

EVEREST RE GROUP LTD
Form 10-Q
August 11, 2014

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:
June 30, 2014

Commission file number:
1-15731

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

Bermuda
(State or other jurisdiction of
incorporation or organization)

98-0365432
(I.R.S. Employer
Identification No.)

Wessex House – 2nd Floor
45 Reid Street
PO Box HM 845
Hamilton HM DX, Bermuda
441-295-0006

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

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

YES X NO

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

YES X NO

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

Large X Accelerated
accelerated filer filer

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Non-accelerated
filer

Smaller
reporting
company

(Do not check if smaller
reporting company)

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

YES

NO

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

Class	Number of Shares Outstanding At August 1, 2014
Common Shares, \$0.01 par value	45,471,636

EVEREST RE GROUP, LTD

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PART I

ITEM 1. FINANCIAL STATEMENTS

EVEREST RE GROUP, LTD.
CONSOLIDATED BALANCE SHEETS

(Dollars and share amounts in thousands, except par value per share)	June 30, 2014 (unaudited)	December 31, 2013
ASSETS:		
Fixed maturities - available for sale, at market value (amortized cost: 2014, \$13,173,675; 2013, \$12,391,164)	\$ 13,577,366	\$ 12,636,907
Fixed maturities - available for sale, at fair value	-	19,388
Equity securities - available for sale, at market value (cost: 2014, \$149,024; 2013, \$148,342)	151,377	144,081
Equity securities - available for sale, at fair value	1,424,792	1,462,079
Short-term investments	1,636,937	1,214,199
Other invested assets (cost: 2014, \$509,396; 2013, \$508,447)	509,396	508,447
Cash	341,570	611,382
Total investments and cash	17,641,438	16,596,483
Accrued investment income	120,559	119,058
Premiums receivable	1,551,615	1,453,114
Reinsurance receivables	685,643	540,883
Funds held by reinsureds	226,845	228,000
Deferred acquisition costs	368,117	363,721
Prepaid reinsurance premiums	150,206	81,779
Income taxes	141,887	178,334
Other assets	305,334	246,664
TOTAL ASSETS	\$ 21,191,644	\$ 19,808,036
LIABILITIES:		
Reserve for losses and loss adjustment expenses	\$ 9,704,463	\$ 9,673,240
Future policy benefit reserve	58,368	59,512
Unearned premium reserve	1,677,971	1,579,945
Funds held under reinsurance treaties	3,337	2,692
Commission reserves	54,073	66,160
Other net payable to reinsurers	217,041	116,387
Losses in course of payment	494,640	332,631
4.868% Senior notes due 6/1/2044	400,000	-
5.4% Senior notes due 10/15/2014	249,984	249,958
6.6% Long term notes due 5/1/2067	238,362	238,361
Accrued interest on debt and borrowings	6,133	4,781
Equity index put option liability	33,309	35,423
Unsettled securities payable	88,463	53,867
Other liabilities	266,724	333,425
Total liabilities	13,492,868	12,746,382

NONCONTROLLING INTERESTS:

Redeemable noncontrolling interests - Mt. Logan Re	375,908	93,378
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Commitments and contingencies (Note 9)

SHAREHOLDERS' EQUITY:

Preferred shares, par value: \$0.01; 50,000 shares authorized;

no shares issued and outstanding

- -

Common shares, par value: \$0.01; 200,000 shares authorized; (2014) 68,280

and (2013) 67,965 outstanding before treasury shares

683 680

Additional paid-in capital

2,052,682 2,029,774

Accumulated other comprehensive income (loss), net of deferred income tax expense

(benefit) of \$79,020 at 2014 and \$57,661 at 2013

299,304 157,728

Treasury shares, at cost; 22,589 shares (2014) and 20,422 shares (2013)

(2,310,824) (1,985,873)

Retained earnings

7,281,023 6,765,967

Total shareholders' equity attributable to Everest Re Group

7,322,868 6,968,276

TOTAL LIABILITIES, NONCONTROLLING INTERESTS AND

SHAREHOLDERS' EQUITY

\$ 21,191,644 \$ 19,808,036

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

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

(Dollars in thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	2014	June 30, 2013 (unaudited)	2014	June 30, 2013 (unaudited)
REVENUES:				
Premiums earned	\$ 1,272,317	\$ 1,151,533	\$ 2,416,807	\$ 2,240,292
Net investment income	131,224	148,729	254,381	294,510
Net realized capital gains (losses):				
Other-than-temporary impairments on fixed maturity securities	(389)	-	(389)	(191)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-	-	-
Other net realized capital gains (losses)	59,405	33,905	80,531	160,831
Total net realized capital gains (losses)	59,016	33,905	80,142	160,640
Net derivative gain (loss)	3,774	12,081	2,113	27,366
Other income (expense)	(13,871)	8,295	(17,167)	(592)
Total revenues	1,452,460	1,354,543	2,736,276	2,722,216
CLAIMS AND EXPENSES:				
Incurred losses and loss adjustment expenses	735,697	711,590	1,355,106	1,304,234
Commission, brokerage, taxes and fees	283,687	242,067	529,689	475,113
Other underwriting expenses	58,414	54,901	109,052	107,847
Corporate expenses	3,899	6,168	8,844	11,885
Interest, fees and bond issue cost amortization expense	8,978	17,362	16,546	30,843
Total claims and expenses	1,090,675	1,032,088	2,019,237	1,929,922
INCOME (LOSS) BEFORE TAXES	361,785	322,455	717,039	792,294
Income tax expense (benefit)	63,860	46,813	117,092	132,309
NET INCOME (LOSS)	\$ 297,925	\$ 275,642	\$ 599,947	\$ 659,985
Net (income) loss attributable to noncontrolling interests	(7,741)	-	(15,830)	-
NET INCOME (LOSS) ATTRIBUTABLE TO EVEREST RE GROUP	\$ 290,184	\$ 275,642	\$ 584,117	\$ 659,985
Other comprehensive income (loss), net of tax:				
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	85,921	(272,540)	139,392	(319,342)
Reclassification adjustment for realized losses (gains) included in net income (loss)	2,169	(1,828)	4,043	(5,919)
Total URA(D) on securities arising during the period	88,090	(274,368)	143,435	(325,261)

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Foreign currency translation adjustments	(763)	13,751	(3,400)	(7,315)
Benefit plan actuarial net gain (loss) for the period	-	-	-	-
Reclassification adjustment for amortization of net (gain) loss included in net income (loss)	770	1,345	1,541	2,691
Total benefit plan net gain (loss) for the period	770	1,345	1,541	2,691
Total other comprehensive income (loss), net of tax	88,097	(259,272)	141,576	(329,885)
Other comprehensive (income) loss attributable to noncontrolling interests	-	-	-	-
Total other comprehensive income (loss), net of tax attributable to Everest Re Group	88,097	(259,272)	141,576	(329,885)
COMPREHENSIVE INCOME (LOSS)	\$ 378,281	\$ 16,370	\$ 725,693	\$ 330,100
EARNINGS PER COMMON SHARE				
ATTRIBUTABLE TO EVEREST RE GROUP:				
Basic	\$ 6.32	\$ 5.60	\$ 12.58	\$ 13.19
Diluted	6.26	5.56	12.46	13.09
Dividends declared	0.75	0.48	1.50	0.96

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

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

(Dollars in thousands, except share and dividends per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013 (unaudited)	2014	2013 (unaudited)
COMMON SHARES (shares outstanding):				
Balance, beginning of period	46,057,039	49,965,812	47,543,132	51,417,962
Issued during the period, net	109,068	208,935	315,139	707,092
Treasury shares acquired	(475,092)	(1,586,707)	(2,167,256)	(3,537,014)
Balance, end of period	45,691,015	48,588,040	45,691,015	48,588,040
COMMON SHARES (par value):				
Balance, beginning of period	\$ 682	\$ 676	\$ 680	\$ 671
Issued during the period, net	1	2	3	7
Balance, end of period	683	678	683	678
ADDITIONAL PAID-IN CAPITAL:				
Balance, beginning of period	2,036,320	1,978,966	2,029,774	1,946,439
Share-based compensation plans	16,362	24,200	22,908	56,727
Balance, end of period	2,052,682	2,003,166	2,052,682	2,003,166
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES:				
Balance, beginning of period	211,207	466,436	157,728	537,049
Net increase (decrease) during the period	88,097	(259,272)	141,576	(329,885)
Balance, end of period	299,304	207,164	299,304	207,164
RETAINED EARNINGS:				
Balance, beginning of period	7,025,158	5,973,378	6,765,967	5,613,266
Net income (loss) attributable to Everest Re Group	290,184	275,642	584,117	659,985
Dividends declared (\$0.75 per share in second quarter 2014 and \$1.50 year-to-date per share in 2014 and \$0.48 per share in second quarter 2013 and \$0.96 year-to-date per share in 2013)	(34,319)	(23,315)	(69,061)	(47,546)
Balance, end of period	7,281,023	6,225,705	7,281,023	6,225,705
TREASURY SHARES AT COST:				
Balance, beginning of period	(2,235,856)	(1,602,590)	(1,985,873)	(1,363,958)
Purchase of treasury shares	(74,968)	(211,323)	(324,951)	(449,955)
Balance, end of period	(2,310,824)	(1,813,913)	(2,310,824)	(1,813,913)

TOTAL SHAREHOLDERS' EQUITY, END OF PERIOD	\$ 7,322,868	\$ 6,622,800	\$ 7,322,868	\$ 6,622,800
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The accompanying notes are an integral part of the consolidated financial statements.

EVEREST RE GROUP, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013 (unaudited)	2014	2013 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	\$ 297,925	\$ 275,642	\$ 599,947	\$ 659,985
Adjustments to reconcile net income to net cash provided by operating activities:				
Decrease (increase) in premiums receivable	(123,360)	(167,239)	(97,827)	(220,306)
Decrease (increase) in funds held by reinsureds, net	(1,251)	(16,828)	2,148	(12,244)
Decrease (increase) in reinsurance receivables	(22,179)	26,758	(137,077)	(65,978)
Decrease (increase) in income taxes	(19,160)	(7,498)	15,257	56,729
Decrease (increase) in prepaid reinsurance premiums	(70,705)	(10,354)	(68,346)	(6,908)
Increase (decrease) in reserve for losses and loss adjustment expenses	64,403	(47,200)	8,055	(175,142)
Increase (decrease) in future policy benefit reserve	279	229	(1,144)	(567)
Increase (decrease) in unearned premiums	16,787	72,212	96,803	126,535
Increase (decrease) in other net payable to reinsurers	99,370	25,577	100,546	29,765
Increase (decrease) in losses in course of payment	54,987	81,362	161,990	230,135
Change in equity adjustments in limited partnerships	(5,513)	(18,994)	(3,200)	(36,350)
Distribution of limited partnership income	4,830	9,409	13,430	43,095
Change in other assets and liabilities, net	(32,913)	(31,052)	(56,872)	(74,866)
Non-cash compensation expense	5,341	4,551	9,768	10,165
Amortization of bond premium (accrual of bond discount)	13,496	16,900	27,068	35,507
Amortization of underwriting discount on senior notes	14	14	28	27
Net realized capital (gains) losses	(59,016)	(33,905)	(80,142)	(160,640)
Net cash provided by (used in) operating activities	223,335	179,584	590,432	438,942
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from fixed maturities matured/called - available for sale, at market value	556,764	706,674	1,047,509	1,318,718
Proceeds from fixed maturities matured/called - available for sale, at fair value	-	4,213	875	7,213
	277,767	376,688	606,476	631,184

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Proceeds from fixed maturities sold - available for sale, at market value				
Proceeds from fixed maturities sold - available for sale, at fair value	-	13,678	20,763	17,342
Proceeds from equity securities sold - available for sale, at market value	8,138	44,194	8,672	45,423
Proceeds from equity securities sold - available for sale, at fair value	126,294	252,594	304,892	358,769
Distributions from other invested assets	5,443	24,437	22,520	74,453
Cost of fixed maturities acquired - available for sale, at market value	(1,295,283)	(1,105,870)	(2,458,723)	(2,122,159)
Cost of fixed maturities acquired - available for sale, at fair value	-	(1,411)	(1,309)	(2,706)
Cost of equity securities acquired - available for sale, at market value	(2,073)	(51,921)	(10,619)	(53,487)
Cost of equity securities acquired - available for sale, at fair value	(90,985)	(121,327)	(183,314)	(243,944)
Cost of other invested assets acquired	(29,427)	(4,617)	(34,388)	(11,301)
Net change in short-term investments	(270,962)	53,629	(423,677)	132,136
Net change in unsettled securities transactions	19,069	64,135	20,633	55,668
Net cash provided by (used in) investing activities	(695,255)	255,096	(1,079,690)	207,309

CASH FLOWS FROM FINANCING ACTIVITIES:

Common shares issued during the period, net	11,022	19,651	13,143	46,569
Purchase of treasury shares	(74,968)	(211,323)	(324,951)	(449,955)
Revolving credit borrowings	-	40,000	-	40,000
Net cost of junior subordinated debt securities redemption	-	(329,897)	-	(329,897)
Net proceeds from issuance of senior notes	400,000	-	400,000	-
Third party investment in redeemable noncontrolling interest	53,000	-	123,700	-
Subscription advances for third party redeemable noncontrolling interest	77,500	-	77,500	-
Dividends paid to shareholders	(34,319)	(23,315)	(69,061)	(47,546)
Net cash provided by (used in) financing activities	432,235	(504,884)	220,331	(740,829)

EFFECT OF EXCHANGE RATE CHANGES ON CASH

Net increase (decrease) in cash	(43,834)	(85,000)	(269,812)	(97,914)
Cash, beginning of period	385,404	524,136	611,382	537,050
Cash, end of period	\$ 341,570	\$ 439,136	\$ 341,570	\$ 439,136

SUPPLEMENTAL CASH FLOW INFORMATION:

Income taxes paid (recovered)	\$ 80,981	\$ 47,550	\$ 97,241	\$ 66,738
Interest paid	14,844	17,280	15,018	23,281

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

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the Three and Six Months Ended June 30, 2014 and 2013

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.

Effective February 27, 2013, the Company established a new subsidiary, Mt. Logan Re Ltd. (“Mt. Logan Re”) and effective July 1, 2013, Mt. Logan Re established separate segregated accounts and issued non-voting redeemable preferred shares to capitalize the segregated accounts. Accordingly, the financial position and operating results for Mt. Logan Re are consolidated with the Company and the non-controlling interests in Mt. Logan Re’s operating results and equity are presented as separate captions in the Company’s financial statements.

2. BASIS OF PRESENTATION

The unaudited consolidated financial statements of the Company for the three and six months ended June 30, 2014 and 2013 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, 2013 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The results for the three and six months ended June 30, 2014 and 2013 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, 2013, 2012 and 2011 included in the Company’s most recent Form 10-K filing.

All intercompany accounts and transactions have been eliminated.

Certain reclassifications and format changes have been made to prior years’ amounts to conform to the 2014 presentation. One reclassification relates to a correction in the manner in which the Company reports distributions received from limited partnership investments in the consolidated Statements of Cash Flows. Prior to the fourth quarter of 2013, the Company incorrectly reflected all distributions as cash flows from investing activities in its Consolidated Statements of Cash Flows. Starting with the fourth quarter of 2013, cash distributions from the limited partnerships that represent net investment income are reflected as cash flows from operating activities and distributions that represent the return of capital contributions are reflected as cash flows from investing activities. For the three and six months ended June 30, 2013, \$9,409 thousand and \$43,095 thousand, respectively, have been reclassified from “Distributions from other invested assets” included in cash flows from investing activities to “Distribution of limited partnership income” included in cash flows from operations. The Company has determined that this error is not material to the financial statements of any prior period.

Application of Recently Issued Accounting Standard Changes.

Presentation of Comprehensive Income. In June 2011, FASB issued amendments to existing guidance to provide two alternatives for the presentation of comprehensive income. Components of net income and comprehensive income can either be presented within a single, continuous financial statement or be presented in two separate but consecutive financial statements. The Company has chosen to present the components of net income and comprehensive income

in a single, continuous financial statement. The guidance is effective for reporting periods beginning after December 15, 2011. The Company implemented this guidance as of January 1, 2012. In February, 2013, the FASB issued an additional amendment for the presentation of amounts reclassified out of accumulated other comprehensive income by component. The Company implemented the proposed guidance as of January 1, 2013.

Treatment of Insurance Contract Acquisition Costs. In October 2010, the FASB issued authoritative guidance for the accounting for costs associated with acquiring or renewing insurance contracts. The guidance identifies the incremental direct costs of contract acquisition and costs directly related to acquisition activities that should be capitalized. This guidance is effective for reporting periods beginning after December 15, 2011. The Company implemented this guidance as of January 1, 2012 and determined that \$13,492 thousand of previously deferrable acquisition costs would be expensed, including \$10,876 thousand and \$2,616 thousand expensed in the years ended December 31, 2012 and 2013, respectively. No additional expense will be incurred related to this guidance implementation in future periods.

3. INVESTMENTS

The amortized cost, market value and gross unrealized appreciation and depreciation of available for sale, fixed maturity and equity security investments, carried at market value, are as follows for the periods indicated:

(Dollars in thousands)	At June 30, 2014			
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value
Fixed maturity securities				
U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	\$ 521,496	\$ 3,711	\$ (930)	\$ 524,277
Obligations of U.S. states and political subdivisions	881,697	44,770	(2,050)	924,417
Corporate securities	4,531,862	175,499	(14,021)	4,693,340
Asset-backed securities	265,436	3,383	(91)	268,728
Mortgage-backed securities				
Commercial	222,204	15,166	(681)	236,689
Agency residential	2,103,439	43,127	(15,815)	2,130,751
Non-agency residential	3,894	296	(157)	4,033
Foreign government securities	1,629,068	76,302	(13,176)	1,692,194
Foreign corporate securities	3,014,579	108,724	(20,366)	3,102,937
Total fixed maturity securities	\$ 13,173,675	\$ 470,978	\$ (67,287)	\$ 13,577,366
Equity securities	\$ 149,024	\$ 5,319	\$ (2,966)	\$ 151,377

(Dollars in thousands)	At December 31, 2013			
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value
Fixed maturity securities				
U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	\$ 160,013	\$ 2,690	\$ (1,678)	\$ 161,025
Obligations of U.S. states and political subdivisions	970,735	40,815	(9,022)	1,002,528
Corporate securities	3,950,887	155,619	(27,090)	4,079,416
Asset-backed securities	169,980	3,485	(422)	173,043
Mortgage-backed securities				
Commercial	254,765	16,683	(1,007)	270,441
Agency residential	2,294,719	34,509	(50,175)	2,279,053
Non-agency residential	4,816	229	(226)	4,819
Foreign government securities	1,740,337	69,779	(29,347)	1,780,769
Foreign corporate securities	2,844,912	86,529	(45,628)	2,885,813
Total fixed maturity securities	\$ 12,391,164	\$ 410,338	\$ (164,595)	\$ 12,636,907
Equity securities	\$ 148,342	\$ 4,336	\$ (8,597)	\$ 144,081

The \$1,692,194 thousand of foreign government securities at June 30, 2014 included \$734,053 thousand of European sovereign securities. Approximately 57.5%, 19.0% and 5.9% of European sovereign securities represented securities held in the governments of the United Kingdom, France and the Netherlands, respectively. No other countries represented more than 5% of the European sovereign securities. The Company held no sovereign securities of Portugal, Italy, Ireland, Greece or Spain at June 30, 2014.

In accordance with FASB guidance, the Company reclassified the non-credit portion of other-than-temporary impairments from retained earnings into accumulated other comprehensive income (loss), on April 1, 2009. The table below presents the pre-tax cumulative unrealized appreciation (depreciation) on those corporate securities, for the periods indicated:

(Dollars in thousands)	At June 30, 2014	At December 31, 2013
Pre-tax cumulative unrealized appreciation (depreciation)	\$ 3,250	\$ 3,169

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

(Dollars in thousands)	At June 30, 2014		At December 31, 2013	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Fixed maturity securities – available for sale:				
Due in one year or less	\$ 1,270,385	\$ 1,279,390	\$ 1,059,052	\$ 1,067,799
Due after one year through five years	6,063,017	6,240,153	5,565,112	5,740,662
Due after five years through ten years	2,289,958	2,362,018	2,081,908	2,101,234
Due after ten years	955,342	1,055,604	960,812	999,856
Asset-backed securities	265,436	268,728	169,980	173,043
Mortgage-backed securities:				
Commercial	222,204	236,689	254,765	270,441
Agency residential	2,103,439	2,130,751	2,294,719	2,279,053
Non-agency residential	3,894	4,033	4,816	4,819
Total fixed maturity securities	\$ 13,173,675	\$ 13,577,366	\$ 12,391,164	\$ 12,636,907

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Increase (decrease) during the period between the market value and cost of investments carried at market value, and deferred taxes thereon:				
Fixed maturity securities	\$93,403	\$(311,674)	\$157,869	\$(359,621)
Fixed maturity securities, other-than-temporary impairment	5	(1,144)	81	(1,372)
Equity securities	4,531	(12,058)	6,614	(14,075)
Other invested assets	-	-	-	-
Change in unrealized appreciation (depreciation), pre-tax	97,939	(324,876)	164,564	(375,068)
Deferred tax benefit (expense)	(9,849)	50,402	(21,129)	49,667
Deferred tax benefit (expense), other-than-temporary impairment	-	106	-	140
Change in unrealized appreciation (depreciation), net of deferred taxes, included in shareholders' equity	\$88,090	\$(274,368)	\$143,435	\$(325,261)

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

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

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

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

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

	Duration of Unrealized Loss at June 30, 2014 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 143,260	\$ (193)	\$ 28,622	\$ (737)	\$ 171,882	\$ (930)
Obligations of U.S. states and political subdivisions	-	-	92,739	(2,050)	92,739	(2,050)
Corporate securities	497,454	(5,184)	375,934	(8,837)	873,388	(14,021)
Asset-backed securities	17,510	(8)	112	(83)	17,622	(91)
Mortgage-backed securities						
Commercial	22	-	11,466	(681)	11,488	(681)
Agency residential	206,344	(730)	727,344	(15,085)	933,688	(15,815)
Non-agency residential	-	-	1,659	(157)	1,659	(157)

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Foreign government securities	74,204	(2,662)	229,593	(10,514)	303,797	(13,176)
Foreign corporate securities	231,278	(6,024)	419,731	(14,342)	651,009	(20,366)
Total fixed maturity securities	\$ 1,170,072	\$ (14,801)	\$ 1,887,200	\$ (52,486)	\$ 3,057,272	\$ (67,287)
Equity securities	15	-	123,541	(2,966)	123,556	(2,966)
Total	\$ 1,170,087	\$ (14,801)	\$ 2,010,741	\$ (55,452)	\$ 3,180,828	\$ (70,253)

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	Duration of Unrealized Loss at June 30, 2014 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
Fixed maturity securities						
Due in one year or less	\$72,606	\$ (3,776)	\$61,122	\$ (5,888)	\$133,728	\$ (9,664)
Due in one year through five years	604,549	(7,848)	632,014	(16,155)	1,236,563	(24,003)
Due in five years through ten years	263,090	(2,316)	301,212	(8,544)	564,302	(10,860)
Due after ten years	5,951	(123)	152,271	(5,893)	158,222	(6,016)
Asset-backed securities	17,510	(8)	112	(83)	17,622	(91)
Mortgage-backed securities	206,366	(730)	740,469	(15,923)	946,835	(16,653)
Total fixed maturity securities	\$1,170,072	\$ (14,801)	\$1,887,200	\$ (52,486)	\$3,057,272	\$ (67,287)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at June 30, 2014 were \$3,180,828 thousand and \$70,253 thousand, respectively. The market value of securities for the single issuer whose securities comprised the largest unrealized loss position at June 30, 2014, did not exceed 0.5% of the overall market value of the Company's fixed maturity securities. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The \$14,801 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 and domestic corporate securities, foreign government securities and agency residential mortgage-backed securities. Of these unrealized losses, \$12,169 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The \$52,486 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to agency residential mortgage-backed securities, domestic and foreign corporate securities, foreign government securities and municipal securities. Of these unrealized losses, \$50,302 thousand related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The gross unrealized depreciation for mortgage-backed securities included \$199 thousand related to sub-prime and alt-A loans. In all instances, there were no projected cash flow shortfalls to recover the full book value of the investments and the related interest obligations. The mortgage-backed securities still have excess credit coverage and are current on interest and principal payments.

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

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

	Duration of Unrealized Loss at December 31, 2013 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 74,847	\$ (1,033)	\$ 8,751	\$ (645)	\$ 83,598	\$ (1,678)
Obligations of U.S. states and political subdivisions	92,760	(4,852)	39,689	(4,170)	132,449	(9,022)
Corporate securities	959,396	(22,331)	75,946	(4,759)	1,035,342	(27,090)
Asset-backed securities	5,494	(6)	1,128	(416)	6,622	(422)
Mortgage-backed securities						
Commercial	51	-	11,353	(1,007)	11,404	(1,007)
Agency residential	1,220,845	(40,420)	264,640	(9,755)	1,485,485	(50,175)
Non-agency residential	1,758	(22)	1,541	(204)	3,299	(226)
Foreign government securities	409,252	(20,350)	85,029	(8,997)	494,281	(29,347)
Foreign corporate securities	872,907	(34,819)	151,748	(10,809)	1,024,655	(45,628)
Total fixed maturity securities	\$ 3,637,310	\$ (123,833)	\$ 639,825	\$ (40,762)	\$ 4,277,135	\$ (164,595)
Equity securities	127,030	(8,597)	-	-	127,030	(8,597)
Total	\$ 3,764,340	\$ (132,430)	\$ 639,825	\$ (40,762)	\$ 4,404,165	\$ (173,192)

	Duration of Unrealized Loss at December 31, 2013 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
Fixed maturity securities						
Due in one year or less	\$ 143,098	\$ (3,503)	\$ 46,691	\$ (5,330)	\$ 189,789	\$ (8,833)
Due in one year through five years	1,125,680	(25,365)	204,779	(11,279)	1,330,459	(36,644)
Due in five years through ten years	810,969	(35,169)	48,064	(3,844)	859,033	(39,013)
Due after ten years	329,415	(19,348)	61,629	(8,927)	391,044	(28,275)
Asset-backed securities	5,494	(6)	1,128	(416)	6,622	(422)
Mortgage-backed securities	1,222,654	(40,442)	277,534	(10,966)	1,500,188	(51,408)
Total fixed maturity securities	\$ 3,637,310	\$ (123,833)	\$ 639,825	\$ (40,762)	\$ 4,277,135	\$ (164,595)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at December 31, 2013 were \$4,404,165 thousand and \$173,192 thousand, respectively. The market value of securities for the single issuer whose securities comprised the largest unrealized loss position at December 31, 2013, did not exceed 0.4% of the overall market value of the Company's fixed maturity securities. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The \$123,833 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. Of these unrealized losses, \$112,658 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The \$40,762 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to domestic and foreign corporate securities, foreign government securities, municipal securities and agency residential mortgage-backed securities. Of these unrealized losses, \$38,964 thousand related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The gross unrealized depreciation for mortgage-backed securities included \$273 thousand 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		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Fixed maturities	\$ 117,562	\$ 120,253	\$ 233,815	\$ 241,010
Equity securities	13,566	12,795	25,025	22,536
Short-term investments and cash	577	176	907	480
Other invested assets				
Limited partnerships	6,226	19,585	3,968	37,068
Other	330	1,935	2,351	4,256
Gross investment income before adjustments	138,261	154,744	266,066	305,350
Funds held interest income (expense)	2,041	1,847	5,058	6,276
Future policy benefit reserve income (expense)	(141)	(621)	(444)	(1,152)
Gross investment income	140,161	155,970	270,680	310,474
Investment expenses	(8,937)	(7,241)	(16,299)	(15,964)
Net investment income	\$ 131,224	\$ 148,729	\$ 254,381	\$ 294,510

(Some amounts may not reconcile due to rounding.)

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

The Company had contractual commitments to invest up to an additional \$214,891 thousand in limited partnerships at June 30, 2014. These commitments will be funded when called in accordance with the partnership agreements, which have investment periods that expire, unless extended, through 2017.

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

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Fixed maturity securities, market value:				
Other-than-temporary impairments	\$ (389)	\$ -	\$ (389)	\$ (191)
Gains (losses) from sales	(1,695)	(304)	(3,643)	4,573
Fixed maturity securities, fair value:				
Gains (losses) from sales	-	148	940	90
Gains (losses) from fair value adjustments	-	(1,665)	-	(1,581)
Equity securities, market value:				
Gains (losses) from sales	(566)	2,418	(1,054)	2,651
Equity securities, fair value:				
Gains (losses) from sales	1,365	16,033	(50)	24,052
Gains (losses) from fair value adjustments	60,305	17,275	84,340	131,032
Short-term investments gain (loss)	(4)	-	(2)	14
Total net realized capital gains (losses)	\$ 59,016	\$ 33,905	\$ 80,142	\$ 160,640

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Proceeds from sales of fixed maturity securities	\$ 277,767	\$ 390,366	\$ 627,239	\$ 648,526
Gross gains from sales	8,071	11,208	16,007	18,921
Gross losses from sales	(9,766)	(11,364)	(18,710)	(14,258)
Proceeds from sales of equity securities	\$ 134,432	\$ 296,788	\$ 313,564	\$ 404,192
Gross gains from sales	3,882	23,401	10,502	32,503
Gross losses from sales	(3,083)	(4,950)	(11,606)	(5,800)

4. DERIVATIVES

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

The Company sold six equity index put option contracts, based on the Standard & Poor's 500 ("S&P 500") index, for total consideration, net of commissions, of \$22,530 thousand. At June 30, 2014, fair value for these equity index put option contracts was \$26,936 thousand. These equity index put option contracts each have a single exercise date, with maturities ranging from 12 to 30 years and strike prices ranging from \$1,141.21 to \$1,540.63. No amounts will be payable under these equity index put option contracts if the S&P 500 index is at, or above, the strike prices on the exercise dates, which fall between June 2017 and March 2031. If the S&P 500 index is lower than the strike price on the applicable exercise date, the amount due would vary proportionately with the percentage by which the index is below the strike price. Based on historical index volatilities and trends and the June 30, 2014 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 22%. The theoretical maximum payouts under these six equity index put option contracts would occur if on each of the exercise dates the S&P 500 index value were zero. At June 30, 2014, the present value of these theoretical maximum payouts using a 3% discount factor was \$413,800 thousand. Conversely, if the contracts had all expired on June 30, 2014, with the S&P index at \$1,960.23, there would have been no settlement amount.

The Company sold one equity index put option contract based on the FTSE 100 index for total consideration, net of commissions, of \$6,706 thousand. At June 30, 2014, fair value for this equity index put option contract was \$6,374 thousand. This equity index put option contract has an exercise date of July 2020 and a strike price of 5,989.75. No amount will be payable under this equity index put option contract if the FTSE 100 index is at, or above, the strike price on the exercise date. If the FTSE 100 index is lower than the strike price on the exercise date, the amount due will vary proportionately with the percentage by which the index is below the strike price. Based on historical index volatilities and trends and the June 30, 2014 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 39%. The theoretical maximum payout under the equity index put option contract would occur if on the exercise date the FTSE 100 index value was zero. At June 30, 2014, the present value of the theoretical maximum payout using a 3% discount factor and current exchange rate was \$46,621 thousand. Conversely, if the contract had expired

on June 30, 2014, with the FTSE index at 6,743.90, there would have been no settlement amount.

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

(Dollars in thousands)			At	At
Derivatives not designated as	Location of fair value		June 30, 2014	December 31, 2013
hedging instruments	in balance sheets			
Equity index put option contracts	Equity index put option liability	\$	33,309	\$ 35,423
Total		\$	33,309	\$ 35,423

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

(Dollars in thousands)		For the Three Months Ended		For the Six Months Ended	
Derivatives not designated as	Location of gain (loss) in statements of operations and comprehensive income (loss)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
hedging instruments					
Equity index put option contracts	Net derivative gain (loss)	\$ 3,774	\$ 12,081	\$ 2,113	\$ 27,366
Total		\$ 3,774	\$ 12,081	\$ 2,113	\$ 27,366

The Company's equity index put option contracts contain provisions that require collateralization of the fair value, as calculated by the counterparty, above a specified threshold, which is based on the Company's financial strength ratings (Moody's Investors Service, Inc.) and/or debt ratings (Standard & Poor's Ratings Services). The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on June 30, 2014, was \$33,309 thousand for which the Company had posted collateral with a market value of \$18,133 thousand. If on June 30, 2014, the Company's ratings were such that the collateral threshold was zero, the Company's collateral requirement would increase by \$55,000 thousand.

5. FAIR VALUE

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

In limited instances where prices are not provided by pricing services or in rare instances when a manager may not agree with the pricing service, price quotes on a non-binding basis are obtained from investment brokers. The investment asset managers do not make any changes to prices received from either the pricing services or the investment brokers. In addition, the investment asset managers have procedures in place to review the reasonableness of the prices from the service providers and may request verification of the prices. In addition, the Company continually performs analytical reviews of price changes and tests the prices on a random basis to an independent pricing source. No material variances were noted during these price validation procedures. In limited situations,

where financial markets are inactive or illiquid, the Company may use its own assumptions about future cash flows and risk-adjusted discount rates to determine fair value. The Company made no such adjustments at June 30, 2014 and December 31, 2013.

The Company internally manages a small public equity portfolio which had a fair value at June 30, 2014 and December 31, 2013 of \$186,171 thousand and \$174,628 thousand, respectively, and all prices were obtained from publically published sources.

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

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

As of June 30, 2014 and December 31, 2013, all Level 3 fixed maturity securities, were priced using single non-binding broker quotes since prices for these securities were not provided by normal pricing service companies. The single broker quotes are provided by market makers or broker-dealers who are recognized as market participants in the markets in which they are providing the quotes. The prices received from brokers are reviewed for reasonableness by the third party asset managers and the Company.

The Company sold seven equity index put option contracts which meet the definition of a derivative. The Company's position in these contracts is unhedged. The Company records the change in fair value of equity index put option contracts in its consolidated statements of operations and comprehensive income (loss).

The fair value was calculated using an industry accepted option pricing model, Black-Scholes, which used the following assumptions:

	At June 30, 2014	
	Contracts based on S & P 500 Index	Contract based on FTSE 100 Index
Equity index	1,960.2	6,743.9
Interest rate	1.14% to 3.57%	2.33%
Time to maturity	2.9 to 16.8 yrs	6.1 yrs
Volatility	20.6% to 24.9%	22.8%

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)	June 30, 2014	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 524,277	\$ -	\$ 524,277	\$ -
Obligations of U.S. States and political subdivisions	924,417	-	924,417	-
Corporate securities	4,693,340	-	4,693,340	-
Asset-backed securities	268,728	-	265,728	3,000
Mortgage-backed securities				
Commercial	236,689	-	236,689	-
Agency residential	2,130,751	-	2,130,751	-
Non-agency residential	4,033	-	3,774	259
Foreign government securities	1,692,194	-	1,692,194	-
Foreign corporate securities	3,102,937	-	3,102,937	-
Total fixed maturities, market value	13,577,366	-	13,574,107	3,259
Fixed maturities, fair value	-	-	-	-
Equity securities, market value	151,377	133,693	17,684	-
Equity securities, fair value	1,424,792	1,302,956	121,836	-
Liabilities:				
Equity index put option contracts	\$ 33,309	\$ -	\$ -	\$ 33,309

There were no transfers between Level 1 and Level 2 for the six months ended June 30, 2014.

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, 2013	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	\$ 161,025	\$ -	\$ 161,025	\$ -
Obligations of U.S. States and political subdivisions	1,002,528	-	1,002,528	-
Corporate securities	4,079,416	-	4,079,416	-
Asset-backed securities	173,043	-	167,744	5,299
Mortgage-backed securities				
Commercial	270,441	-	270,441	-
Agency residential	2,279,053	-	2,279,053	-
Non-agency residential	4,819	-	4,472	347
Foreign government securities	1,780,769	-	1,780,769	-
Foreign corporate securities	2,885,813	-	2,885,332	481
Total fixed maturities, market value	12,636,907	-	12,630,780	6,127
Fixed maturities, fair value	19,388	-	19,388	-
Equity securities, market value	144,081	127,030	17,051	-
Equity securities, fair value	1,462,079	1,342,278	119,801	-
Liabilities:				
Equity index put option contracts	\$ 35,423	\$ -	\$ -	\$ 35,423

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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 June 30, 2014				Six Months Ended June 30, 2014			
	Asset-backed Securities	Foreign Corporate	Non-agency RMBS	Total	Asset-backed Securities	Foreign Corporate	Non-agency RMBS	Total
Beginning balance	\$3,672	\$ 473	\$ 264	\$4,409	\$5,299	\$ 481	\$ 347	\$6,127
Total gains or (losses) (realized/unrealized)								
Included in earnings	38	17	4	59	56	18	142	216
Included in other comprehensive income (loss)	42	(20)	(3)	19	75	(20)	(24)	31
Purchases, issuances and settlements	(752)	(470)	(6)	(1,228)	(1,494)	(479)	(206)	(2,179)
Transfers in and/or (out) of Level 3	-	-	-	-	(936)	-	-	(936)
Ending balance	\$3,000	\$ -	\$ 259	\$3,259	\$3,000	\$ -	\$ 259	\$3,259

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

\$-	\$ -	\$ -	\$-	\$-	\$ -	\$ -	\$ -	\$-
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(Some amounts may not reconcile due to rounding.)

Three Months Ended June 30, 2013