, primarily due to an increase in limited partnership income. Net investment income decreased by 1.4% to \$357.9 million for the nine months ended September 30, 2016 compared to \$363.0 million for the nine months ended September 30, 2015, primarily due to a decline in income from our fixed maturities, reflective of lower reinvestment rates, partially offset by an increase in income from our limited partnerships.

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

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Fixed maturities	\$ 100.8	\$ 108.1	\$ 306.1	\$ 327.0
Equity securities	9.9	11.1	32.0	35.8
Short-term investments and cash	0.5	0.3	1.2	0.9
Other invested assets				
Limited partnerships	17.1	0.4	33.9	14.0
Other	1.0	(0.2)	1.3	1.4
Gross investment income before adjustments	129.3	119.6	374.6	379.0
Funds held interest income (expense)	1.5	2.6	5.8	8.2
Future policy benefit reserve income (expense)	(0.5)	(0.3)	(1.2)	(1.4)
Gross investment income	130.3	121.9	379.1	385.8
Investment expenses	(7.6)	(6.5)	(21.2)	(22.8)
Net investment income	\$ 122.7	\$ 115.4	\$ 357.9	\$ 363.0

(Some amounts may not reconcile due to rounding.)

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

	At September 30, 2016	At December 31, 2015
Imbedded pre-tax yield of cash and invested assets	3.0%	3.0%
Imbedded after-tax yield of cash and invested assets	2.5%	2.6%

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Annualized pre-tax yield on average cash and invested assets	2.9%	2.8%	2.9%	3.0%
Annualized after-tax yield on average cash and invested assets	2.4%	2.3%	2.4%	2.4%

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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 September 30,			Nine Months Ended September 30,		
	2016	2015	Variance	2016	2015	Variance
<u>Gains (losses) from sales:</u>						
Fixed maturity securities, market value:						
Gains	\$ 15.1	\$ 11.8	\$ 3.3	\$ 32.7	\$ 37.5	\$ (4.8)
Losses	(9.2)	(17.0)	7.8	(40.4)	(53.3)	12.9
Total	5.9	(5.2)	11.1	(7.8)	(15.8)	8.0
Fixed maturity securities, fair value:						
Gains	-	-	-	-	-	-
Losses	-	-	-	(1.9)	-	(1.9)
Total	-	-	-	(1.9)	-	(1.9)
Equity securities, market value:						
Gains	-	-	-	0.1	-	0.1
Losses	-	(3.6)	3.6	-	(4.5)	4.5
Total	-	(3.6)	3.6	0.1	(4.5)	4.6
Equity securities, fair value:						
Gains	7.3	5.3	2.0	14.0	18.9	(4.9)
Losses	(1.4)	(18.9)	17.5	(24.2)	(31.9)	7.7
Total	5.8	(13.6)	19.4	(10.3)	(13.0)	2.7
Total net realized capital gains (losses) from sales:						
Gains	22.3	17.1	5.2	46.8	56.4	(9.6)
Losses	(10.5)	(39.5)	29.0	(66.4)	(89.7)	23.3
Total	11.6	(22.5)	34.1	(19.8)	(33.3)	13.5
<u>Loss on sale of Subsidiary:</u>	(28.0)	-	(28.0)	(28.0)	-	(28.0)
<u>Other-than-temporary impairments:</u>	(0.8)	(20.4)	19.6	(31.1)	(62.7)	31.6
<u>Gains (losses) from fair value adjustments:</u>						
Fixed maturities, fair value	0.1	-	0.1	1.4	0.1	1.3
Equity securities, fair value	17.5	(117.1)	134.6	36.3	(98.7)	135.0
Total	17.6	(117.1)	134.7	37.7	(98.7)	136.4
Total net realized capital gains (losses)	\$ 0.4	\$ (160.0)	\$ 160.4	\$ (41.2)	\$ (194.7)	\$ 153.4

(Some amounts may not reconcile due to rounding.)

Net realized capital gains were \$0.4 million and net realized capital losses were \$160.0 million for the three months ended September 30, 2016 and 2015, respectively. For the three months ended September 30, 2016, we recorded

\$17.6 million of net gains from fair value re-measurements and \$11.6 million of net realized capital gains from sales on our fixed maturity and equity securities, partially offset by \$28.0 million of net realized capital losses from the sale of our Heartland subsidiary and \$0.8 million of other-than-temporary impairments. For the three months ended September 30, 2015, we recorded \$117.1 million of net losses from fair value re-measurements, \$22.5 million of net realized capital losses from sales on our fixed maturity and equity securities and \$20.4 million of other-than-temporary impairments. The fixed maturity and equity sales for both periods related primarily to adjusting the portfolios for overall market changes and individual credit shifts.

Net realized capital losses were \$41.2 million and \$194.7 million for the nine months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016, we recorded \$31.1 million of other-than-temporary impairments, \$28.0 million of net realized capital losses from the sale of our Heartland subsidiary and \$19.8 million of net realized capital losses from sales on our fixed maturity and equity securities, partially offset by \$37.7 million of net gains from fair value re-measurements. For the nine months ended September 30, 2015, we recorded \$98.7 million of net losses from fair value re-measurements, \$62.7 million of other-than-temporary impairments and \$33.3 million of net realized capital

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losses from sales on our fixed maturity and equity securities. The fixed maturity and equity sales for both periods 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 Accident and Health ("A&H") business, on both a treaty and facultative basis, through reinsurance brokers, as well as directly with ceding companies primarily within the U.S. The International operation writes non-U.S. property and casualty reinsurance through Everest Re's branches in Canada and Singapore and through offices in Brazil, Miami and New Jersey. The Bermuda operation provides reinsurance and insurance to worldwide property and casualty markets through brokers and directly with ceding companies from its Bermuda office and reinsurance to the United Kingdom and European markets through its UK branch and Ireland Re. The Insurance operation writes property and casualty insurance directly and through general agents, brokers and surplus lines brokers within the U.S. and Canada.

These segments are managed independently, but conform with corporate guidelines with respect to pricing, risk management, control of aggregate catastrophe exposures, capital, investments and support operations. Management generally monitors and evaluates the financial performance of these operating segments based upon their underwriting results.

Underwriting results include earned premium less losses and loss adjustment expenses ("LAE") incurred, commission and brokerage expenses and other underwriting expenses. We measure our underwriting results using ratios, in particular loss, commission and brokerage and other underwriting expense ratios, which, respectively, divide incurred losses, commissions and brokerage and other underwriting expenses by premiums earned.

For inter-affiliate reinsurance and business written through the Lloyd's Syndicate, business is generally reported within the segment in which the business was first produced, consistent with how the business is managed.

The Company does not maintain separate balance sheet data for its operating segments. Accordingly, the Company does not review and evaluate the financial results of its operating segments based upon balance sheet data.

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

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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 September 30,				Nine Months Ended September 30,			
	2016	2015	Variance	Change %	2016	2015	Variance	Change %
Gross written premiums	\$654.8	\$601.6	\$53.2	8.8 %	\$1,597.0	\$1,615.3	\$(18.3)	-1.1 %
Net written premiums	678.8	511.2	167.6	32.8 %	1,491.2	1,383.6	107.5	7.8 %
Premiums earned	\$519.2	\$488.5	\$30.7	6.3 %	\$1,479.0	\$1,480.4	\$(1.5)	-0.1 %
Incurred losses and LAE	276.3	225.9	50.4	22.2 %	732.3	699.6	32.7	4.7 %
Commission and brokerage	116.7	121.1	(4.4)	-3.6 %	354.6	364.0	(9.4)	-2.6 %
Other underwriting expenses	14.3	13.7	0.5	4.0 %	39.9	37.1	2.8	7.6 %
Underwriting gain (loss)	\$112.0	\$127.8	\$(15.8)	-12.4 %	\$352.2	\$379.8	\$(27.6)	-7.3 %
				Point Chg				Point Chg
Loss ratio	53.2 %	46.3 %		6.9	49.5 %	47.3 %		2.2
Commission and brokerage ratio	22.5 %	24.8 %		(2.3)	24.0 %	24.6 %		(0.6)
Other underwriting expense ratio	2.7 %	2.7 %		-	2.7 %	2.4 %		0.3
Combined ratio	78.4 %	73.8 %		4.6	76.2 %	74.3 %		1.9

(Some amounts may not reconcile due to rounding.)

NM (not meaningful)

Premiums. Gross written premiums increased by 8.8% to \$654.8 million for the three months ended September 30, 2016 from \$601.6 million for the three months ended September 30, 2015, primarily due to an increase in treaty casualty business. Net written premiums increased by 32.8% to \$678.8 million for the three months ended September 30, 2016 compared to \$511.2 million for the three months ended September 30, 2015. The difference between the change in gross written premiums compared to the change in net written premiums is primarily due to the assumption of the crop business due to the sale of Heartland and a concurrent new crop reinsurance contract. Premiums earned increased 6.3% to \$519.2 million for the three months ended September 30, 2016, compared to \$488.5 million for the three months ended September 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 1.1% to \$1,597.0 million for the nine months ended September 30, 2016 from \$1,615.3 million for the nine months ended September 30, 2015, primarily due to a decrease in treaty property business, partially offset by an increase in treaty casualty business. Net written premiums increased by 7.8% to \$1,491.2 million for the nine months ended September 30, 2016 compared to \$1,383.6 million for the nine months ended September 30, 2015. The difference between the change in gross written premiums compared to the change in net written premiums is primarily due to the crop transaction described above. Premiums earned decreased 0.1% to

\$1,479.0 million for the nine months ended September 30, 2016, compared to \$1,480.4 million for the nine months ended September 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.

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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 September 30,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
<u>2016</u>						
Attritional	\$263.7	50.8%	\$(5.0)	-1.0%	\$ 258.7	49.8%
Catastrophes	28.7	5.5 %	(11.1)	-2.1 %	17.6	3.4 %
Total Segment	\$292.4	56.3%	\$(16.1)	-3.1 %	\$ 276.3	53.2%

<u>2015</u>						
Attritional	\$225.5	46.2%	\$0.5	0.2 %	\$ 226.0	46.4%
Catastrophes	0.2	0.0 %	(0.3)	-0.1 %	(0.1)	-0.1 %
Total Segment	\$225.7	46.2%	\$0.2	0.1 %	\$ 225.9	46.3%

Variance 2016/2015

Attritional	\$38.2	4.6	pts	\$(5.5)	(1.2)	pts	\$ 32.7	3.4	pts
Catastrophes	28.5	5.5	pts	(10.8)	(2.0)	pts	17.7	3.5	pts
Total Segment	\$66.7	10.1	pts	\$(16.3)	(3.2)	pts	\$ 50.4	6.9	pts

(Dollars in millions)	Nine Months Ended September 30,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
<u>2016</u>						
Attritional	\$736.8	49.8%	\$(9.5)	-0.6%	\$ 727.3	49.2%
Catastrophes	31.6	2.1 %	(26.5)	-1.8 %	5.1	0.3 %
Total Segment	\$768.4	51.9%	\$(36.0)	-2.4 %	\$ 732.3	49.5%

<u>2015</u>						
Attritional	\$732.4	49.5%	\$(24.3)	-1.6%	\$ 708.1	47.9%
Catastrophes	0.2	0.0 %	(8.8)	-0.6 %	(8.5)	-0.6 %
Total Segment	\$732.6	49.5%	\$(33.1)	-2.2 %	\$ 699.6	47.3%

Variance 2016/2015

Attritional	\$4.4	0.3	pts	\$14.8	1.0	pts	\$ 19.2	1.3	pts
Catastrophes	31.4	2.1	pts	(17.7)	(1.2)	pts	13.6	0.9	pts
Total Segment	\$35.8	2.4	pts	\$(2.9)	(0.2)	pts	\$ 32.7	2.2	pts

Incurred losses increased by 22.2% to \$276.3 million for the three months ended September 30, 2016 compared to \$225.9 million for the three months ended September 30, 2015, primarily due to a \$38.2 million increase in current year attritional losses, related to the impact of the increase in premiums earned, and an increase of \$28.5 million on current year catastrophe losses. This increase was partially offset by more favorable development of \$10.8 million on prior years' catastrophe losses, mainly related to the 2013 U.S. storms. The \$28.7 million of current year catastrophe losses for the three months ended September 30, 2016 related to Hurricane Hermine (\$13.5 million), 2016 U.S. storms (\$12.7 million), and the Fort McMurray Canada wildfire (\$2.6 million). The \$0.2 million of current year catastrophe losses for the three months ended September 30, 2015 were due to the New South Wales storms.

Incurring losses increased by 4.7% to \$732.3 million for the nine months ended September 30, 2016 compared to \$699.6 million for the nine months ended September 30, 2015, primarily due to an increase of \$31.4 million in current year catastrophe losses. There was also more favorable development of \$17.7 million on prior years' catastrophe losses and less favorable development of \$14.8 million on prior years' attritional losses related to treaty casualty and marine business. The \$31.6 million of current year catastrophe losses for the nine months ended September 30, 2016 related to the 2016 U.S. storms (\$19.1 million) and Hurricane Hermine (\$13.5 million). The \$0.2 million of current year catastrophe losses for the nine months ended September 30, 2015 were due to the New South Wales storms. The \$26.5 million of

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prior years catastrophes for the nine months ended September 30, 2016 mainly related to the 2011 Japan earthquake (\$12.2 million) and the 2013 U.S. storms (\$9.6 million).

Segment Expenses. Commission and brokerage expenses decreased to \$116.7 million for the three months ended September 30, 2016 compared to \$121.1 million for the three months ended September 30, 2015. Commission and brokerage expenses decreased by 2.6% to \$354.6 million for the nine months ended September 30, 2016 compared to \$364.0 million for the nine months ended September 30, 2015. The decreases are mainly due to the impact of quota share contracts and changes in the mix of business.

Segment other underwriting expenses increased slightly to \$14.3 million for the three months ended September 30, 2016 from \$13.7 million for the three months ended September 30, 2015. Segment other underwriting expenses increased to \$39.9 million for the nine months ended September 30, 2016 from \$37.1 million for the nine months ended September 30, 2015. The increases were primarily due to the impact of changes in the mix of business and higher compensation costs.

International.

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

(Dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,				
	2016	2015	Variance	Change %	2016	2015	Variance	Change %	
Gross written premiums	\$348.8	\$363.1	\$(14.3)	-3.9 %	\$925.0	\$989.9	\$(64.9)	-6.6 %	
Net written premiums	316.2	318.5	(2.3)	-0.7 %	799.9	896.9	(97.0)	-10.8 %	
Premiums earned	\$282.4	\$291.4	\$(9.0)	-3.1 %	\$823.5	\$935.2	\$(111.7)	-11.9 %	
Incurred losses and LAE	122.2	229.0	(106.8)	-46.6 %	531.6	630.8	(99.2)	-15.7 %	
Commission and brokerage	78.4	70.9	7.5	10.6 %	209.3	226.3	(17.0)	-7.5 %	
Other underwriting expenses	11.0	9.1	1.9	20.8 %	26.8	25.3	1.5	6.0 %	
Underwriting gain (loss)	\$70.8	\$(17.6)	\$88.5	NM	\$55.7	\$52.9	\$2.9	5.4 %	
				Point Chg				Point Chg	
Loss ratio	43.2 %	78.6 %		(35.4)	64.5 %	67.4 %		(2.9)	
Commission and brokerage ratio	27.8 %	24.3 %		3.5	25.4 %	24.2 %		1.2	
Other underwriting expense ratio	3.9 %	3.2 %		0.7	3.3 %	2.7 %		0.6	
Combined ratio	74.9 %	106.1 %		(31.2)	93.2 %	94.3 %			