EVEREST REINSURANCE HOLDINGS INC
Form 10-Q
November 14, 2012

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, 2012	1-14527

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

Delaware	22-3263609
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

YES X NO

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

YES X NO

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

Large accelerated filer	Accelerated filer

Non-accelerated filer	Smaller reporting company
X	

(Do not check if smaller reporting company)

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

YES NO X

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

Class	Number of Shares Outstanding At November 1, 2012
Common Shares, $0.01 par value	1,000

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

EVEREST REINSURANCE HOLDINGS, INC.

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Part I

ITEM 1. FINANCIAL STATEMENTS

EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value per share)	September 30, 2012 (unaudited)	December 31, 2011
ASSETS:		
Fixed maturities - available for sale, at market value (amortized cost: 2012, $5,060,968; 2011, $4,880,654)	$ 5,326,118	$ 5,107,028
Fixed maturities - available for sale, at fair value	52,217	113,606
Equity securities - available for sale, at market value (cost: 2012, $15; 2011, $15)	13	10
Equity securities - available for sale, at fair value	1,247,445	1,207,053
Short-term investments	640,698	423,663
Other invested assets (cost: 2012, $420,510; 2011, $379,342)	420,510	379,342
Other invested assets, at fair value	1,039,648	817,352
Cash	309,059	348,267
Total investments and cash	9,035,708	8,396,321
Accrued investment income	56,639	55,849
Premiums receivable	990,571	856,375
Reinsurance receivables - unaffiliated	633,893	570,128
Reinsurance receivables - affiliated	2,851,472	2,901,174
Funds held by reinsureds	153,312	176,156
Deferred acquisition costs	90,088	166,806
Prepaid reinsurance premiums	597,498	625,391
Deferred tax asset	208,090	366,490
Income taxes recoverable	16,153	39,014
Other assets	235,593	195,476
TOTAL ASSETS	$ 14,869,017	$ 14,349,180
LIABILITIES:		
Reserve for losses and loss adjustment expenses	$ 7,954,633	$ 8,290,619
Unearned premium reserve	1,143,252	1,239,705
Funds held under reinsurance treaties	84,798	123,479
Losses in the course of payment	93,575	11,002
Commission reserves	32,979	40,353
Other net payable to reinsurers	894,866	629,871
5.4% Senior notes due 10/15/2014	249,894	249,858
6.6% Long term notes due 5/1/2067	238,356	238,354
Junior subordinated debt securities payable	329,897	329,897
Accrued interest on debt and borrowings	12,092	4,781
Unsettled securities payable	74,097	8,793
Other liabilities	276,651	241,075
Total liabilities	11,385,090	11,407,787

Commitments and Contingencies (Note 6)		
STOCKHOLDER'S EQUITY:		
Common stock, par value: $0.01; 3,000 shares authorized;		
1,000 shares issued and outstanding (2012 and 2011)	-	-
Additional paid-in capital	338,478	333,416
Accumulated other comprehensive income (loss), net of deferred income tax expense		
(benefit) of $116,254 at 2012 and $94,118 at 2011	215,900	174,790
Retained earnings	2,929,549	2,433,187
Total stockholder's equity	3,483,927	2,941,393
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 14,869,017	$ 14,349,180

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

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

(Dollars in thousands)	Three Months Ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
	(unaudited)		(unaudited)	
REVENUES:				
Premiums earned	$ 427,112	$ 442,862	$ 1,299,293	$ 1,354,305
Net investment income	76,342	78,325	231,790	249,916
Net realized capital gains (losses):				
Other-than-temporary impairments on fixed maturity securities	(486)	(911)	(6,627)	(14,522)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-	-	-
Other net realized capital gains (losses)	96,429	(178,125)	361,300	(192,222)
Total net realized capital gains (losses)	95,943	(179,036)	354,673	(206,744)
Other income (expense)	425	(8,865)	19,599	(20,401)
Total revenues	599,822	333,286	1,905,355	1,377,076
CLAIMS AND EXPENSES:				
Incurred losses and loss adjustment expenses	242,877	322,099	786,851	1,187,936
Commission, brokerage, taxes and fees	70,464	70,842	251,320	239,659
Other underwriting expenses	45,938	42,708	126,551	120,148
Corporate expenses	2,019	1,143	5,317	3,498
Interest, fee and bond issue cost amortization expense	12,682	12,706	38,061	38,083
Total claims and expenses	373,980	449,498	1,208,100	1,589,324
INCOME (LOSS) BEFORE TAXES	225,842	(116,212)	697,255	(212,248)
Income tax expense (benefit)	69,857	(116,473)	200,893	(123,783)
NET INCOME (LOSS)	$ 155,985	$ 261	$ 496,362	$ (88,465)
Other comprehensive income (loss), net of tax :				
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	18,036	8,842	23,511	12,640
Less: reclassification adjustment for realized losses (gains) included in net income (loss)	261	(1,049)	1,696	19,661
Total URA(D) on securities arising during the period	18,297	7,793	25,207	32,301
Foreign currency translation adjustments	15,301	(4,558)	12,737	4,695
Pension adjustments	1,199	746	3,166	2,238
Total other comprehensive income (loss), net of tax	34,797	3,981	41,110	39,234
COMPREHENSIVE INCOME (LOSS)	$ 190,782	$ 4,242	$ 537,472	$ (49,231)

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

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

(Dollars in thousands, except share amounts)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011 (unaudited)	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011 (unaudited)
COMMON STOCK (shares outstanding):				
Balance, beginning of period	1,000	1,000	1,000	1,000
Balance, end of period	1,000	1,000	1,000	1,000
ADDITIONAL PAID-IN CAPITAL:				
Balance, beginning of period	$ 336,813	$ 330,990	$ 333,416	$ 327,767
Share-based compensation plans	1,665	1,657	5,062	4,880
Balance, end of period	338,478	332,647	338,478	332,647
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES:				
Balance, beginning of period	181,103	199,219	174,790	163,966
Net increase (decrease) during the period	34,797	3,981	41,110	39,234
Balance, end of period	215,900	203,200	215,900	203,200
RETAINED EARNINGS:				
Balance, beginning of period	2,773,564	2,547,282	2,433,187	2,636,008
Net income (loss)	155,985	261	496,362	(88,465)
Balance, end of period	2,929,549	2,547,543	2,929,549	2,547,543
TOTAL STOCKHOLDER'S EQUITY, END OF PERIOD	$ 3,483,927	$ 3,083,390	$ 3,483,927	$ 3,083,390

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

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EVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Three Months Ended September 30, 2012	2011 (unaudited)	Nine Months Ended September 30, 2012	2011 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ 155,985	$ 261	$ 496,362	$ (88,465)
Adjustments to reconcile net income to net cash provided by operating activities:				
Decrease (increase) in premiums receivable	(233,296)	(21,017)	(129,749)	(149,561)
Decrease (increase) in funds held by reinsureds, net	2,646	(94,290)	(14,878)	(102,102)
Decrease (increase) in reinsurance receivables	(39,772)	112,376	(9,281)	(243,523)
Decrease (increase) in current income taxes	18,495	16,559	23,123	15,515
Decrease (increase) in deferred tax asset	22,640	(137,225)	136,264	(122,876)
Decrease (increase) in prepaid reinsurance premiums	(66,455)	(33,514)	28,866	28,649
Increase (decrease) in reserve for losses and loss adjustment expenses	(109,811)	(96,587)	(406,946)	489,779
Increase (decrease) in unearned premiums	98,935	29,928	(102,067)	(73,434)
Increase (decrease) in other net payable to reinsurers	220,948	66,568	263,498	155,372
Change in equity adjustments in limited partnerships	(8,800)	(12,190)	(28,850)	(44,544)
Change in other assets and liabilities, net	59,520	28,444	158,864	44,148
Non-cash compensation expense	1,737	1,584	4,981	4,638
Amortization of bond premium (accrual of bond discount)	3,330	(17)	12,939	6,897
Amortization of underwriting discount on senior notes	13	12	38	36
Net realized capital (gains) losses	(95,943)	179,036	(354,673)	206,744
Net cash provided by (used in) operating activities	30,172	39,928	78,491	127,273
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from fixed maturities matured/called - available for sale, at market value	273,497	262,235	648,218	525,768
Proceeds from fixed maturities matured/called - available for sale, at fair value	1,300	-	1,300	12,775
Proceeds from fixed maturities sold - available for sale, at market value	114,610	255,913	290,911	1,042,803
Proceeds from fixed maturities sold - available for sale, at fair value	11,783	12,512	72,926	62,632
	-	-	-	27,096

Proceeds from equity securities sold - available for sale, at market value				
Proceeds from equity securities sold - available for sale, at fair value	85,277	61,080	377,157	150,776
Distributions from other invested assets	16,130	13,487	31,513	103,262
Cost of fixed maturities acquired - available for sale, at market value	(404,009)	(285,414)	(1,066,080)	(995,210)
Cost of fixed maturities acquired - available for sale, at fair value	(1,658)	(9,801)	(7,164)	(25,025)
Cost of equity securities acquired - available for sale, at market value	-	-	-	(27,059)
Cost of equity securities acquired - available for sale, at fair value	(107,330)	(340,493)	(288,218)	(679,764)
Cost of other invested assets acquired	(20,065)	(2,393)	(43,831)	(47,471)
Cost of other invested assets acquired, at fair value	-	-	-	(37,611)
Cost of businesses acquired	-	-	-	(63,100)
Net change in short-term investments	(58,681)	29,080	(216,270)	(18,105)
Net change in unsettled securities transactions	33,600	(14,007)	38,712	30,834
Net cash provided by (used in) investing activities	(55,546)	(17,801)	(160,826)	62,601
CASH FLOWS FROM FINANCING ACTIVITIES:				
Tax benefit from share-based compensation	(72)	73	81	242
Revolving credit borrowings	-	(40,000)	-	(50,000)
Net cash provided by (used in) financing activities	(72)	(39,927)	81	(49,758)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	28,772	(5,553)	43,046	6,804
Net increase (decrease) in cash	3,326	(23,353)	(39,208)	146,920
Cash, beginning of period	305,733	288,365	348,267	118,092
Cash, end of period	$ 309,059	$ 265,012	$ 309,059	$ 265,012
SUPPLEMENTAL CASH FLOW INFORMATION:				
Income taxes paid (recovered)	$ 27,119	$ 4,149	$ 36,498	$ (16,616)
Interest paid	5,202	5,228	30,244	30,269
Non-cash transaction:				
Net assets acquired and liabilities assumed from business acquisitions	-	-	-	19,130

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 Nine Months Ended September 30, 2012 and 2011

1. GENERAL

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

2. BASIS OF PRESENTATION

The unaudited consolidated financial statements of the Company for the three and nine months ended September 30, 2012 and 2011 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, 2011 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, 2012 and 2011 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, 2011, 2010 and 2009 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 period amounts to conform to the current period presentation.

Application of Recently Issued Accounting Standard Changes

Intangibles-Goodwill or Other. In September 2011, the Financial Accounting Standards Board ("FASB") amended the authoritative guidance for disclosures on Goodwill Impairment. The amendment allows an entity first to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis in determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for periods beginning after December 15, 2011. The Company implemented this guidance as of January 1, 2012.

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.

Common Fair Value Measurement. In May 2011, FASB issued amendments to existing guidance to achieve common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards.

The amendments change wording used to describe many GAAP fair value measurement requirements and disclosures. FASB does not intend for the amendments to cause a change in application of fair value accounting guidance. The guidance is effective for reporting periods beginning after December 15, 2011. The Company implemented this guidance prospectively as of January 1, 2012.

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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 $7,215 thousand of previously deferrable acquisition costs will be expensed during 2012 and the first quarter of 2013, including $1,356 thousand and $4,727 thousand of previously deferrable acquisition costs expensed in the three and nine months ended September 30, 2012, respectively. If the guidance had been applicable for the prior periods, the Company would have expensed $2,789 thousand and $6,160 thousand of deferrable acquisition costs during the three and nine months ended September 30, 2011, respectively.

Improving Disclosures About Fair Value Measurements. In January 2010, the FASB amended the authoritative guidance for disclosures on fair value measurements. Effective for interim and annual reporting periods beginning after December 15, 2009, the guidance requires a new separate disclosure for: significant transfers in and out of Level 1 and 2 and the reasons for the transfers; and provided clarification on existing disclosures to include: fair value measurement disclosures by class of assets and liabilities and disclosure on valuation techniques and inputs used to measure fair value that fall in either Level 2 or Level 3. The Company implemented this guidance effective January 1, 2010. Effective for interim and annual reporting periods beginning after December 15, 2010, the guidance requires another new separate disclosure in regards to Level 3 fair value measurements in that, the period activity will present separately information about purchases, sales, issuances and settlements. Comparative disclosures shall be required only for periods ending after initial adoption. The Company implemented this guidance beginning with the third quarter of 2010.

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:

	At September 30, 2012			
(Dollars in thousands)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value
Fixed maturity securities				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$77,754	$ 1,658	$ (817)	$78,595
Obligations of U.S. states and political subdivisions	1,275,967	90,415	(53)	1,366,329
Corporate securities	1,342,335	65,091	(6,198)	1,401,228
Asset-backed securities	48,695	2,228	-	50,923
Mortgage-backed securities				
Commercial	45,345	8,066	(404)	53,007
Agency residential	559,808	15,901	(541)	575,168
Non-agency residential	2,148	357	(25)	2,480
Foreign government securities	759,964	56,900	(4,176)	812,688
Foreign corporate securities	948,952	46,681	(9,933)	985,700
Total fixed maturity securities	$5,060,968	$ 287,297	$ (22,147)	$5,326,118
Equity securities	$15	$ -	$ (2)	$13

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	At December 31, 2011			
(Dollars in thousands)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value
Fixed maturity securities				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$77,351	$ 2,475	$ (287)	$79,539
Obligations of U.S. states and political subdivisions	1,558,615	102,815	(525)	1,660,905
Corporate securities	1,200,941	45,070	(17,776)	1,228,235
Asset-backed securities	44,351	758	(6)	45,103
Mortgage-backed securities				
Commercial	41,953	7,187	(1,266)	47,874
Agency residential	528,946	16,209	(1,762)	543,393
Non-agency residential	24,139	470	(320)	24,289
Foreign government securities	733,814	57,437	(2,602)	788,649
Foreign corporate securities	670,544	29,421	(10,924)	689,041
Total fixed maturity securities	$4,880,654	$ 261,842	$ (35,468)	$5,107,028
Equity securities	$15	$ -	$ (5)	$10

The $812,688 thousand of foreign government securities at September 30, 2012 included $89,412 thousand of European sovereign securities. Approximately 48.6%, 15.1%, 11.8%, 7.3% and 5.4% of European Sovereign Securities represented securities held in the governments of France, the United Kingdom, Sweden, the Netherlands and Austria, 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 September 30, 2012.

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 September 30, 2012	At December 31, 2011
Pre-tax cumulative unrealized appreciation (depreciation)	$ 490	$ 635

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.

	At September 30, 2012		At December 31, 2011	
(Dollars in thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value
Fixed maturity securities – available for sale				
Due in one year or less	$351,241	$349,065	$224,406	$223,507
Due after one year through five years	2,272,775	2,360,911	2,055,299	2,129,437
Due after five years through ten years	977,030	1,040,976	955,253	1,009,893
Due after ten years	803,926	893,588	1,006,307	1,083,532
Asset-backed securities	48,695	50,923	44,351	45,103
Mortgage-backed securities				

Commercial	45,345	53,007	41,953	47,874
Agency residential	559,808	575,168	528,946	543,393
Non-agency residential	2,148	2,480	24,139	24,289
Total fixed maturity securities	$5,060,968	$5,326,118	$4,880,654	$5,107,028

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Increase (decrease) during the period between the market value and cost of investments carried at market value, and deferred taxes thereon:				
Fixed maturity securities	$ 28,226	$ 11,911	$ 38,923	$ 51,341
Fixed maturity securities, other-than-temporary impairment	(77)	(137)	(146)	(132)
Equity securities	-	(1)	3	(1)
Other invested assets	-	215	-	(1,515)
Change in unrealized appreciation (depreciation), pre-tax	28,149	11,988	38,780	49,693
Deferred tax benefit (expense)	(9,879)	(4,243)	(13,624)	(17,438)
Deferred tax benefit (expense), other-than-temporary impairment	27	48	51	46
Change in unrealized appreciation (depreciation), net of deferred taxes, included in stockholder's equity	$ 18,297	$ 7,793	$ 25,207	$ 32,301

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.

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:

Duration of Unrealized Loss at September 30, 2012 By Security Type

	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	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	$ -	$ -	$ 11,543	$ (817)	$ 11,543	$ (817)
Obligations of U.S. states and political subdivisions	-	-	5,779	(53)	5,779	(53)
Corporate securities	56,805	(411)	108,100	(5,787)	164,905	(6,198)
Asset-backed securities	-	-	-	-	-	-
Mortgage-backed securities						
Commercial	-	-	10,332	(404)	10,332	(404)
Agency residential	74,338	(354)	12,983	(187)	87,321	(541)
Non-agency residential	-	-	496	(25)	496	(25)
Foreign government securities	37,667	(592)	38,281	(3,584)	75,948	(4,176)
Foreign corporate securities	66,424	(1,290)	80,924	(8,643)	147,348	(9,933)
Total fixed maturity securities	$ 235,234	$ (2,647)	$ 268,438	$ (19,500)	$ 503,672	$ (22,147)
Equity securities	-	-	13	(2)	13	(2)
Total	$ 235,234	$ (2,647)	$ 268,451	$ (19,502)	$ 503,685	$ (22,149)

Duration of Unrealized Loss at September 30, 2012 By Maturity

	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities						
Due in one year or less	$ 12,962	$ (287)	$ 35,341	$ (5,663)	$ 48,303	$ (5,950)
Due in one year through five years	116,020	(1,805)	149,214	(11,175)	265,234	(12,980)
Due in five years through ten years	29,938	(175)	45,936	(1,587)	75,874	(1,762)
Due after ten years	1,976	(26)	14,136	(459)	16,112	(485)

Asset-backed securities	-	-	-	-	-	-
Mortgage-backed securities	74,338	(354)	23,811	(616)	98,149	(970)
Total fixed maturity securities	$ 235,234	$ (2,647)	$ 268,438	$ (19,500)	$ 503,672	$ (22,147)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at September 30, 2012 were $503,685 thousand and $22,149 thousand, respectively. There were no unrealized losses on a single issuer that exceeded 0.03% of the market value of the fixed maturity securities at September 30, 2012. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The $2,647 thousand of unrealized losses related to fixed maturity securities that have been in an unrealized loss position for less than one year were comprised of domestic and foreign corporate securities, foreign government securities as well as agency residential mortgage-backed securities. Of these unrealized losses, $2,039 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The $19,500 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to domestic and foreign corporate securities and foreign government securities. Of these unrealized losses, $17,181 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The non-investment grade securities with unrealized losses were mainly comprised of corporate securities, with the majority representing a large number of short duration, floating interest rate bank loan securities. The gross unrealized depreciation for mortgage-backed securities included $25 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.

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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:

Duration of Unrealized Loss at December 31, 2011 By Security Type

	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	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	$ -	$ -	$ 3,452	$ (287)	$ 3,452	$ (287)
Obligations of U.S. states and political subdivisions	-	-	7,518	(525)	7,518	(525)
Corporate securities	342,959	(8,449)	75,998	(9,327)	418,957	(17,776)
Asset-backed securities	819	(6)	-	-	819	(6)
Mortgage-backed securities						
Commercial	9,292	(1,266)	-	-	9,292	(1,266)
Agency residential	151,951	(1,695)	7,199	(67)	159,150	(1,762)
Non-agency residential	41	-	20,693	(320)	20,734	(320)
Foreign government securities	12,777	(269)	40,743	(2,333)	53,520	(2,602)
Foreign corporate securities	77,458	(2,025)	94,182	(8,899)	171,640	(10,924)
Total fixed maturity securities	$ 595,297	$ (13,710)	$ 249,785	$ (21,758)	$ 845,082	$ (35,468)
Equity securities	-	-	10	(5)	10	(5)
Total	$ 595,297	$ (13,710)	$ 249,795	$ (21,763)	$ 845,092	$ (35,473)

Duration of Unrealized Loss at December 31, 2011 By Maturity

	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities						
Due in one year or less	$ 9,583	$ (59)	$ 26,204	$ (4,486)	$ 35,787	$ (4,545)
	213,809	(4,754)	137,972	(9,576)	351,781	(14,330)

Due in one year through five years						
Due in five years through ten years	186,061	(5,484)	37,964	(2,391)	224,025	(7,875)
Due after ten years	23,741	(446)	19,753	(4,918)	43,494	(5,364)
Asset-backed securities	819	(6)	-	-	819	(6)
Mortgage-backed securities	161,284	(2,961)	27,892	(387)	189,176	(3,348)
Total fixed maturity securities	$ 595,297	$ (13,710)	$ 249,785	$ (21,758)	$ 845,082	$ (35,468)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at December 31, 2011 were $845,092 thousand and $35,473 thousand, respectively. There were no unrealized losses on a single issuer that exceeded 0.09% of the market value of the fixed maturity securities at December 31, 2011. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The $13,710 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 as well as commercial and agency residential mortgage-backed securities. Of these unrealized losses, $5,635 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The $21,758 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 and foreign government securities. Of these unrealized losses, $15,880 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The non-investment grade securities with unrealized losses were mainly comprised of corporate securities, with the

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majority representing a large number of short duration, floating interest rate bank loan securities. The gross unrealized depreciation for mortgage-backed securities included $56 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.

Other invested assets, at fair value, is comprised of common shares of the Company's ultimate parent, Group. At September 30, 2012, the Company held 9,719,971 shares of Group representing 15.8% of the total outstanding shares.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Fixed maturity securities	$ 55,495	$ 58,248	$ 164,248	$ 178,006
Equity securities	8,849	8,726	29,281	20,366
Short-term investments and cash	330	296	758	890
Other invested assets				
Limited partnerships	9,096	12,399	29,940	44,753
Dividends from Parent's shares	4,666	4,665	13,997	13,979
Other	1,427	(1,520)	2,453	3,203
Total gross investment income	79,863	82,814	240,677	261,197
Interest debited (credited) and other investment expense	(3,521)	(4,489)	(8,887)	(11,281)
Total net investment income	$ 76,342	$ 78,325	$ 231,790	$ 249,916

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 $71,741 thousand in limited partnerships at September 30, 2012. These commitments will be funded when called in accordance with the partnership agreements, which have investment periods that expire, unless extended, through 2016.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Fixed maturity securities, market value:				
Other-than-temporary impairments	$ (486)	$ (911)	$ (6,627)	$ (14,522)
Gains (losses) from sales	85	2,699	4,018	(15,589)
Fixed maturity securities, fair value:				
Gains (losses) from sales	512	(16)	5,539	(966)
Gains (losses) from fair value adjustments	298	(5,014)	1,623	(8,537)
Equity securities, market value:				
Gains (losses) from sales	-	-	-	37
Equity securities, fair value:				
Gains (losses) from sales	3,154	637	23,101	2,303
Gains (losses) from fair value adjustments	58,667	(153,395)	104,739	(115,288)
Other invested assets, fair value:				
Gains (losses) from fair value adjustments	33,729	(23,036)	222,296	(54,181)
Short-term investment gains (losses)	(16)	-	(16)	(1)
Total net realized capital gains (losses)	$ 95,943	$ (179,036)	$ 354,673	$ (206,744)

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Proceeds from sales of fixed maturity securities	$ 126,393	$ 268,425	$ 363,837	$ 1,105,435
Gross gains from sales	2,704	11,572	15,371	29,154
Gross losses from sales	(2,107)	(8,889)	(5,814)	(45,709)
Proceeds from sales of equity secuities	$ 85,277	$ 61,080	$ 377,157	$ 177,872
Gross gains from sales	5,204	6,022	33,005	9,124
Gross losses from sales	(2,050)	(5,385)	(9,904)	(6,784)

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4. FAIR VALUE

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

In limited instances where prices are not provided by pricing services or in rare instances when a manager may not agree with the pricing service, price quotes on a non-binding basis are obtained from investment brokers. The investment asset managers do not make any changes to prices received from either the pricing services or the investment brokers. In addition, the investment asset managers have procedures in place to review the reasonableness of the prices from the service providers and may request verification of the prices. In addition, the Company continually performs analytical reviews of price changes and tests the prices on a random basis to an independent pricing source. No material variances were noted during these price validation procedures. In limited situations, where financial markets are inactive or illiquid, the Company may use its own assumptions about future cash flows and risk-adjusted discount rates to determine fair value. The Company made no such adjustments at September 30, 2012 and December 31, 2011.

The Company internally manages a small public equity portfolio which had a fair value at September 30, 2012 of $52,009 thousand and all prices were obtained from publically published sources.

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

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

As of September 30, 2012 and December 31, 2011, 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 our asset managers and management.

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

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

		Fair Value Measurement Using:		
(Dollars in thousands)	September 30, 2012	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	$ 78,595	$-	$78,595	$ -
Obligations of U.S. States and political subdivisions	1,366,329	-	1,366,329	-
Corporate securities	1,401,228	-	1,401,228	-
Asset-backed securities	50,923	-	43,331	7,592
Mortgage-backed securities				
Commercial	53,007	-	53,007	-
Agency residential	575,168	-	575,168	-
Non-agency residential	2,480	-	2,475	5
Foreign government securities	812,688	-	812,688	-
Foreign corporate securities	985,700	-	980,754	4,946
Total fixed maturities, market value	5,326,118	-	5,313,575	12,543
Fixed maturities, fair value	52,217	-	52,217	-
Equity securities, market value	13	13	-	-
Equity securities, fair value	1,247,445	1,113,526	133,919	-
Other invested assets, fair value	1,039,648	1,039,648	-	-

There were no transfers between Level 1 and Level 2 for the three and nine months ended September 30, 2012.

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

		Fair Value Measurement Using:		
(Dollars in thousands)	December 31, 2011	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	$ 79,539	$-	$79,539	$ -
Obligations of U.S. States and political subdivisions	1,660,905	-	1,660,905	-
Corporate securities	1,228,235	-	1,228,235	-
Asset-backed securities	45,103	-	29,057	16,046
Mortgage-backed securities				
Commercial	47,874	-	47,874	-
Agency residential	543,393	-	543,393	-
Non-agency residential	24,289	-	24,282	7
Foreign government securities	788,649	-	788,649	-
Foreign corporate securities	689,041	-	686,505	2,536
Total fixed maturities, market value	5,107,028	-	5,088,439	18,589
Fixed maturities, fair value	113,606	-	113,606	-
Equity securities, market value	10	10	-	-
Equity securities, fair value	1,207,053	1,090,959	116,094	-
Other invested assets, fair value	817,352	817,352	-	-

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

	Three Months Ended September 30, 2012				Nine Months Ended September 30, 2012			
(Dollars in thousands)	Asset-backed Securities	Foreign Corporate	Non-agency RMBS	Total	Asset-backed Securities	Foreign Corporate	Non-agency RMBS	Total
Beginning balance	$ 8,996	$ 7,383	$ 5	$ 16,384	$ 16,046	$ 2,536	$ 7	$ 18,589
Total gains or (losses) (realized/unrealized)								
Included in earnings (or changes in net assets)	56	(14)	1	43	111	(33)	3	81
Included in other comprehensive income (loss)	390	275	-	665	728	387	(2)	1,113
Purchases, issuances and settlements	(61)	(576)	(1)	(638)	4,407	6,640	(3)	11,044
	(1,789)	(2,122)	-	(3,911)	(13,700)	(4,584)	-	(18,284)

Transfers in and/or (out) of Level 3								
Ending balance	$ 7,592	$ 4,946	$ 5	$ 12,543	$ 7,592	$ 4,946	$ 5	$ 12,543
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.)								

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	Three Months Ended September 30, 2011				Nine Months Ended September 30, 2011			
(Dollars in thousands)	Asset-backed Securities	Foreign Corporate	Non-agency RMBS	Total	Asset-backed Securities	Foreign Corporate	Non-agency RMBS	Total
Beginning balance	$ 2,466	$ -	$ 381	$ 2,847	$ 961	$ 3,635	$ 458	$ 5,054
Total gains or (losses) (realized/unrealized)								
Included in earnings (or changes in net assets)	16	(3)	(39)	(26)	80	(3)	10	87
Included in other comprehensive income (loss)	(122)	(25)	102	(45)	(269)	(25)	54	(240)
Purchases, issuances and settlements	(19)	2,586	(88)	2,479	37	2,586	(166)	2,457
Transfers in and/or (out) of Level 3	(27)	-	(349)	(376)	1,505	(3,635)	(349)	(2,479)
Ending balance	$ 2,314	$ 2,558	$ 7	$ 4,879	$ 2,314	$ 2,558	$ 7	$ 4,879
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(Some amounts may not reconcile due to rounding.)

5. CAPITAL TRANSACTIONS

On October 14, 2011, the Company renewed its shelf registration statement on Form S-3ASR with the SEC, as a Well Known Seasoned Issuer. This shelf registration statement can be used by Group to register common shares, preferred shares, debt securities, warrants, share purchase contracts and share purchase units; by Holdings to register debt securities and by Everest Re Capital Trust III (“Capital Trust III”) to register trust preferred securities.

6. CONTINGENCIES

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

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

In 1993 and prior, the Company had a business arrangement with The Prudential Insurance Company of America ("The Prudential") wherein, for a fee, the Company accepted settled claim payment obligations of certain property and casualty insurers, and, concurrently, became the owner of the annuity or assignee of the annuity proceeds funded by the property and casualty insurers specifically to fulfill these fully settled obligations. In these circumstances, the Company would be liable if The Prudential, which has an A+ (Superior) financial strength rating from A.M. Best Company ("A.M. Best"), was unable to make the annuity payments. The table below presents the estimated cost to replace all such annuities for which the Company was contingently liable for the periods indicated:

(Dollars in thousands)	At September 30, 2012	At December 31, 2011
	$ 144,117	$ 143,447

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Prior to its 1995 initial public offering, the Company purchased annuities from an unaffiliated life insurance company with an A+ (Superior) financial strength rating from A.M. Best to settle certain claim liabilities of the company. Should the life insurance company become unable to make the annuity payments, the Company would be liable for those claim liabilities. The table below presents the estimated cost to replace all such annuities for which the Company was contingently liable for the periods indicated:

(Dollars in thousands)	At September 30, 2012	At December 31, 2011
	$ 28,562	$ 27,634

7. OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period				
URA(D) of investments - temporary	$ 28,226	$ 12,125	$ 38,926	$ 49,825
URA(D) of investments - non-credit OTTI	(77)	(137)	(146)	(132)
Tax benefit (expense) from URA(D) arising during the period	(9,852)	(4,195)	(13,573)	(17,392)
Total URA(D) on securities arising during the period, net of tax	18,297	7,793	25,207	32,301
Foreign currency translation adjustments	23,540	(7,012)	19,596	7,224
Tax benefit (expense) from foreign currency translation	(8,239)	2,454	(6,859)	(2,529)
Net foreign currency translation adjustments	15,301	(4,558)	12,737	4,695
Pension adjustments	1,844	1,148	4,871	3,443
Tax benefit (expense) on pension	(645)	(402)	(1,705)	(1,205)
Net pension adjustments	1,199	746	3,166	2,238
Other comprehensive income (loss), net of tax	$ 34,797	$ 3,981	$ 41,110	$ 39,234

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)	At September 30, 2012	At December 31, 2011
URA(D) on securities, net of deferred taxes		
Temporary	$ 172,029	$ 146,727
Non-credit, OTTI	318	413
	172,347	147,140

Total unrealized appreciation (depreciation) on investments, net of deferred taxes				
Foreign currency translation adjustments, net of deferred taxes		95,922		83,185
Pension adjustments, net of deferred taxes		(52,369)		(55,535)
Accumulated other comprehensive income (loss)	$	215,900	$	174,790

8. CREDIT FACILITY

Effective August 15, 2011, the Company entered into a new three year, $150,000 thousand unsecured revolving credit facility with a syndicate of lenders, replacing the August 23, 2006 five year senior revolving credit facility. Both the August 15, 2011 and August 23, 2006 revolving credit agreements, which have similar terms, are referred to as the "Holdings Credit Facility". Citibank N.A. is the administrative agent for the Holdings Credit Facility. The Holdings Credit Facility may be used for liquidity and general corporate purposes. The Holdings Credit Facility provides for the borrowing of up to $150,000 thousand with interest at a rate selected by Holdings equal to either, (1) the Base Rate (as defined below) or (2) a periodic fixed rate equal to the Eurodollar Rate plus an applicable margin. The Base Rate means a fluctuating interest rate per annum in effect from time to time to be equal to the higher of (a) the rate of interest publicly announced by

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Citibank as its base rate, (b) 0.5% per annum above the Federal Funds Rate or (c) 1% above the one month London Interbank Offered Rate ("LIBOR"), in each case plus the applicable margin. The amount of margin and the fees payable for the Holdings Credit Facility depends upon Holdings' senior unsecured debt rating.

The Holdings Credit Facility requires Holdings to maintain a debt to capital ratio of not greater than 0.35 to 1 and Everest Re to maintain its statutory surplus at $1,875,000 thousand plus 25% of future aggregate net income and 25% of future aggregate capital contributions after December 31, 2010, which at September 30, 2012, was $1,989,487 thousand. As of September 30, 2012, the Company was in compliance with all Holdings Credit Facility covenants.

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

(Dollars in thousands)	At September 30, 2012			At December 31, 2011		
Bank	Commitment	In Use	Date of Loan Maturity/Expiry Date	Commitment	In Use	Date of Loan Maturity/Expiry Date
Citibank Holdings Credit Facility	$ 150,000	$ -		$ 150,000	$ -	
Total revolving credit borrowings		-			-	
Total letters of credit		5,020	12/31/2012		5,020	12/31/2012
Total Citibank Holdings Credit Facility	$ 150,000	$ 5,020		$ 150,000	$ 5,020	

The following table presents the costs incurred in connection with the Holdings Credit Facility for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Credit facility fees incurred	$ 137	$ 163	$ 442	$ 341

9. TRUST AGREEMENTS

A subsidiary of the Company, Everest Re, has established a trust agreement, which effectively uses Everest Re's investments as collateral, as security for assumed losses payable to a non-affiliated ceding company. At September 30, 2012, the total amount on deposit in the trust account was $143,779 thousand.

10. 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, 2012 Consolidated Balance Sheet Amount	September 30, 2012 Market Value	December 31, 2011 Consolidated Balance Sheet Amount	December 31, 2011 Market Value
5.40% Senior notes	10/12/2004	10/15/2014	$ 250,000	$ 249,894	$ 261,745	$ 249,858	$ 251,370

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

(Dollars in thousands)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Interest expense incurred	$ 3,387	$ 3,386	$ 10,161	$ 10,159

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11. LONG TERM SUBORDINATED NOTES

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

			Maturity Date		September 30, 2012		December 31, 2011	
(Dollars in thousands)	Date Issued	Original Principal Amount	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	$ 238,356	$ 244,522	$ 238,354	$ 210,195

During the fixed rate interest period from May 3, 2007 through May 14, 2017, interest will be at the annual rate of 6.6%, payable semi-annually in arrears on November 15 and May 15 of each year, commencing on November 15, 2007, subject to Holdings' right to defer interest on one or more occasions for up to ten consecutive years. During the floating rate interest period from May 15, 2017 through maturity, interest will be based on the 3 month LIBOR plus 238.5 basis points, reset quarterly, payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year, subject to Holdings' right to defer interest on one or more occasions for up to ten consecutive years. Deferred interest will accumulate interest at the applicable rate compounded semi-annually for periods prior to May 15, 2017, and compounded quarterly for periods from and including May 15, 2017.

Holdings can redeem the long term subordinated notes prior to May 15, 2017, in whole but not in part at the applicable redemption price, which will equal the greater of (a) 100% of the principal amount being redeemed and (b) the present value of the principal payment on May 15, 2017 and scheduled payments of interest that would have accrued from the redemption date to May 15, 2017 on the long term subordinated notes being redeemed, discounted to the redemption date on a semi-annual basis at a discount rate equal to the treasury rate plus an applicable spread of either 0.25% or 0.50%, in each case plus accrued and unpaid interest. Holdings may redeem the long term subordinated notes on or after May 15, 2017, in whole or in part at 100% of the principal amount plus accrued and unpaid interest; however, redemption on or after the scheduled maturity date and prior to May 1, 2047 is subject to a replacement capital covenant. This covenant is for the benefit of certain senior note holders and it mandates that Holdings receive proceeds from the sale of another subordinated debt issue, of at least similar size, before it may redeem the subordinated notes.

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 September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Interest expense incurred	$ 3,937	$ 3,937	$ 11,811	$ 11,811

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12. JUNIOR SUBORDINATED DEBT SECURITIES PAYABLE

The following table displays Holdings' outstanding junior subordinated debt securities due to Everest Re Capital Trust II ("Capital Trust II"), a wholly owned finance subsidiary of Holdings. Fair value is primarily based on the quoted market price of the related trust preferred securities, and as such, these securities are considered Level 2 under the fair value hierarchy.

				September 30, 2012		December 31, 2011	
(Dollars in thousands)	Date Issued	Date Due	Amount Issued	Consolidated Balance Sheet Amount	Fair Value	Consolidated Balance Sheet Amount	Fair Value
6.20% Junior subordinated debt securities	03/29/2004	03/29/2034	$ 329,897	$ 329,897	$ 331,177	$ 329,897	$ 326,313

Holdings may redeem the junior subordinated debt securities before their maturity at 100% of their principal amount plus accrued interest as of the date of redemption. The securities may be redeemed, in whole or in part, on one or more occasions at any time on or after March 30, 2009; or at any time, in whole, but not in part, within 90 days of the occurrence and continuation of a determination that the Trust may become subject to tax or the Investment Company Act.

Interest expense incurred in connection with these junior subordinated debt securities is as follows for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Interest expense incurred	$ 5,113	$ 5,113	$ 15,340	$ 15,340

Holdings considers that the mechanisms and obligations relating to the trust preferred securities, taken together, constitute a full and unconditional guarantee by Holdings of Capital Trust II's payment obligations with respect to their trust preferred securities.

Capital Trust II will redeem all of the outstanding trust preferred securities when the junior subordinated debt securities are paid at maturity on March 29, 2034. The Company may elect to redeem the junior subordinated debt securities, in whole or in part, at any time on or after March 30, 2009. If such an early redemption occurs, the outstanding trust preferred securities would also be proportionately redeemed.

There are certain regulatory and contractual restrictions on the ability of Holdings' operating subsidiaries to transfer funds to Holdings in the form of cash dividends, loans or advances. The insurance laws of the State of Delaware, where Holdings' direct insurance subsidiaries are domiciled, require regulatory approval before those subsidiaries can pay dividends or make loans or advances to Holdings that exceed certain statutory thresholds. In addition, the terms of Holdings Credit Facility (discussed in Note 8) require Everest Re, Holdings' principal insurance subsidiary, to maintain a certain statutory surplus level as measured at the end of each fiscal year. At December 31, 2011, $2,108,692 thousand of the $2,763,171 thousand in net assets of Holdings' consolidated subsidiaries were subject to the foregoing regulatory restrictions.

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13. SEGMENT REPORTING

During the quarter ended September 30, 2011, the Company realigned its reporting segments to reflect recent changes in the type and volume of business written. The Company previously reported the results of Marine & Aviation, Surety, Accident and Health ("A&H") Reinsurance and A&H Primary operations as a separate segment—Specialty Underwriting. The A&H primary business, which is a relatively new line of business for the Company, has increased significantly, representing approximately 2% of premiums earned and is projected to continue to grow. The A&H primary business is better aligned with the Insurance reporting segment based on the similarities of this business with those businesses already reflected in the Insurance segment. The other operating units included in the Specialty Underwriting segment would have encompassed less than 5% of the Company's premiums earned and their volume is projected to remain approximately 6%. As a result of the size of these remaining operating units and their similarity to the business reported within U.S. Reinsurance, they have been reclassified to the U.S. Reinsurance segment. There has been no change to the International reporting segment. The Company has restated all segment information for prior years to conform to the new reporting segment structure.

The U.S. Reinsurance operation writes property and casualty reinsurance and specialty lines of business, including Marine, Aviation, Surety and A&H business, on both a treaty and facultative basis, through reinsurance brokers, as well as directly with ceding companies primarily within the U.S. The International operation writes non-U.S. property and casualty reinsurance through Everest Re's branches in Canada, Singapore and through offices in Brazil, Miami and New Jersey. The Insurance operation writes property and casualty insurance, including medical stop loss 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 LAE incurred, commission and brokerage expenses and other underwriting expenses. Underwriting results are measured using ratios, in particular loss, commission and brokerage and other underwriting expense ratios, which, respectively, divide incurred losses, commissions and brokerage and other underwriting expenses by premiums earned.

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

U.S. Reinsurance	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Gross written premiums	$ 433,494	$ 360,833	$ 938,444	$ 947,155
Net written premiums	219,884	167,469	475,271	486,032
Premiums earned	$ 181,396	$ 167,530	$ 529,409	$ 512,104
Incurred losses and LAE	108,153	97,197	321,397	371,638
Commission and brokerage	40,092	23,298	139,920	106,123
Other underwriting expenses	12,766	10,843	33,541	30,621
Underwriting gain (loss)	$ 20,385	$ 36,192	$ 34,551	$ 3,722

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International	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Gross written premiums	$ 248,459	$ 326,053	$ 878,637	$ 923,649
Net written premiums	105,550	158,038	402,078	457,663
Premiums earned	$ 121,611	$ 151,050	$ 426,419	$ 479,989
Incurred losses and LAE	29,309	104,570	191,837	514,260
Commission and brokerage	19,692	35,686	88,432	105,755
Other underwriting expenses	8,246	7,549	21,532	20,938
Underwriting gain (loss)	$ 64,364	$ 3,245	$ 124,618	$ (160,964)

Insurance	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Gross written premiums	$ 328,930	$ 236,294	$ 783,872	$ 750,283
Net written premiums	133,432	114,328	348,328	366,223
Premiums earned	$ 124,105	$ 124,282	$ 343,465	$ 362,212
Incurred losses and LAE	105,415	120,332	273,617	302,038
Commission and brokerage	10,680	11,858	22,968	27,781
Other underwriting expenses	24,926	24,316	71,478	68,589
Underwriting gain (loss)	$ (16,916)	$ (32,224)	$ (24,598)	$ (36,196)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Underwriting gain (loss)	$ 67,833	$ 7,213	$ 134,571	$ (193,438)
Net investment income	76,342	78,325	231,790	249,916
Net realized capital gains (losses)	95,943	(179,036)	354,673	(206,744)
Corporate expense	(2,019)	(1,143)	(5,317)	(3,498)
Interest, fee and bond issue cost amortization expense	(12,682)	(12,706)	(38,061)	(38,083)
Other income (expense)	425	(8,865)	19,599	(20,401)
Income (loss) before taxes	$ 225,842	$ (116,212)	$ 697,255	$ (212,248)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Canada	$33,891	$73,543	$109,166	$156,727

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

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14. RELATED-PARTY TRANSACTIONS

Parent

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

Amendment Date (Dollars in thousands)	Common Shares Authorized for Repurchase
09/21/2004	$ 5,000,000
07/21/2008	5,000,000
02/24/2010	5,000,000
02/22/2012	5,000,000
	$ 20,000,000

As of September 30, 2012, Holdings held 9,719,971 common shares of Group, which it had purchased in the open market between February 1, 2007 and March 8, 2011. The table below represents the total purchase price for these common shares purchased.

(Dollars in thousands)	
Total purchase price	$835,371

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Dividends received	$ 4,666	$ 4,665	$ 13,997	$ 13,979

Outside Directors

During the normal course of business, the Company, through its affiliates, engages in insurance and brokerage and commission business transactions, with companies controlled by or affiliated with one or more of Group's outside directors. Such transactions, individually and in the aggregate, are not material to the Company's financial condition, results of operation and cash flows.

Affiliated Companies

During the fourth quarter of 2011, the Company sold its subsidiaries, Everest Insurance Company of Canada ("Everest Canada") and Premiere Insurance Underwriting Services ("Premiere"), to an affiliated company, Holdings Ireland. Holdings Ireland is a direct subsidiary of Group, the Company's ultimate parent. The Company sold the

subsidiaries to Holdings Ireland for $61,005 thousand, which was the book value of the subsidiaries as of September 30, 2011.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Expenses incurred	$ 20,700	$ 16,537	$ 57,073	$ 46,984

Affiliates

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

(Dollars in thousands)

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

					property / casualty business		
	Everest Re	4.0	%	Everest International	property / casualty business	-	-
01/01/2009-12/31/2009	Everest Re	36.0	%	Bermuda Re	property / casualty business	150,000 (1)	325,000(2)
	Everest Re	8.0	%	Everest International	property / casualty business	-	-
01/01/2010-12/31/2010	Everest Re	44.0	%	Bermuda Re	property / casualty business	150,000	325,000
01/01/2011-12/31/2011	Everest Re	50.0	%	Bermuda Re	property / casualty business	150,000	300,000
01/01/2012	Everest Re	50.0	%	Bermuda Re	property / casualty business	100,000	200,000
01/01/2003-12/31/2006	Everest Re-Canadian Branch	50.0	%	Bermuda Re	property business	-	-
01/01/2007-12/31/2009	Everest Re-Canadian Branch	60.0	%	Bermuda Re	property business	-	-
01/01/2010-12/31/2010	Everest Re-Canadian Branch	60.0	%	Bermuda Re	property business	350,000 (3)	-
01/01/2011-12/31/2011	Everest Re-Canadian Branch	60.0	%	Bermuda Re	property business	350,000 (3)	-
01/01/2012	Everest Re-Canadian Branch	75.0	%	Bermuda Re	property / casualty business	206,250 (3)	412,500(3)
01/01/2012	Everest Canada	80.0	%	Everest Re-Canadian Branch	property business	-	-

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

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

(3) Amounts shown are Canadian dollars.

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For premiums earned and losses incurred for the period January 1, 2002 through December 31, 2002, Everest Re, Everest National Insurance Company and Everest Security Insurance Company entered into an Excess of Loss Reinsurance Agreement with Bermuda Re, covering workers' compensation losses occurring on and after January 1, 2002, as respect to new, renewal and in force policies effective on that date through December 31, 2002. The table below represents Bermuda Re's liability limits for any losses per one occurrence.

	Liability Limits	
(Dollars in thousands)	Exceeding	Not to Exceed
Losses per one occurrence	$100,000	$ 150,000

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

(Dollars in thousands)

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

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

Bermuda Re	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Ceded written premiums	$ 448,656	$ 445,601	$ 1,188,944	$ 1,195,023
Ceded earned premiums	412,390	398,561	1,237,883	1,158,961
Ceded losses and LAE (a)	263,990	238,405	732,170	1,023,482

Everest International	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Ceded written premiums	$ 361	$ 31	$ 1,055	$ 670
Ceded earned premiums	583	2,448	2,550	16,489
Ceded losses and LAE	832	(1,005)	(744)	5,908

Everest Canada	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Assumed written premiums	$ 4,170	$ -	$ 12,813	$ -

Assumed earned premiums	3,963	-	11,329	-
Assumed losses and LAE	2,378	-	6,798	-

(a) Ceded losses and LAE include the Mt. McKinley loss portfolio transfer that constitutes losses ceded under retroactive reinsurance and therefore, in accordance with FASB guidance, a deferred gain on retroactive reinsurance is reflected in other expenses on the consolidated statements of operations and comprehensive income (loss).

Everest Re sold net assets of its UK branch to Bermuda Re and provided Bermuda Re with a reserve indemnity agreement allowing for indemnity payments of up to 90% of 25.0 million of the excess of 2002 and prior reserves, provided that any recognition of profit from the reserves for 2002 and prior underwriting years is taken into account. The limit available under this agreement was fully exhausted at December 31, 2004.

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15. INCOME TAXES

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

The Company generally will use the estimated annual effective tax rate approach for calculating its tax provision for interim periods as prescribed by ASC 740-270, Interim Reporting. Under the estimated annual effective tax rate approach, the estimated annual effective tax rate 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 tax expense or benefit for a quarter represents the difference between the year-to-date 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 effective tax rate.

During the third quarter of 2012, the Internal Revenue Service completed its audit of the Company for the 2007 and 2008 tax years. At the conclusion of the audit, the Company paid additional federal income taxes of $12,747 thousand plus interest of $1,702 thousand. The additional tax liability resulted primarily from adjustments to the timing of the Company's utilization of foreign tax credits and therefore, including interest but net of other permanent benefit adjustments, resulted in only $752 thousand of additional income tax expense. Conversely, also as a result of closing the IRS audit, the Company was able to take down its reserve for uncertain tax positions by $9,657 thousand and related interest by $1,567 thousand, resulting in an income tax benefit of $11,223 thousand.

During the first and second quarters of 2012, the Company had identified understatements in its Deferred tax asset account of $21,674 thousand. The understatements resulted from differences between filed and recorded amounts that had accumulated over several prior periods. The Company corrected these understatements in its first and second quarter financial statements, resulting in an additional $21,674 thousand income tax benefit included in the income tax expense (benefit) caption in the Consolidated Statements of Operations and Comprehensive Income (Loss) and increased net income for the same amount. The Company also increased its Deferred tax asset in its Consolidated Balance Sheets by $21,674 thousand. The Company believes that the out of period adjustments are immaterial to its 2012 quarterly financial statements and to all prior periods. As such, the Company has not restated any prior period amounts.

16. ACQUISITIONS

During the first quarter of 2011, the Company made several acquisitions to expand its domestic and Canadian insurance operations. Below are descriptions of the transactions.

On January 2, 2011, the Company acquired the entire business and operations of Heartland Crop Insurance, Inc. ("Heartland") of Topeka, Kansas for $55,000 thousand in cash, plus contingent payments in future periods based upon achievement of performance targets. Heartland is a managing general agent specializing in crop insurance.

On January 28, 2011, the Company acquired the entire business and operations of Premiere of Toronto, Canada. Premiere is a managing general agent specializing in entertainment and sports and leisure risks. On January 31, 2011, the Company acquired the renewal rights and operations of the financial lines business of Executive Risk Insurance Services, Ltd. ("Executive Risk") of Toronto, Canada. The financial lines business of Executive Risk mainly underwrites Directors and Officers Liability, Fidelity, and Errors and Omissions Liability.

Overall, the Company recorded $35,068 thousand of goodwill and $26,903 thousand of intangible assets related to these acquisitions, which are reported as part of other assets within the consolidated balance sheets. All intangible assets recorded as part of these acquisitions will be amortized on a straight line basis over seven years.

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17. SUBSEQUENT EVENTS

In October 2012, Hurricane Sandy severely impacted the Northeastern United States. Due to the recentness of this event, the Company is unable to estimate the amount of losses at this time. However, the Company anticipates that this event will adversely impact fourth quarter 2012 and full year 2012 financial statements.

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

We compete in the U.S. and international reinsurance and insurance markets with numerous global competitors. Our competitors include independent reinsurance and insurance companies, subsidiaries or affiliates of established worldwide insurance companies, reinsurance departments of certain insurance companies and domestic and international underwriting operations, including underwriting syndicates at Lloyd's. 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 the potential for 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 casualty lines of business. Generally, there was ample insurance and reinsurance capacity relative to demand. Competition and its effect on rates, terms and conditions vary widely by market and coverage yet continued to be most prevalent in the U.S. casualty insurance and reinsurance markets.

However, during 2011, the industry experienced significant losses from Australian floods, the New Zealand earthquake, the earthquake and tsunami in Japan, storms in the U.S, and the Thailand floods. It is too early to determine the longer term impact on market conditions as a result of these events. While there have been meaningful rate increases for catastrophe coverages in some global catastrophe prone regions, particularly areas impacted by these losses, whether the magnitude of these losses is sufficient to increase rates and improve market conditions for other lines of business remains to be seen.

Overall, we believe that current marketplace conditions, particularly for catastrophe coverages, provide profit opportunities for us given our strong ratings, distribution system, reputation and expertise. 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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Financial Summary.

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

(Dollars in millions)	Three Months Ended September 30, 2012	2011	Percentage Increase/ (Decrease)	Nine Months Ended September 30, 2012	2011	Percentage Increase/ (Decrease)
Gross written premiums	$ 1,010.9	$ 923.2	9.5 %	$ 2,601.0	$ 2,621.1	-0.8 %
Net written premiums	458.9	439.8	4.3 %	1,225.7	1,309.9	-6.4 %
REVENUES:						
Premiums earned	$ 427.1	$ 442.9	-3.6 %	$ 1,299.3	$ 1,354.3	-4.1 %
Net investment income	76.3	78.3	-2.5 %	231.8	249.9	-7.3 %
Net realized capital gains (losses)	95.9	(179.0)	-153.6 %	354.7	(206.7)	NM
Other income (expense)	0.4	(8.9)	-104.8 %	19.6	(20.4)	-196.1 %
Total revenues	599.8	333.3	80.0 %	1,905.4	1,377.1	38.4 %
CLAIMS AND EXPENSES:						
Incurred losses and loss adjustment expenses	242.9	322.1	-24.6 %	786.9	1,187.9	-33.8 %
Commission, brokerage, taxes and fees	70.5	70.8	-0.5 %	251.3	239.7	4.9 %
Other underwriting expenses	45.9	42.7	7.6 %	126.6	120.1	5.3 %
Corporate expense	2.0	1.1	76.6 %	5.3	3.5	52.0 %
Interest, fee and bond issue cost amortization expense	12.7	12.7	-0.2 %	38.1	38.1	-0.1 %
Total claims and expenses	374.0	449.5	-16.8 %	1,208.1	1,589.3	-24.0 %
INCOME (LOSS) BEFORE TAXES	225.8	(116.2)	NM	697.3	(212.2)	NM
Income tax expense (benefit)	69.9	(116.5)	-160.0 %	200.9	(123.8)	NM
NET INCOME (LOSS)	$ 156.0	$ 0.3	NM	$ 496.4	$ (88.5)	NM

RATIOS:			Point Change			Point Change
Loss ratio	56.9 %	72.7 %	(15.8)	60.6 %	87.7 %	(27.1)
Commission and brokerage ratio	16.5 %	16.0 %	0.5	19.3 %	17.7 %	1.6
Other underwriting expense ratio	10.7 %	9.7 %	1.0	9.7 %	8.9 %	0.8
Combined ratio	84.1 %	98.4 %	(14.3)	89.6 %	114.3 %	(24.7)

(Dollars in millions)	At September 30, 2012	At December 31, 2011	Percentage Increase/ (Decrease)

Balance sheet data:				
Total investments and cash	$ 9,035.7	$ 8,396.3	7.6	%
Total assets	14,869.0	14,349.2	3.6	%
Loss and loss adjustment expense reserves	7,954.6	8,290.6	-4.1	%
Total debt	818.1	818.1	0.0	%
Total liabilities	11,385.1	11,407.8	-0.2	%
Stockholder's equity	3,483.9	2,941.4	18.4	%

(NM, not meaningful)
(Some amounts may not reconcile due to rounding.)

Revenues.
Premiums. Gross written premiums increased by 9.5% to $1,010.9 million for the three months ended September 30, 2012 compared to $923.2 million for the three months ended September 30, 2011, reflecting a $92.6 million increase in our insurance business, partially offset by a $4.9 million decrease in our reinsurance business. Gross written premiums decreased by 0.8% to $2,601.0 million for the nine months ended September 30, 2012 compared to $2,621.1 million for the nine months ended September 30, 2011, reflecting a $53.7 million decrease in our reinsurance business, partially offset by a $33.6 million increase in our insurance business. The decreases in reinsurance premiums were primarily due to the non-renewal of a large Florida quota share reinsurance contract, partially offset by increases in new business and rate increases on renewals, particularly for catastrophe exposed contracts. The increase in insurance

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premiums was primarily due to the growth in crop and primary medical stop loss insurance, partially offset by the termination and runoff of several large casualty programs.

Net written premiums increased by 4.3% to $458.9 million for the three months ended September 30, 2012 from $439.8 million for the three months ended September 30, 2011 and decreased by 6.4% to $1,225.7 million for the nine months ended September 30, 2012 from $1,309.9 million for the nine months ended September 30, 2011. The variance between the changes in gross and net written premiums was primarily attributable to the growth in the crop business, for which the Company uses a higher level of reinsurance. Premiums earned decreased by 3.6% to $427.1 million for the three months ended September 30, 2012 from $442.9 million for the three months ended September 30, 2011 and decreased by 4.1% to $1,299.3 million for the nine months ended September 30, 2012 from $1,354.3 million for the nine months ended September 30, 2011. The fluctuations in premiums earned in comparison to net written premiums were primarily attributable to changes in the mix of business, particularly crop insurance which has a different premiums earning pattern.

Net Investment Income. Net investment income decreased by 2.5% to $76.3 million for the three months ended September 30, 2012 compared with net investment income of $78.3 million for the three months ended September 30, 2011 and decreased by 7.3% to $231.8 million for the nine months ended September 30, 2012 compared with net investment income of $249.9 million for the nine months ended September 30, 2011, primarily as a result of a decrease in investment income from our limited partnership investments and lower reinvestment rates over the past several years. Net pre-tax investment income, as a percentage of average invested assets was 3.7% for the three months ended September 30, 2012 compared to 3.9% for the three months ended September 30, 2011 and was 3.8% for the nine months ended September 30, 2012 compared to 4.1% for the nine months ended September 30, 2011. The declines in these yields were primarily the result of fluctuations in our limited partnership income and lower reinvestment rates for the fixed income portfolio.

Net Realized Capital Gains (Losses). Net realized capital gains were $95.9 million and net realized capital losses were $179.0 million for the three months ended September 30, 2012 and 2011, respectively. Of the $95.9 million, there were $92.7 million of gains from fair value re-measurements and $3.8 million of net realized capital losses from sales on our fixed maturity and equity securities, partially offset by $0.5 million of other-than-temporary impairments on our available for sale fixed maturity securities. The net realized capital losses of $179.0 million for the three months ended September 30, 2011 were the result of $181.5 million of losses from fair value re-measurements and $0.9 million of other-than-temporary impairments on our available for sale fixed maturity securities, which were partially offset by $3.3 million of net realized capital gains from sales on our fixed maturity and equity securities.

Net realized capital gains were $354.7 million and net realized capital losses were $206.7 million for the nine months ended September 30, 2012 and 2011, respectively. Of the $354.7 million, there were $328.7 million of gains from fair value re-measurements and $32.7 million of net realized capital gains from sales on our fixed maturity and equity securities, partially offset by $6.6 million of other-than-temporary impairments on our available for sale fixed maturity securities. The net realized capital losses of $206.7 million for the nine months ended September 30, 2011 were the result of $178.0 million of losses from fair value re-measurements, $14.5 million of other-than-temporary impairments on our available for sale fixed maturity securities and $14.2 million of net realized capital losses from sales on our fixed maturity and equity securities.

Other Income (Expense). We recorded other income of $0.4 million and $19.6 million for the three and nine months ended September 30, 2012, respectively. We recorded other expense of $8.9 million and $20.4 million for the three and nine months ended September 30, 2011, respectively. The changes were primarily due to fluctuations in currency exchange rates for the corresponding periods and fluctuations in the amortization of deferred gains on retroactive reinsurance agreements with affiliates.

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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.

	Three Months Ended September 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional (a)	$ 236.8	55.5 %	$ (4.0)	-0.9 %	$ 232.8	54.6 %
Catastrophes	12.5	2.9 %	(2.4)	-0.6 %	10.1	2.3 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total	$ 249.3	58.4 %	$ (6.4)	-1.5 %	$ 242.9	56.9 %
2011						
Attritional (a)	$ 244.4	55.2 %	$ 6.6	1.5 %	$ 251.0	56.7 %
Catastrophes	70.5	15.9 %	0.6	0.1 %	71.1	16.0 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total	$ 314.9	71.1 %	$ 7.2	1.6 %	$ 322.1	72.7 %
Variance 2012/2011						
Attritional (a)	$ (7.6)	0.3 pts	$ (10.6)	(2.4) pts	$ (18.2)	(2.1) pts
Catastrophes	(58.0)	(13.0) pts	(3.0)	(0.7) pts	(61.0)	(13.7) pts
A&E	-	- pts	-	- pts	-	- pts
Total	$ (65.6)	(12.7) pts	$ (13.6)	(3.1) pts	$ (79.2)	(15.8) pts

	Nine Months Ended September 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional (a)	$ 738.3	56.9 %	$ 11.9	0.9 %	$ 750.2	57.8 %
Catastrophes	42.5	3.3 %	(5.9)	-0.5 %	36.6	2.8 %
A&E	-	0.0 %	0.1	0.0 %	0.1	0.0 %
Total	$ 780.8	60.2 %	$ 6.1	0.4 %	$ 786.9	60.6 %
2011						
Attritional (a)	$ 752.5	55.5 %	$ (11.4)	-0.8 %	$ 741.1	54.7 %
Catastrophes	435.5	32.2 %	11.3	0.8 %	446.8	33.0 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total	$ 1,188.0	87.7 %	$ (0.1)	0.0 %	$ 1,187.9	87.7 %
Variance 2012/2011						
Attritional (a)	$ (14.2)	1.4 pts	$ 23.3	1.7 pts	$ 9.1	3.1 pts
Catastrophes	(393.0)	(28.9) pts	(17.2)	(1.3) pts	(410.2)	(30.2) pts

A&E	-	-	pts	0.1	-	pts	0.1	-	pts
Total	$ (407.2)	(27.5)	pts	$ 6.2	0.4	pts	$ (401.0)	(27.1)	pts

(a) Attritional losses exclude catastrophe and Asbestos and Environmental ("A&E") losses.

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased by 24.6% to $242.9 million, representing 15.8 loss ratio points for the three months ended September 30, 2012 compared to $322.1 million for the three months ended September 30, 2011. Current year catastrophe losses were lower by $58.0 million, or 13.0 points, period over period. The $12.5 million of current year catastrophe losses for 2012 related to Hurricane Isaac. The $70.5 million of current year catastrophe losses for 2011 related primarily to the 2011 Japanese earthquake and tsunami ($50.2 million) and Hurricane Irene ($15.9 million). Attritional losses were lower by $18.2 million, or 2.1 loss ratio points, primarily due to the impact of changes in the mix of business and from year over year cessions under our affiliated quota share agreements resulting from changes in ceding percentages.

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Incurred losses and LAE decreased by 33.8% to $786.9 million, representing 27.1 loss ratio points for the nine months ended September 30, 2012 compared to $1,187.9 million for the nine months ended September 30, 2011. The decline was primarily driven by current year catastrophe losses which were lower by $393.0 million, or 28.9 points, period over period. The $42.5 million of current year catastrophe losses for 2012 related to U.S. storm losses ($30.0 million) and Hurricane Isaac ($12.5 million). The $435.5 million of current year catastrophe losses for 2011 related primarily to the Japanese earthquake and tsunami ($242.5 million), the 2011 New Zealand earthquake ($110.3 million), the 2011 Australian floods ($28.6 million), U.S. Storms ($26.6 million) and Hurricane Irene ($15.9 million).

Commission, Brokerage, Taxes and Fees. Commission, brokerage, taxes and fees decreased slightly to $70.5 million for the three months ended September 30, 2012 compared to $70.8 million for the three months ended September 30, 2011, and increased by 4.9% to $251.3 million for the nine months ended September 30, 2012 compared to $239.7 million for the nine months ended September 30, 2011. The nine month increase is due primarily to the one-time effect of the non-renewal of the Florida quota share contract and the adoption of new accounting standards concerning the accounting for acquisition costs, which is increasing expenses in 2012.

Other Underwriting Expenses. Other underwriting expenses increased to $45.9 million from $42.7 million for the three months ended September 30, 2012 and 2011, respectively, and increased to $126.6 million from $120.1 million for the nine months ended September 30, 2012 and 2011, respectively, due primarily to higher employee benefit plan expenses.

Corporate Expenses. Corporate expenses, which are general operating expenses that are not allocated to segments, were $2.0 million and $1.1 million for the three months ended September 30, 2012 and 2011, respectively, and $5.3 million and $3.5 million for the nine months ended September 30, 2012 and 2011, respectively. These increases were also primarily due to higher employee benefit plan expenses.

Interest, Fees and Bond Issue Cost Amortization Expense. Interest, fees and other bond amortization expense was $12.7 million for the three months ended September 30, 2012 and 2011, and $38.1 million for the nine months ended September 30, 2012 and 2011.

Income Tax Expense (Benefit). We had income tax expense of $69.9 million and $200.9 million for the three and nine months ended September 30, 2012, respectively. We had an income tax benefit of $116.5 million and $123.8 million for the three and nine months ended September 30, 2011, respectively. Our income tax is primarily a function of the statutory tax rates coupled with the impact from tax-preferenced investment income. Variations in our effective tax rate generally result from changes in the relative levels of pre-tax income. The increases in tax expense were mainly due to the improvement in taxable income resulting from lower catastrophe losses in 2012. The nine month income tax expense also reflects tax benefits of $21.7 million realized due to corrections of understatement in the deferred tax asset account and $11.2 million of tax benefits from a reduction in our reserve for uncertain tax positions due to the closing of an IRS audit.

Net Income (Loss).
Our net income was $156.0 million and $0.3 million for the three months ended September 30, 2012 and 2011, respectively. Our net income was $496.4 million and our net loss was $88.5 million for the nine months ended September 30, 2012 and 2011, respectively. The increases were primarily driven by the decline in catastrophe losses in 2012 compared to the prior period.

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Ratios.
Our combined ratio decreased by 14.3 points for the three months ended September 30, 2012 and decreased by 24.7 points for the nine months ended September 30, 2012. The loss ratio component decreased 15.8 points for the three months ended September 30, 2012 and 27.1 points for the nine months ended September 30, 2012, primarily due to lower catastrophe losses. The other underwriting expense ratio component increased 1.0 point for the three months ended September 30, 2012 and 0.8 points for the nine months ended September 30, 2012. The commission and brokerage ratio component increased 0.5 points for the three months ended September 30, 2012 and 1.6 points for the nine months ended September 30, 2012 due to the increase in expenses explained above.

Stockholder's Equity.
Stockholder's equity increased by $542.5 million to $3,483.9 million at September 30, 2012 from $2,941.4 million at December 31, 2011, principally as a result of $496.4 million of net income, $25.2 million of unrealized appreciation on investments, net of tax, $12.7 million of net foreign currency translation adjustments, $5.1 million of share-based compensation transactions and $3.2 million of net benefit plan obligation adjustments.

Consolidated Investment Results

Net Investment Income.
Net investment income decreased 2.5% to $76.3 million for the three months ended September 30, 2012 compared to $78.3 million for the three months ended September 30, 2011, and decreased 7.3% to $231.8 million for the nine months ended September 30, 2012 compared to $249.9 million for the nine months ended September 30, 2011. The decreases were primarily due to decreases in income from our limited partnership investments and a decline in income from our fixed maturities resulting from lower reinvestment rates.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2012	2011	2012	2011
Fixed maturities	$55.5	$58.2	$164.2	$178.0
Equity securities	8.8	8.7	29.3	20.4
Short-term investments and cash	0.3	0.3	0.8	0.9
Other invested assets				
Limited partnerships	9.1	12.4	29.9	44.8
Dividends from Parent's shares	4.7	4.7	14.0	14.0
Other	1.4	(1.5)	2.5	3.2
Total gross investment income	79.9	82.8	240.7	261.2
Interest debited (credited) and other expense	(3.5)	(4.5)	(8.9)	(11.3)
Total net investment income	$76.3	$78.3	$231.8	$249.9

(Some amounts may not reconcile due to rounding.)

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

	At September 30, 2012	At December 31, 2011
Imbedded pre-tax yield of cash and invested assets	3.4%	3.6%
Imbedded after-tax yield of cash and invested assets	2.5%	2.7%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Annualized pre-tax yield on average cash and invested assets	3.7%	3.9%	3.8%	4.1%
Annualized after-tax yield on average cash and invested assets	2.7%	2.9%	2.8%	3.2%

Net Realized Capital Gains (Losses).
The following table presents the composition of our net realized capital gains (losses) for the periods indicated:

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	2012	2011	Variance	2012	2011	Variance
Gains (losses) from sales:						
Fixed maturity securities, market value						
Gains	$ 2.0	$ 11.4	$ (9.4)	$ 9.2	$ 28.2	$ (19.0)
Losses	(1.9)	(8.6)	6.7	(5.2)	(43.7)	38.5
Total	0.1	2.7	(2.6)	4.0	(15.6)	19.6
Fixed maturity securities, fair value						
Gains	0.6	0.2	0.4	6.1	1.0	5.1
Losses	(0.2)	(0.3)	0.1	(0.6)	(2.0)	1.4
Total	0.5	(0.1)	0.6	5.5	(1.0)	6.5
Equity securities, market value						
Gains	-	-	-	-	0.2	(0.2)
Losses	-	-	-	-	(0.2)	0.2
Total	-	-	-	-	-	-
Equity securities, fair value						
Gains	5.2	6.0	(0.8)	33.0	8.9	24.1
Losses	(2.0)	(5.4)	3.4	(9.9)	(6.6)	(3.3)
Total	3.2	0.6	2.6	23.1	2.3	20.8

Total net realized gains (losses) from sales						
Gains	7.9	17.6	(9.7)	48.4	38.3	10.1
Losses	(4.1)	(14.3)	10.2	(15.7)	(52.5)	36.8
Total	3.8	3.3	0.5	32.7	(14.2)	46.9
Other-than-temporary impairments:	(0.5)	(0.9)	0.4	(6.6)	(14.5)	7.9
Gains (losses) from fair value adjustments:						
Fixed maturities, fair value	0.3	(5.0)	5.3	1.6	(8.5)	10.1
Equity securities, fair value	58.6	(153.4)	212.0	104.7	(115.3)	220.0
Other invested assets, fair value	33.7	(23.1)	56.8	222.3	(54.2)	276.5
Total	92.7	(181.5)	274.2	328.7	(178.0)	506.7
Total net realized capital gains (losses)	$ 95.9	$ (179.0)	$ 274.9	$ 354.7	$ (206.7)	$ 561.4

(Some amounts may not reconcile due to rounding.)

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Net realized capital gains were $95.9 million and net realized capital losses were $179.0 million for the three months ended September 30, 2012 and 2011, respectively. For the three months ended September 30, 2012, we recorded $92.7 million of gains due to fair value re-measurements on fixed maturity, equity securities and other invested assets, and $3.8 million of net realized capital gains from sales of fixed maturity and equity securities, partially offset by $0.5 million of other-than-temporary impairments on fixed maturity securities. For the three months ended September 30, 2011, we recorded $181.5 million in losses due to fair value re-measurements on fixed maturity and equity securities and other invested assets and $0.9 million of other-than-temporary impairments on fixed maturity securities, partially offset by $3.3 million of net realized capital gains from sales of fixed maturity and equity securities. The losses on the sales of fixed maturity securities in 2011 included the impact of selling part of our municipal bond portfolio as credit concerns arose in this market sector.

Net realized capital gains were $354.7 million and net realized capital losses were $206.7 million for the nine months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012, we recorded $328.7 million of gains due to fair value re-measurements on fixed maturity, equity securities and other invested assets and $32.7 million of net realized capital gains from sales of fixed maturity and equity securities, partially offset by $6.6 million of other-than-temporary impairments on fixed maturity securities. For the nine months ended September 30, 2011, we recorded $178.0 million in losses due to fair value re-measurements on fixed maturity and equity securities and other invested assets, $14.5 million of other-than-temporary impairments on fixed maturity securities and $14.2 million of net realized capital losses from sales of fixed maturity and equity securities. The losses on the sales of fixed maturity securities in 2011 included the impact of selling part of our municipal bond portfolio as credit concerns arose in this market sector.

Segment Results.
During the quarter ended September 30, 2011, we realigned our reporting segments to reflect recent changes in the type and volume of business written. We previously reported the results of Marine & Aviation, Surety, A&H Reinsurance and A&H Primary operations as a separate segment—Specialty Underwriting. The A&H primary business, which is a relatively new line of business for us, has increased significantly, representing approximately 2% of premiums earned and is projected to continue to grow. The A&H primary business is better aligned with the Insurance reporting segment based on the similarities of this business with those businesses already reflected in the Insurance segment. The other operating units included in the Specialty Underwriting segment would have encompassed less than 5% of our premiums earned and their volume is projected to remain approximately 6%. As a result of the size of these remaining operating units and their similarity to the business reported within U.S. Reinsurance, they have been reclassified to the U.S. Reinsurance segment. There has been no change to the International reporting segment. We have restated all segment information for prior years to conform to the new reporting segment structure.

The U.S. Reinsurance operation writes property and casualty reinsurance and specialty lines of business, including Marine, Aviation, Surety and A&H business, on both a treaty and facultative basis, through reinsurance brokers, as well as directly with ceding companies primarily within the U.S. The International operation writes non-U.S. property and casualty reinsurance through Everest Re’s branches in Canada, Singapore and through offices in Brazil, Miami and New Jersey. The Insurance operation writes property and casualty insurance, including medical stop loss 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 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.

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

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.

	Three Months Ended September 30,				Nine Months Ended September 30,			
(Dollars in millions)	2012	2011	Variance	% Change	2012	2011	Variance	% Change
Gross written premiums	$433.5	$360.8	$ 72.7	20.1 %	$938.4	$947.2	$ (8.7)	-0.9 %
Net written premiums	219.9	167.5	52.4	31.3 %	475.3	486.0	(10.8)	-2.2 %
Premiums earned	$181.4	$167.5	$ 13.9	8.3 %	$529.4	$512.1	$ 17.3	3.4 %
Incurred losses and LAE	108.2	97.2	11.0	11.3 %	321.4	371.6	(50.2)	-13.5 %
Commission and brokerage	40.1	23.3	16.8	72.1 %	139.9	106.1	33.8	31.8 %
Other underwriting expenses	12.8	10.8	1.9	17.7 %	33.5	30.6	2.9	9.5 %
Underwriting gain (loss)	$20.4	$36.2	$ (15.8)	-43.7 %	$34.6	$3.7	$ 30.8	NM
				Point Chg				Point Chg
Loss ratio	59.6 %	58.0 %		1.6	60.7 %	72.6 %		(11.9)
Commission and brokerage ratio	22.1 %	13.9 %		8.2	26.4 %	20.7 %		5.7
Other underwriting expense ratio	7.1 %	6.5 %		0.6	6.4 %	6.0 %		0.4
Combined ratio	88.8 %	78.4 %		10.4	93.5 %	99.3 %		(5.8)

(NM, not meaningful.)
(Some amounts may not reconcile due to rounding.)

Premiums. Gross written premiums increased by 20.1% to $433.5 million for the three months ended September 30, 2012 from $360.8 million for the three months ended September 30, 2011, primarily due to increased new business and higher premium rates on renewals, particularly for catastrophe exposed risks. Net written premiums increased 31.3% to $219.9 million for the three months ended September 30, 2012 compared to $167.5 million for the three

months ended September 30, 2011, which is in line with the percentage increase in gross written premiums for the quarter. Premiums earned increased 8.3% to $181.4 million for the three months ended September 30, 2012 compared to $167.5 million for the three months ended September 30, 2011. The variance difference between premiums earned and net written premiums is primarily due to the non-renewal of the large Florida quota share reinsurance contract and other changes in the mix of business.

Gross written premiums decreased by 0.9% to $938.4 million for the nine months ended September 30, 2012 from $947.2 million for the nine months ended September 30, 2011, primarily due to the non-renewal of a large Florida quota share reinsurance contract, partially offset by increased new business and higher premium rates on renewals, particularly for contracts with catastrophe exposed risks. Net written premiums decreased 2.2% to $475.3 million for the nine months ended September 30, 2012 compared to $486.0 million for the nine months ended September 30, 2011, which is in line with the decrease in gross written premiums. Premiums earned increased 3.4% to $529.4 million for the nine months ended September 30, 2012 compared to $512.1 million for the nine months ended September 30, 2011. As with the quarter, the variance difference between premiums earned and net written premiums is primarily attributable to increases in new business, rate increases on renewals, particularly for catastrophe exposed contracts and changes in the mix of business, partially offset by the non-renewal of the large Florida quota share reinsurance contract.

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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.

	Three Months Ended September 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional	$ 95.9	52.8 %	$ (4.3)	-2.4 %	$ 91.6	50.4 %
Catastrophes	12.5	6.9 %	4.1	2.3 %	16.6	9.2 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	$ 108.4	59.7 %	$ (0.2)	-0.1 %	$ 108.2	59.6 %
2011						
Attritional	$ 82.7	49.3 %	$ (3.5)	-2.1 %	$ 79.2	47.2 %
Catastrophes	16.7	10.0 %	1.3	0.8 %	18.0	10.8 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	$ 99.4	59.3 %	$ (2.2)	-1.3 %	$ 97.2	58.0 %
Variance 2012/2011						
Attritional	$ 13.2	3.5 pts	$ (0.8)	(0.3) pts	$ 12.4	3.2 pts
Catastrophes	(4.2)	(3.1) pts	2.8	1.5 pts	(1.4)	(1.6) pts
A&E	-	- pts	-	- pts	-	- pts
Total segment	$ 9.0	0.4 pts	$ 2.0	1.2 pts	$ 11.0	1.6 pts

	Nine Months Ended September 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional	$ 273.6	51.7 %	$ 8.2	1.6 %	$ 281.8	53.3 %
Catastrophes	42.5	8.0 %	(3.0)	-0.6 %	39.5	7.4 %
A&E	-	0.0 %	0.1	0.0 %	0.1	0.0 %
Total segment	$ 316.1	59.7 %	$ 5.3	1.0 %	$ 321.4	60.7 %
2011						
Attritional	$ 262.4	51.3 %	$ (4.0)	-0.8 %	$ 258.4	50.5 %
Catastrophes	102.4	20.0 %	10.9	2.1 %	113.3	22.1 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	$ 364.8	71.3 %	$ 6.9	1.3 %	$ 371.6	72.6 %
Variance 2012/2011						
Attritional	$ 11.2	0.4 pts	$ 12.2	2.4 pts	$ 23.4	2.8 pts
Catastrophes	(59.9)	(12.0) pts	(13.9)	(2.7) pts	(73.8)	(14.7) pts
A&E	-	- pts	0.1	- pts	0.1	- pts

Total segment	$	(48.7)	(11.6)	pts	$	(1.6)	(0.3)	pts	$	(50.2)	(11.9)	pts

(Some amounts may not reconcile due to rounding.)

Incurred losses increased 11.3% to $108.2 million for the three months ended September 30, 2012 compared to $97.2 million for the three months ended September 30, 2011, primarily as a result of the $13.2 million (3.5 points) increase in current year attritional losses as a result of increased premiums earned and increased losses from assumed crop business. The $12.5 million of current year catastrophe losses for 2012 related to Hurricane Isaac. The $16.7 million of current year catastrophe losses for 2011 related primarily to Hurricane Irene ($13.3 million).

Incurred losses decreased 13.5% to $321.4 million for the nine months ended September 30, 2012 compared to $371.6 million for the nine months ended September 30, 2011, primarily as a result of the $59.9 million (12.0 points) decrease in current year catastrophe losses. The $42.5 million of current year catastrophe losses for 2012 related to U.S. storm losses ($30.0 million) and Hurricane Isaac ($12.5 million). The $102.4 million of current year catastrophe losses for 2011 related primarily to the Japanese earthquake and tsunami ($35.7 million), U.S. storms ($26.0 million), the 2011 New Zealand earthquake ($23.0 million), Hurricane Irene ($13.3 million) and the 2011 Australian floods ($3.5 million).

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Segment Expenses. Commission and brokerage expenses increased 72.1% to $40.1 million for the three months ended September 30, 2012 compared to $23.3 million for the three months ended September 30, 2011. Commission and brokerage expenses increased 31.8% to $139.9 million for the nine months ended September 30, 2012 compared to $106.1 million for the nine months ended September 30, 2011. These variances were primarily due to the increase in premiums earned and the effect resulting from commissions of the non-renewed Florida quota share contract.

Segment other underwriting expenses increased to $12.8 million for the three months ended September 30, 2012 compared to $10.8 million for the same period in 2011 and to $33.5 million for the nine months ended September 30, 2012 compared to $30.6 million for the same period in 2011. These increases were primarily due to higher share-based compensation and employee benefit plan expenses.

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
(Dollars in millions)	2012	2011	Variance	% Change	2012	2011	Variance	% Change
Gross written premiums	$ 248.5	$ 326.1	$ (77.6)	-23.8%	$ 878.6	$ 923.6	$ (45.0)	-4.9%
Net written premiums	105.6	158.0	(52.5)	-33.2%	402.1	457.7	(55.6)	-12.1%
Premiums earned	$ 121.6	$ 151.1	$ (29.4)	-19.5%	$ 426.4	$ 480.0	$ (53.6)	-11.2%
Incurred losses and LAE	29.3	104.6	(75.3)	-72.0%	191.8	514.3	(322.4)	-62.7%
Commission and brokerage	19.7	35.7	(16.0)	-44.8%	88.4	105.8	(17.3)	-16.4%
Other underwriting expenses	8.2	7.5	0.7	9.2%	21.5	20.9	0.6	2.8%
Underwriting gain (loss)	$ 64.4	$ 3.2	$ 61.1	NM	$ 124.6	$ (161.0)	$ 285.6	-177.4%
				Point Chg				Point Chg
Loss ratio	24.1%	69.2%		(45.1)	45.0%	107.1%		(62.1)
Commission and brokerage ratio	16.2%	23.6%		(7.4)	20.7%	22.0%		(1.3)
Other underwriting expense ratio	6.8%	5.1%		1.7	5.1%	4.4%		0.7
Combined ratio	47.1%	97.9%		(50.8)	70.8%	133.5%		(62.7)
(NM, not meaningful.)								
(Some amounts may not reconcile due to rounding.)								

Premiums. Gross written premiums decreased by 23.8% to $248.5 million for the three months ended September 30, 2012 compared to $326.1 million for the three months ended September 30, 2011, primarily due to a shift in the mix of business away from pro rata to excess of loss business, which generates a lower premium rate commensurate with lower loss exposure. Net written premiums decreased by 33.2% to $105.6 million for the three months ended September 30, 2012 compared to $158.0 million for the three months ended September 30, 2011, which is consistent with the decrease in gross written premiums. Premiums earned decreased by 19.5% to $121.6 million for the three months ended September 30, 2012 compared to $151.1 million for the three months ended September 30, 2011. 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 and changes in the mix of business.

Gross written premiums decreased by 4.9% to $878.6 million for the nine months ended September 30, 2012 compared to $923.6 million for the nine months ended September 30, 2011, primarily due to a shift in the mix of business towards excess of loss business. Net written premiums decreased by 12.1% to $402.1 million for the nine months ended September 30, 2012 compared to $457.7 million for the nine months ended September 30, 2011, primarily due to the decline in gross written premiums and the impact of changes in our affiliated quota share agreements. Premiums earned decreased by 11.2% to $426.4 million for the nine months ended September 30, 2012 compared to $480.0 million for the nine months ended September 30, 2011. The change in premiums earned is comparable to the change in net written premiums.

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

	Three Months Ended September 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional	$ 39.8	32.8 %	$ (4.0)	-3.3 %	$ 35.8	29.5 %
Catastrophes	-	0.0 %	(6.5)	-5.4 %	(6.5)	-5.4 %
Total segment	$ 39.8	32.8 %	$ (10.5)	-8.7 %	$ 29.3	24.1 %
2011						
Attritional	$ 60.8	40.2 %	$ (7.9)	-5.2 %	$ 52.9	35.0 %
Catastrophes	52.3	34.6 %	(0.7)	-0.4 %	51.7	34.2 %
Total segment	$ 113.1	74.8 %	$ (8.6)	-5.6 %	$ 104.6	69.2 %
Variance 2012/2011						
Attritional	$ (21.0)	(7.4) pts	$ 3.9	1.9 pts	$ (17.1)	(5.5) pts
Catastrophes	(52.3)	(34.6) pts	(5.8)	(5.0) pts	(58.2)	(39.6) pts
Total segment	$ (73.3)	(42.0) pts	$ (1.9)	(3.1) pts	$ (75.3)	(45.1) pts

	Nine Months Ended September 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional	$ 198.7	46.6 %	$ (4.0)	-0.9 %	$ 194.7	45.7 %
Catastrophes	-	0.0 %	(2.9)	-0.7 %	(2.9)	-0.7 %
Total segment	$ 198.7	46.6 %	$ (6.9)	-1.6 %	$ 191.8	45.0 %
2011						
Attritional	$ 202.3	42.1 %	$ (19.9)	-4.1 %	$ 182.4	38.0 %
Catastrophes	331.7	69.1 %	0.2	0.0 %	331.9	69.1 %
Total segment	$ 534.0	111.2 %	$ (19.7)	-4.1 %	$ 514.3	107.1 %
Variance 2012/2011						
Attritional	$ (3.6)	4.5 pts	$ 15.9	3.2 pts	$ 12.3	7.7 pts
Catastrophes	(331.7)	(69.1) pts	(3.1)	(0.7) pts	(334.8)	(69.8) pts
Total segment	$ (335.3)	(64.6) pts	$ 12.8	2.5 pts	$ (322.4)	(62.1) pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased 72.0% to $29.3 million for the three months ended September 30, 2012 compared to $104.6 million for the three months ended September 30, 2011, representing 45.1 loss ratio points. The decrease was principally due to a $52.3 million (34.6 points) decrease in current year catastrophe losses and a $21.0 million (7.4 points) decrease in current year attritional losses due to the impact from year over year cessions under our affiliated quota share agreements resulting from movement in foreign exchange rates and changes in ceding percentages. There were no current year catastrophe losses for 2012. The $52.3 million of 2011 current year catastrophes, primarily related to the Japanese earthquake and tsunami ($50.2 million).

Incurred losses and LAE decreased 62.7% to $191.8 million for the nine months ended September 30, 2012 compared to $514.3 million for the nine months ended September 30, 2011, representing 62.1 loss ratio points. The decrease was principally due to a $331.7 million (69.1 points) decrease in current year catastrophes. There were no current year catastrophe losses for 2012. The $331.7 million of 2011 current year catastrophes related primarily to the Japanese earthquake and tsunami ($206.8 million), the 2011 New Zealand earthquake ($87.2 million) and the 2011 Australian flood ($25.1 million). Attritional losses increased by $12.3 million (7.7 points) primarily due to less year over year favorable reserve development.

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Segment Expenses. Commission and brokerage expenses decreased 44.8% to $19.7 million for the three months ended September 30, 2012 compared to $35.7 million for the three months ended September 30, 2011. Commission and brokerage expenses decreased 16.4% to $88.4 million for the nine months ended September 30, 2012 compared to $105.8 million for the nine months ended September 30, 2011. This is consistent with the reduction in earned premium and a shift in the mix of business towards property catastrophe and excess of loss business which have lower expenses.

Segment other underwriting expenses increased to $8.2 million for the three months ended September 30, 2012 compared to $7.5 million for the three months ended September 30, 2011 and to $21.5 million for the nine months ended September 30, 2012 compared to $20.9 million for the nine months ended September 30, 2011. The increases relate to higher personnel benefit costs.

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
(Dollars in millions)	2012	2011	Variance	% Change	2012	2011	Variance	% Change
Gross written premiums	$ 328.9	$ 236.3	$ 92.6	39.2 %	$ 783.9	$ 750.3	$ 33.6	4.5 %
Net written premiums	133.4	114.3	19.1	16.7 %	348.3	366.2	(17.9)	-4.9 %
Premiums earned	$ 124.1	$ 124.3	$ (0.2)	-0.1 %	$ 343.5	$ 362.2	$ (18.7)	-5.2 %
Incurred losses and LAE	105.4	120.3	(14.9)	-12.4 %	273.6	302.0	(28.4)	-9.4 %
Commission and brokerage	10.7	11.9	(1.2)	-9.9 %	23.0	27.8	(4.8)	-17.3 %
Other underwriting expenses	24.9	24.3	0.6	2.5 %	71.5	68.6	2.9	4.2 %
Underwriting gain (loss)	$ (16.9)	$ (32.2)	$ 15.3	-47.5 %	$ (24.6)	$ (36.2)	$ 11.6	-32.0 %
				Point Chg				Point Chg
Loss ratio	84.9 %	96.8 %		(11.9)	79.7 %	83.4 %		(3.7)
Commission and brokerage ratio	8.6 %	9.5 %		(0.9)	6.7 %	7.7 %		(1.0)
Other underwriting expense ratio	20.1 %	19.6 %		0.5	20.8 %	18.9 %		1.9
Combined ratio	113.6%	125.9%		(12.3)	107.2%	110.0%		(2.8)

(Some amounts may not reconcile due to rounding.)

Premiums. Gross written premiums increased by 39.2% to $328.9 million for the three months ended September 30, 2012 compared to $236.3 million for the three months ended September 30, 2011. This increase was primarily driven by crop and primary medical stop loss business, partially offset by the termination and runoff of several large casualty programs. Net written premiums increased 16.7% to $133.4 million for the three months ended September 30, 2012 compared to $114.3 million for the same period in 2011. The variance between the percentage change in gross written premium versus net written premium is primarily due to the crop business which has a higher use of reinsurance than the runoff casualty programs. Premiums earned decreased 0.1% to $124.1 million for the three months ended September 30, 2012 compared to $124.3 million for the three months ended September 30, 2011. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

Gross written premiums increased by 4.5% to $783.9 million for the nine months ended September 30, 2012 compared to $750.3 million for the nine months ended September 30, 2011. This increase was primarily driven by crop and primary medical stop loss business, partially offset by the termination and runoff of several large casualty programs. Net written premiums decreased 4.9% to $348.3 million for the nine months ended September 30, 2012 compared to $366.2 million for the same period in 2011. This decrease is primarily due to a higher use of reinsurance on crop business than the runoff casualty programs. Premiums earned decreased 5.2% to $343.5 million for the nine months ended September 30, 2012 compared to $362.2 million for the nine months ended September 30, 2011. The change in premiums earned is consistent with the change in net written premiums.

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

	Three Months Ended September 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional	$ 101.1	81.4 %	$ 4.3	3.5 %	$ 105.4	84.9 %
Catastrophes	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	$ 101.1	81.4 %	$ 4.3	3.5 %	$ 105.4	84.9 %
2011						
Attritional	$ 100.9	81.1 %	$ 18.0	14.5 %	$ 118.9	95.6 %
Catastrophes	1.4	1.2 %	-	0.0 %	1.4	1.2 %
Total segment	$ 102.3	82.3 %	$ 18.0	14.5 %	$ 120.3	96.8 %
Variance 2012/2011						
Attritional	$ 0.2	0.3 pts	$ (13.7)	(11.0) pts	$ (13.5)	(10.7) pts
Catastrophes	(1.4)	(1.2) pts	-	- pts	(1.4)	(1.2) pts
Total segment	$ (1.2)	(0.9) pts	$ (13.7)	(11.0) pts	$ (14.9)	(11.9) pts

	Nine Months Ended September 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional	$ 266.0	77.5 %	$ 7.6	2.2 %	$ 273.6	79.7 %
Catastrophes	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	$ 266.0	77.5 %	$ 7.6	2.2 %	$ 273.6	79.7 %
2011						
Attritional	$ 287.9	79.4 %	$ 12.5	3.5 %	$ 300.4	82.9 %
Catastrophes	1.4	0.4 %	0.2	0.1 %	1.6	0.5 %
Total segment	$ 289.3	79.8 %	$ 12.7	3.6 %	$ 302.0	83.4 %
Variance 2012/2011						
Attritional	$ (21.9)	(1.9) pts	$ (4.9)	(1.3) pts	$ (26.8)	(3.2) pts
Catastrophes	(1.4)	(0.4) pts	(0.2)	(0.1) pts	(1.6)	(0.5) pts
Total segment	$ (23.3)	(2.3) pts	$ (5.1)	(1.4) pts	$ (28.4)	(3.7) pts
(Some amounts may not reconcile due to rounding.)						

Incurred losses and LAE decreased by 12.4% to $105.4 million for the three months ended September 30, 2012 compared to $120.3 million for the three months ended September 30, 2011. This was primarily due to a decrease of $13.5 million (10.7 points) in attritional losses driven by lower year over year prior years development. The 2011 development was attributable to excess casualty and California workers' compensation business.

Incurred losses and LAE decreased by 9.4% to $273.6 million for the nine months ended September 30, 2012 compared to $302.0 million for the nine months ended September 30, 2011. This was primarily due to a decrease of $26.8 million (3.2 points) in attritional losses driven by the decline in premiums earned and a shift in the mix of business towards short-tail business with lower loss ratios.

Segment Expenses. Commission and brokerage expenses decreased 9.9% to $10.7 million for the three months ended September 30, 2012 compared to $11.9 million for the three months ended September 30, 2011 and decreased 17.3% to $23.0 million for the nine months ended September 30, 2012 compared to $27.8 million for the nine months ended September 30, 2011. These declines were mainly due to changes in distribution with a higher proportion of business being done on a direct basis, which carries a lower commission expense and changes in our affiliated quota share agreements.

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Segment other underwriting expenses for the three months ended September 30, 2012 increased to $24.9 million from $24.3 million for the three months ended September 30, 2011. Segment other underwriting expenses for the nine months ended September 30, 2012 increased to $71.5 million from $68.6 million for the nine months ended September 30, 2011. These increases were primarily due to higher employee benefit plan expenses.

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

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

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

Interest Rate Risk. Our $9.0 billion investment portfolio, at September 30, 2012, is principally comprised of fixed maturity securities, which are generally subject to interest rate risk and some foreign currency exchange rate risk, and some equity securities, which are subject to price fluctuations and some foreign exchange rate risk. The overall economic impact of the foreign exchange risks on the investment portfolio is partially mitigated by changes in the dollar value of foreign currency denominated liabilities and their associated income statement impact.

Interest rate risk is the potential change in value of the fixed maturity securities portfolio, including short-term investments, from a change in market interest rates. In a declining interest rate environment, it includes prepayment risk on the $630.7 million of mortgage-backed securities in the $5,378.3 million fixed maturity portfolio. Prepayment risk results from potential accelerated principal payments that shorten the average life and thus the expected yield of the security.

The table below displays the potential impact of market value fluctuations and after-tax unrealized appreciation on our fixed maturity portfolio (including $640.7 million of short-term investments) for the periods indicated based on upward and downward parallel and immediate 100 and 200 basis point shifts in interest rates. For legal entities with a U.S. dollar functional currency, this modeling was performed on each security individually. To generate appropriate price estimates for mortgage-backed securities, changes in prepayment expectations under different interest rate environments were taken into account. For legal entities with non-U.S. dollar functional currency, the effective duration of the involved portfolio of securities was used as a proxy for the market value change under the various interest rate change scenarios.

Impact of Interest Rate Shift in Basis Points
At September 30, 2012

(Dollars in millions)	-200	-100	0	100	200
Total Market/Fair Value	$6,275.6	$6,147.8	$6,019.0	$5,880.7	$5,731.1
Market/Fair Value Change from Base (%)	4.3 %	2.1 %	0.0 %	-2.3 %	-4.8 %
Change in Unrealized Appreciation					
After-tax from Base ($)	$166.8	$83.7	$-	$(89.9)	$(187.2)

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We had $7,954.6 million and $8,290.6 million of gross reserves for losses and LAE as of September 30, 2012 and December 31, 2011, respectively. These amounts are recorded at their nominal value, as opposed to present value, which would reflect a discount adjustment to reflect the time value of money. Since losses are paid out over a period of time, the present value of the reserves is less than the nominal value. As interest rates rise, the present value of the reserves decreases and, conversely, as interest rates decline, the present value increases. These movements are the opposite of the interest rate impacts on the fair value of investments. While the difference between present value and nominal value is not reflected in our financial statements, our financial results will include investment income over time from the investment portfolio until the claims are paid. Our loss and loss reserve obligations have an expected duration that is reasonably consistent with our fixed income portfolio.

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

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

	Impact of Percentage Change in Equity Fair/Market Values At September 30, 2012				
(Dollars in millions)	-20%	-10%	0%	10%	20%
Fair/Market Value of the Equity Portfolio	$998.0	$1,122.7	$1,247.5	$1,372.2	$1,497.0
After-tax Change in Fair/Market Value	(162.2)	(81.1)	-	81.1	162.2

Foreign Exchange Risk. Foreign currency risk is the potential change in value, income and cash flow arising from adverse changes in foreign currency exchange rates. Each of our non-U.S. (“foreign”) operations maintains capital in the currency of the country of its geographic location consistent with local regulatory guidelines. Each foreign operation may conduct business in its local currency, as well as the currency of other countries in which it operates. The primary foreign currency exposures for these foreign operations are the Singapore and Canadian Dollars. We mitigate foreign exchange exposure by generally matching the currency and duration of our assets to our corresponding operating liabilities. In accordance with FASB guidance, we translate the assets, liabilities and income of non-U.S. dollar functional currency legal entities to the U.S. dollar. This translation amount is reported as a component of other comprehensive income. As of September 30, 2012, there has been no material change in exposure to foreign exchange rates as compared to December 31, 2011.

SAFE HARBOR DISCLOSURE

This report contains forward-looking statements within the meaning of the U.S. federal securities laws. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the federal securities laws. In some cases, these statements can be identified by the use of forward-looking words such as “may”, “will”, “should”, “could”, “anticipate”, “estimate”, “expect”, “plan”, “believe”, “predict”, “potential” and “intend”. statements contained in this report include information regarding our reserves for losses and LAE, the adequacy of our provision for uncollectible balances, estimates of our catastrophe exposure, the effects of catastrophic events on our financial statements and the ability of our subsidiaries to pay dividends. Forward-looking statements only reflect our

expectations and are not guarantees of performance. These statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from our expectations. Important factors that could cause our actual events or results to be materially different from our expectations include those discussed under the caption "Risk Factors" in our most recently filed Annual Report on Form 10-K, Part 1, Item 1A. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Instruments. See “Market Sensitive Instruments” in PART I – ITEM 2.

ITEM 4. CONTROLS AND PROCEDURES

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

PART II

ITEM 1. LEGAL PROCEEDINGS

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

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

ITEM 1A. RISK FACTORS

No material changes.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit
Index:

Exhibit No.	Description
31.1	Section 302 Certification of Joseph V. Taranto
31.2	Section 302 Certification of Craig Howie
32.1	Section 906 Certification of Joseph V. Taranto and Craig Howie
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Labels Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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Everest Reinsurance Holdings, Inc.

Signatures

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

Everest Reinsurance Holdings, Inc.
(Registrant)

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

(Duly Authorized Officer and Principal Financial Officer)

Dated: November 14, 2012