

EVEREST REINSURANCE HOLDINGS INC  
Form 10-Q  
May 15, 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:  
March 31, 2012

Commission file  
number:  
1-14527

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

Delaware  
(State or other  
jurisdiction of  
incorporation or  
organization)

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

477 Martinsville Road

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

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

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

YES    X            NO

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

YES    X            NO

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if smaller reporting company)

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

YES  NO  X

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

Class	Number of Shares Outstanding At May 1, 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.

Table of Contents  
Form 10-Q

Page

PART I

FINANCIAL INFORMATION

Item 1.	Financial Statements	
	<u>Consolidated Balance Sheets at March 31, 2012 (unaudited) and December 31, 2011</u>	1
	<u>Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months ended March 31, 2012 and 2011 (unaudited)</u>	2
	<u>Consolidated Statements of Changes in Stockholder's Equity for the three months ended March 31, 2012 and 2011 (unaudited)</u>	3
	<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011 (unaudited)</u>	4
	<u>Notes to Consolidated Interim Financial Statements (unaudited)</u>	5
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	27
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
Item 4.	<u>Controls and Procedures</u>	40

PART II

OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	40
Item 1A.	<u>Risk Factors</u>	41
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
Item 3.	<u>Defaults Upon Senior Securities</u>	41

Item 4.	<u>Mine Safety Disclosures</u>	41
Item 5.	<u>Other Information</u>	41
Item 6.	<u>Exhibits</u>	41

---

Table of Contents

## Part I

## ITEM 1. FINANCIAL STATEMENTS

EVEREST REINSURANCE HOLDINGS, INC.  
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value per share)	March 31, 2012 (unaudited)	December 31, 2011
<b>ASSETS:</b>		
Fixed maturities - available for sale, at market value (amortized cost: 2012, \$4,917,731; 2011, \$4,880,654)	\$5,158,140	\$ 5,107,028
Fixed maturities - available for sale, at fair value	64,936	113,606
Equity securities - available for sale, at market value (cost: 2012, \$15; 2011, \$15)	12	10
Equity securities - available for sale, at fair value	1,163,616	1,207,053
Short-term investments	646,196	423,663
Other invested assets (cost: 2012, \$396,403; 2011, \$379,342)	396,403	379,342
Other invested assets, at fair value	899,292	817,352
Cash	344,747	348,267
Total investments and cash	8,673,342	8,396,321
Accrued investment income	57,788	55,849
Premiums receivable	821,610	856,375
Reinsurance receivables - unaffiliated	566,125	570,128
Reinsurance receivables - affiliated	2,900,866	2,901,174
Funds held by reinsureds	179,861	176,156
Deferred acquisition costs	148,857	166,806
Prepaid reinsurance premiums	621,257	625,391
Deferred tax asset	283,520	366,490
Federal income taxes recoverable	40,015	39,014
Other assets	233,129	195,476
<b>TOTAL ASSETS</b>	<b>\$ 14,526,370</b>	<b>\$ 14,349,180</b>
<b>LIABILITIES:</b>		
Reserve for losses and loss adjustment expenses	\$8,169,153	\$ 8,290,619
Unearned premium reserve	1,233,032	1,239,705
Funds held under reinsurance treaties	86,335	123,479
Losses in the course of payment	47,986	11,002
Commission reserves	34,721	40,353
Other net payable to reinsurers	625,016	620,659
5.4% Senior notes due 10/15/2014	249,870	249,858
6.6% Long term notes due 5/1/2067	238,355	238,354
Junior subordinated debt securities payable	329,897	329,897
Accrued interest on debt and borrowings	12,092	4,781
Other liabilities	326,765	259,080
Total liabilities	11,353,222	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	335,042	333,416
Accumulated other comprehensive income (loss), net of deferred income tax expense (benefit) of \$102,412 at 2012 and \$94,118 at 2011	190,195	174,790
Retained earnings	2,647,911	2,433,187
Total stockholder's equity	3,173,148	2,941,393
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b>\$ 14,526,370</b>	<b>\$ 14,349,180</b>

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

Table of ContentsEVEREST REINSURANCE HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)	Three Months Ended March 31,	
	2012	2011 (unaudited)
<b>REVENUES:</b>		
Premiums earned	\$433,711	\$459,393
Net investment income	81,242	87,132
Net realized capital gains (losses):		
Other-than-temporary impairments on fixed maturity securities	(5,674 )	(13,611 )
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-
Other net realized capital gains (losses)	181,815	54,087
Total net realized capital gains (losses)	176,141	40,476
Other income (expense)	(6,254 )	32
Total revenues	684,840	587,033
<b>CLAIMS AND EXPENSES:</b>		
Incurred losses and loss adjustment expenses	250,397	553,028
Commission, brokerage, taxes and fees	87,491	88,512
Other underwriting expenses	39,514	38,217
Corporate expenses	1,566	1,190
Interest, fee and bond issue cost amortization expense	12,696	12,682
Total claims and expenses	391,664	693,629
<b>INCOME (LOSS) BEFORE TAXES</b>	<b>293,176</b>	<b>(106,596 )</b>
Income tax expense (benefit)	78,452	(9,063 )
<b>NET INCOME (LOSS)</b>	<b>\$214,724</b>	<b>\$(97,533 )</b>
<b>Other comprehensive income (loss), net of tax :</b>		
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	6,411	(26,889 )
Less: reclassification adjustment for realized losses (gains) included in net income (loss)	2,713	16,825
Total URA(D) on securities arising during the period	9,124	(10,064 )
Foreign currency translation adjustments	5,297	10,335
Pension adjustments	984	746
Total other comprehensive income (loss), net of tax	15,405	1,017
<b>COMPREHENSIVE INCOME (LOSS)</b>	<b>\$230,129</b>	<b>\$(96,516 )</b>

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





Table of ContentsEVEREST REINSURANCE HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF  
CHANGES IN STOCKHOLDER'S EQUITY

(Dollars in thousands, except share amounts)	Three Months Ended	
	2012	March 31, 2011 (unaudited)
<b>COMMON STOCK (shares outstanding):</b>		
Balance, beginning of period	1,000	1,000
Balance, end of period	1,000	1,000
<b>ADDITIONAL PAID-IN CAPITAL:</b>		
Balance, beginning of period	\$333,416	\$327,767
Share-based compensation plans	1,626	1,589
Balance, end of period	335,042	329,356
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES:</b>		
Balance, beginning of period	174,790	163,966
Net increase (decrease) during the period	15,405	1,017
Balance, end of period	190,195	164,983
<b>RETAINED EARNINGS:</b>		
Balance, beginning of period	2,433,187	2,636,008
Net income (loss)	214,724	(97,533 )
Balance, end of period	2,647,911	2,538,475
<b>TOTAL STOCKHOLDER'S EQUITY, END OF PERIOD</b>	<b>\$3,173,148</b>	<b>\$3,032,814</b>

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

Table of ContentsEVEREST REINSURANCE HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Three Months Ended March 31,	
	2012	2011 (unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$214,724	\$(97,533 )
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease (increase) in premiums receivable	37,206	(111,328 )
Decrease (increase) in funds held by reinsureds, net	(40,354 )	196
Decrease (increase) in reinsurance receivables	7,668	(306,071 )
Decrease (increase) in federal income taxes receivable	(898 )	(54,380 )
Decrease (increase) in deferred tax asset	74,674	34,314
Decrease (increase) in prepaid reinsurance premiums	4,536	23,936
Increase (decrease) in reserve for losses and loss adjustment expenses	(165,989 )	465,159
Increase (decrease) in unearned premiums	(10,324 )	(23,149 )
Increase (decrease) in other net payable to reinsurers	4,105	52,782
Change in equity adjustments in limited partnerships	(11,285 )	(18,415 )
Change in other assets and liabilities, net	44,382	72,345
Non-cash compensation expense	1,616	1,380
Amortization of bond premium (accrual of bond discount)	4,274	3,492
Amortization of underwriting discount on senior notes	13	12
Net realized capital (gains) losses	(176,141 )	(40,476 )
Net cash provided by (used in) operating activities	(11,793 )	2,264
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from fixed maturities matured/called - available for sale, at market value	202,187	107,455
Proceeds from fixed maturities matured/called - available for sale, at fair value	-	6,900
Proceeds from fixed maturities sold - available for sale, at market value	84,136	516,721
Proceeds from fixed maturities sold - available for sale, at fair value	59,281	32,952
Proceeds from equity securities sold - available for sale, at market value	-	27,096
Proceeds from equity securities sold - available for sale, at fair value	239,540	52,696
Distributions from other invested assets	5,861	61,359
Cost of fixed maturities acquired - available for sale, at market value	(292,848 )	(472,805 )
Cost of fixed maturities acquired - available for sale, at fair value	(3,124 )	(8,076 )
Cost of equity securities acquired - available for sale, at market value	-	(27,059 )
Cost of equity securities acquired - available for sale, at fair value	(105,214 )	(126,665 )
Cost of other invested assets acquired	(11,636 )	(23,014 )
Cost of other invested assets acquired, at fair value	-	(37,611 )
Cost of businesses acquired	-	(63,100 )
Net change in short-term investments	(222,137 )	149,303
Net change in unsettled securities transactions	29,769	(143,998 )
Net cash provided by (used in) investing activities	(14,185 )	52,154
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		

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

Tax benefit from share-based compensation	10	209
Revolving credit borrowings	-	(10,000 )
Net cash provided by (used in) financing activities	10	(9,791 )
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>22,448</b>	<b>6,646</b>
Net increase (decrease) in cash	(3,520 )	51,273
Cash, beginning of period	348,267	118,092
Cash, end of period	\$344,747	\$169,365
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Income taxes paid (recovered)	\$4,625	\$10,792
Interest paid	5,217	5,203
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.

Table of Contents

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 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 months ended March 31, 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 months ended March 31, 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.

Table of Contents

**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 \$1,413 thousand of previously deferrable acquisition costs expensed in the three months ended March 31, 2012. If the guidance had been applicable for the prior period, the Company would have expensed \$1,619 thousand of deferrable acquisition costs during the three months ended March 31, 2011.

**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:

(Dollars in thousands)	At March 31, 2012			
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value
Fixed maturity securities				
U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	\$77,872	\$ 1,360	\$ (646 )	\$78,586
Obligations of U.S. states and political subdivisions	1,445,314	96,989	(304 )	1,541,999
Corporate securities	1,250,862	53,499	(8,038 )	1,296,323
Asset-backed securities	57,881	1,210	(11 )	59,080
Mortgage-backed securities				
Commercial	46,524	7,690	(521 )	53,693
Agency residential	503,749	15,457	(1,601 )	517,605
Non-agency residential	2,951	431	(50 )	3,332
Foreign government securities	751,818	53,103	(2,193 )	802,728
Foreign corporate securities	780,760	34,553	(10,519 )	804,794
Total fixed maturity securities	\$4,917,731	\$ 264,292	\$ (23,883 )	\$5,158,140
Equity securities	\$15	\$ -	\$ (3 )	\$12

Table of Contents

(Dollars in thousands)	At December 31, 2011			Market Value
	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	
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 \$802,728 thousand of foreign government securities at March 31, 2012 included \$75,211 thousand of European sovereign securities. Approximately 59.7%, 17.3%, 8.5%, 6.5% and 5.8% of European Sovereign Securities represented securities held in the governments of France, the United Kingdom, Netherlands, Austria and Germany, 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 March 31, 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 December 31,	
	At March 31, 2012	2011
Pre-tax cumulative unrealized appreciation (depreciation)	\$ 615	\$ 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.

(Dollars in thousands)	At March 31, 2012		At December 31, 2011	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Fixed maturity securities – available for sale				
Due in one year or less	\$294,575	\$293,824	\$224,406	\$223,507
Due after one year through five years	2,138,150	2,215,318	2,055,299	2,129,437
Due after five years through ten years	948,014	1,005,851	955,253	1,009,893

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

Due after ten years	925,887	1,009,437	1,006,307	1,083,532
Asset-backed securities	57,881	59,080	44,351	45,103
Mortgage-backed securities				
Commercial	46,524	53,693	41,953	47,874
Agency residential	503,749	517,605	528,946	543,393
Non-agency residential	2,951	3,332	24,139	24,289
Total fixed maturity securities	\$4,917,731	\$5,158,140	\$4,880,654	\$5,107,028

7

---



Table of Contents

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

(Dollars in thousands)	Three Months Ended	
	2012	March 31, 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	\$14,055	\$(16,938 )
Fixed maturity securities, other-than-temporary impairment	(20 )	20
Equity securities	2	-
Other invested assets	-	1,435
Change in unrealized appreciation (depreciation), pre-tax	14,037	(15,483 )
Deferred tax benefit (expense)	(4,920 )	5,426
Deferred tax benefit (expense), other-than-temporary impairment	7	(7 )
Change in unrealized appreciation (depreciation), net of deferred taxes, included in stockholder's equity	\$9,124	\$(10,064 )

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.



Table of Contents

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

	Duration of Unrealized Loss at March 31, 2012 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of						
U.S. government agencies and corporations	\$ 17,409	\$ (129 )	\$ 6,169	\$ (517 )	\$ 23,578	\$ (646 )
Obligations of U.S. states and political subdivisions	-	-	5,726	(304 )	5,726	(304 )
Corporate securities	153,863	(1,918 )	91,635	(6,120 )	245,498	(8,038 )
Asset-backed securities	2,762	(11 )	-	-	2,762	(11 )
Mortgage-backed securities						
Commercial	10,096	(521 )	-	-	10,096	(521 )
Agency residential	183,417	(1,548 )	6,644	(53 )	190,061	(1,601 )
Non-agency residential	-	-	582	(50 )	582	(50 )
Foreign government securities	8,336	(72 )	30,185	(2,121 )	38,521	(2,193 )
Foreign corporate securities	76,032	(656 )	108,967	(9,863 )	184,999	(10,519 )
Total fixed maturity securities	\$ 451,915	\$ (4,855 )	\$ 249,908	\$ (19,028 )	\$ 701,823	\$ (23,883 )
Equity securities	-	-	12	(3 )	12	(3 )
Total	\$ 451,915	\$ (4,855 )	\$ 249,920	\$ (19,031 )	\$ 701,835	\$ (23,886 )

	Duration of Unrealized Loss at March 31, 2012 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
Fixed maturity securities						
Due in one year or less	\$ 1,750	\$ (7 )	\$ 30,299	\$ (5,375 )	\$ 32,049	\$ (5,382 )
Due in one year through five years	136,652	(1,522 )	141,659	(10,591 )	278,311	(12,113 )
Due in five years through ten years	107,716	(1,181 )	57,781	(2,056 )	165,497	(3,237 )
Due after ten years	9,522	(65 )	12,943	(903 )	22,465	(968 )
Asset-backed securities	2,762	(11 )	-	-	2,762	(11 )
Mortgage-backed securities	193,513	(2,069 )	7,226	(103 )	200,739	(2,172 )
Total fixed maturity securities	\$ 451,915	\$ (4,855 )	\$ 249,908	\$ (19,028 )	\$ 701,823	\$ (23,883 )

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at March 31, 2012 were \$701,835 thousand and \$23,886 thousand, respectively. There were no unrealized losses on a single issuer that exceeded 0.04% of the market value of the fixed maturity securities at March 31, 2012. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The \$4,855 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, \$2,952 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The \$19,028 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 as well as foreign government securities. Of these unrealized losses, \$16,676 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 \$50 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.

Table of Contents

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	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of						
U.S. government agencies and corporations	\$ -	\$ -	\$ 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	
	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
(Dollars in thousands)						
Fixed maturity securities						
Due in one year or less	\$ 9,583	\$ (59 )	\$ 26,204	\$ (4,486 )	\$ 35,787	\$ (4,545 )
Due in one year through five years	213,809	(4,754 )	137,972	(9,576 )	351,781	(14,330 )
Due in five years through ten years	186,061	(5,484 )	37,964	(2,391 )	224,025	(7,875 )

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

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-

Table of Contents

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 \$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 March 31, 2012, the Company held 9,719,971 shares of Group representing 15.6% of the total outstanding shares.

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

(Dollars in thousands)	Three Months Ended	
	2012	2011
Fixed maturity securities	\$54,821	\$60,619
Equity securities	10,305	5,172
Short-term investments and cash	128	207
Other invested assets		
Limited partnerships	11,612	18,415
Dividends from Parent's shares	4,666	4,648
Other	1,518	597
Total gross investment income	83,050	89,658
Interest debited (credited) and other investment expense	(1,808 )	(2,526 )
Total net investment income	\$81,242	\$87,132

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 \$107,566 thousand in limited partnerships at March 31, 2012. These commitments will be funded when called in accordance with the partnership agreements, which have investment periods that expire, unless extended, through 2016.

Table of Contents

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

(Dollars in thousands)	Three Months Ended March 31,	
	2012	2011
Fixed maturity securities, market value:		
Other-than-temporary impairments	\$(5,674 )	\$(13,611 )
Gains (losses) from sales	1,501	(12,310 )
Fixed maturity securities, fair value:		
Gain (losses) from sales	5,207	(1,515 )
Gains (losses) from fair value adjustments	3,031	(3,483 )
Equity securities, market value:		
Gains (losses) from sales	-	37
Equity securities, fair value:		
Gains (losses) from sales	22,317	1,872
Gains (losses) from fair value adjustments	67,820	38,130
Other invested assets, fair value:		
Gains (losses) from fair value adjustments	81,939	31,355
Short-term investment gains (losses)	-	1
Total net realized capital gains (losses)	\$176,141	\$40,476

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

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

(Dollars in thousands)	Three Months Ended March 31,	
	2012	2011
Proceeds from sales of fixed maturity securities	\$143,417	\$549,673
Gross gains from sales	8,988	14,266
Gross losses from sales	(2,280 )	(28,091 )
Proceeds from sales of equity securities	\$239,540	\$79,792
Gross gains from sales	26,826	2,380
Gross losses from sales	(4,509 )	(471 )



Table of Contents

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 March 31, 2012 and 2011.

The Company internally manages a small public equity portfolio which had a fair value at March 31, 2012 of \$43,756 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 March 31, 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.



Table of Contents

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

(Dollars in thousands)	March 31, 2012	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	\$ 78,586	\$-	\$78,586	\$ -
Obligations of U.S. States and political subdivisions	1,541,999	-	1,541,999	-
Corporate securities	1,296,323	-	1,296,323	-
Asset-backed securities	59,080	-	46,324	12,756
Mortgage-backed securities				
Commercial	53,693	-	53,693	-
Agency residential	517,605	-	517,605	-
Non-agency residential	3,332	-	3,326	6
Foreign government securities	802,728	-	802,728	-
Foreign corporate securities	804,794	-	799,675	5,119
Total fixed maturities, market value	5,158,140	-	5,140,259	17,881
Fixed maturities, fair value	64,936	-	64,936	-
Equity securities, market value	12	12	-	-
Equity securities, fair value	1,163,616	1,040,663	122,953	-
Other invested assets, fair value	899,292	899,292	-	-

There were no transfers between Level 1 and Level 2 for the three months ended March 31, 2012.

Table of Contents

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

(Dollars in thousands)	December 31, 2011	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 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 table presents the activity under Level 3, fair value measurements using significant unobservable inputs by asset type, for the periods indicated:

(Dollars in thousands)	Three Months Ended March 31, 2012				Three Months Ended March 31, 2011			
	Asset-backed Securities	Foreign Corporate	Non-agency RMBS	Total	Asset-backed Securities	Foreign Corporate	Non-agency RMBS	Total
Beginning balance	\$ 16,046	\$ 2,536	\$ 7	\$ 18,589	\$ 961	\$ 3,635	\$ 458	\$ 5,054
Total gains or (losses) (realized/unrealized)								
Included in earnings (or changes in net assets)	55	(3 )	1	53	-	-	21	21
Included in other comprehensive income	332	125	(1 )	456	(63 )	-	-	(63 )

(loss)

Purchases, issuances and settlements	2,675	2,461	(1 )	5,135	138	-	(31 )	107
Transfers in and/or (out) of Level 3	(6,352 )	-	-	(6,352 )	5,237	(3,116)	-	2,121
Ending balance	\$ 12,756	\$ 5,119	\$ 6	\$ 17,881	\$ 6,273	\$ 519	\$ 448	\$ 7,240

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.)

Table of Contents

## 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 March 31, 2012	At December 31, 2011
	\$ 143,220	\$ 143,447

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 March 31, 2012	At December 31, 2011
	\$ 27,454	\$ 27,634



Table of Contents

## 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:

(Dollars in thousands)	Three Months Ended	
	2012	March 31, 2011
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period		
URA(D) of investments - temporary	\$ 14,057	\$(15,503 )
URA(D) of investments - non-credit OTTI	(20 )	20
Tax benefit (expense) from URA(D) arising during the period	(4,913 )	5,419
Total URA(D) on securities arising during the period, net of tax	9,124	(10,064 )
Foreign currency translation adjustments	8,149	15,900
Tax benefit (expense) from foreign currency translation	(2,852 )	(5,565 )
Net foreign currency translation adjustments	5,297	10,335
Pension adjustments	1,513	1,148
Tax benefit (expense) on pension	(529 )	(402 )
Net pension adjustments	984	746
Other comprehensive income (loss), net of tax	\$ 15,405	\$ 1,017

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 March 31,	At December
	2012	31, 2011
URA(D) on securities, net of deferred taxes		
Temporary	\$ 155,864	\$ 146,727
Non-credit, OTTI	400	413
Total unrealized appreciation (depreciation) on investments, net of deferred taxes	156,264	147,140
Foreign currency translation adjustments, net of deferred taxes	88,482	83,185
Pension adjustments, net of deferred taxes	(54,551 )	(55,535 )
Accumulated other comprehensive income (loss)	\$ 190,195	\$ 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 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 March 31, 2012, was \$1,932,995 thousand. As of March 31, 2012, the Company was in compliance with all Holdings Credit Facility covenants.

Table of Contents

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

(Dollars in thousands)	At March 31, 2012				At December 31, 2011			
	Commitment	In Use	Loan	Date of Maturity/Expiry	Commitment	In Use	Loan	Date of Maturity/Expiry
Bank								
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:

(Dollars in thousands)	Three Months Ended	
	2012	2011
Credit facility fees incurred	\$167	\$90

## 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 March 31, 2012, the total amount on deposit in the trust account was \$136,375 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	March 31, 2012		December 31, 2011	
				Consolidated Balance Sheet Amount	Market Value	Consolidated Balance Sheet Amount	Market Value

5.40% Senior notes	10/12/2004	10/15/2014	\$ 250,000	\$ 249,870	\$ 267,423	\$ 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	
	March 31, 2012	March 31, 2011
Interest expense incurred	\$3,387	\$3,386

Table of Contents

## 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.

(Dollars in thousands)	Date Issued	Original Principal Amount	Maturity Date		March 31, 2012		December 31, 2011	
			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	\$ 238,355	\$ 229,018	\$ 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:

(Dollars in thousands)	Three Months Ended	
	2012	2011

Interest expense incurred	\$3,937	\$3,937
---------------------------	---------	---------

Table of Contents

## 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.

(Dollars in thousands)	Date Issued	Date Due	Amount Issued	March 31, 2012		December 31, 2011	
				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	\$ 326,697	\$ 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:

(Dollars in thousands)	Three Months Ended	
	March 31, 2012	March 31, 2011
Interest expense incurred	\$5,113	\$5,113

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.

Table of Contents

## 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 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. 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.

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 (Dollars in thousands)	Three Months Ended March 31,	
	2012	2011
Gross written premiums	\$369,481	\$306,091
Net written premiums	187,225	165,069
Premiums earned	\$183,867	\$175,685
Incurred losses and LAE	109,749	142,579
Commission and brokerage	45,177	43,753
Other underwriting expenses	10,754	9,906
Underwriting gain (loss)	\$18,187	\$(20,553)





Table of Contents

Insurance (Dollars in thousands)	Three Months Ended March 31,	
	2012	2011
Gross written premiums	\$207,249	\$271,461
Net written premiums	103,825	136,890
Premiums earned	\$102,051	\$117,192
Incurred losses and LAE	76,008	91,623
Commission and brokerage	10,552	7,638
Other underwriting expenses	22,020	21,872
Underwriting gain (loss)	\$(6,529 )	\$(3,941 )

International (Dollars in thousands)	Three Months Ended March 31,	
	2012	2011
Gross written premiums	\$280,461	\$308,847
Net written premiums	136,329	158,124
Premiums earned	\$147,793	\$166,516
Incurred losses and LAE	64,640	318,826
Commission and brokerage	31,762	37,121
Other underwriting expenses	6,740	6,439
Underwriting gain (loss)	\$44,651	\$(195,870 )

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:

(Dollars in thousands)	Three Months Ended March 31,	
	2012	2011
Underwriting gain (loss)	\$56,309	\$(220,364 )
Net investment income	81,242	87,132
Net realized capital gains (losses)	176,141	40,476
Corporate expense	(1,566 )	(1,190 )
Interest, fee and bond issue cost amortization expense	(12,696 )	(12,682 )
Other income (expense)	(6,254 )	32
Income (loss) before taxes	\$293,176	\$(106,596 )

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:

(Dollars in thousands)	Three Months Ended	
	March 31,	
	2012	2011
Canada	\$47,440	\$43,952

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

Table of Contents

## 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 March 31, 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.

(Dollars in thousands)	Three Months Ended March 31,	
	2012	2011
Dividends received	\$4,666	\$4,648

## 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 its 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.

Table of Contents

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

(Dollars in thousands)	Three Months Ended	
	2012	2011
Expenses incurred	\$ 18,134	\$ 15,077

## 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	-	-

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

01/01/2008-12/31/2008	Everest Re	36.0 %	Bermuda Re	property / casualty business	130,000 (1)	275,000 (2)
	Everest Re	4.0 %	Everest International	property / casualty business	-	-
01/01/2009-12/31/2009	Everest Re	36.0 %	Bermuda Re	property / casualty 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	-
01/01/2011-12/31/2011	Everest Re- Canadian Branch	60.0 %	Bermuda Re	property business	350,000	-
01/01/2012	Everest Re- Canadian Branch	75.0 %	Bermuda Re	property / casualty business	220,000	440,000
01/01/2012	Everest Canada	80.0 %	Everest Re- Canadian Branch	property business	-	-

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

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





Table of Contents

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.

(Dollars in thousands)	Liability Limits	
	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 Everest Re (Belgium Branch)	Bermuda Re	100	%	All years
10/01/2001	Everest Re	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 (Dollars in thousands)	Three Months Ended March 31,	
	2012	2011
Ceded written premiums	\$ 399,068	\$ 380,808
Ceded earned premiums	398,032	380,047
Ceded losses and LAE (a)	256,375	490,713

Everest International (Dollars in thousands)	Three Months Ended March 31,	
	2012	2011
Ceded written premiums	\$ 255	\$ 464
Ceded earned premiums	1,092	9,605
Ceded losses and LAE	(2,099 )	2,918

Three Months Ended

Everest Canada (Dollars in thousands)	March 31,	
	2012	2011
Assumed written premiums	\$3,167	\$-
Assumed earned premiums	3,852	-
Assumed losses and LAE	2,311	-

(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.

Table of Contents

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 first quarter of 2012, the Company identified an understatement in its Deferred tax asset account of \$12,417 thousand. The understatement resulted from differences between filed and recorded amounts that had accumulated over several prior periods. The Company corrected this understatement in its March 31, 2012 financial statements, resulting in an additional \$12,417 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 for the quarter ended March 31, 2012. The Company also increased its Deferred tax asset in its Consolidated Balance Sheets by the same amount. The Company believes that this out of period adjustment is immaterial to its March 31, 2012 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.

17. SUBSEQUENT EVENTS

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



Table of Contents

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

Table of Contents

## 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		Percentage Increase/ (Decrease)
	2012	March 31, 2011	
Gross written premiums	\$ 857.2	\$ 886.4	-3.3 %
Net written premiums	427.4	460.1	-7.1 %
<b>REVENUES:</b>			
Premiums earned	\$ 433.7	\$ 459.4	-5.6 %
Net investment income	81.2	87.1	-6.8 %
Net realized capital gains (losses)	176.1	40.5	NM
Other income (expense)	(6.3 )	-	NM
Total revenues	684.8	587.0	16.7 %
<b>CLAIMS AND EXPENSES:</b>			
Incurred losses and loss adjustment expenses	250.4	553.0	-54.7 %
Commission, brokerage, taxes and fees	87.5	88.5	-1.2 %
Other underwriting expenses	39.5	38.2	3.4 %
Corporate expense	1.6	1.2	31.6 %
Interest, fee and bond issue cost amortization expense	12.7	12.7	0.1 %
Total claims and expenses	391.7	693.6	-43.5 %
<b>INCOME (LOSS) BEFORE TAXES</b>	293.2	(106.6 )	NM
Income tax expense (benefit)	78.5	(9.1 )	NM
<b>NET INCOME (LOSS)</b>	\$ 214.7	\$ (97.5 )	NM

RATIOS:					Point Change
Loss ratio	57.7 %	120.4 %			(62.7 )
Commission and brokerage ratio	20.2 %	19.3 %			0.9
Other underwriting expense ratio	9.1 %	8.3 %			0.8
Combined ratio	87.0 %	148.0 %			(61.0 )

(Dollars in millions)	At	At	Percentage Increase/ (Decrease)	
	March 31, 2012	December 31, 2011		
<b>Balance sheet data:</b>				
Total investments and cash	\$ 8,673.3	\$ 8,396.3	3.3	%
Total assets	14,526.4	14,349.2	1.2	%
Loss and loss adjustment expense reserves	8,169.2	8,290.6	-1.5	%
Total debt	818.1	818.1	0.0	%
Total liabilities	11,353.2	11,407.8	-0.5	%
Stockholder's equity	3,173.1	2,941.4	7.9	%

(NM, not meaningful)

(Some amounts may not reconcile due to rounding.)

Revenues.

Premiums. Gross written premiums decreased by \$29.2 million, or 3.3%, for the three months ended March 31, 2012 compared to the three months ended March 31, 2011, reflecting a \$64.2 million decrease in our insurance business, partially offset by a \$35.0 million increase in our reinsurance business. The decrease in insurance premiums was primarily due to the termination and runoff of several large casualty programs and a shift in the seasonality of reporting crop business that will be reflected in subsequent quarters, partially offset by growth in primary medical stop loss insurance. The increase in reinsurance premiums was due to new property business and higher renewal rates, particularly for catastrophe exposed risks, partially offset by lower reinstatement premiums in the current quarter. Net written premiums decreased by \$32.7 million, or 7.1%, for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. The decrease in net written premiums is primarily attributable to the decline in gross written premiums.

Table of Contents

Premiums earned decreased \$25.7 million, or 5.6%, for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. The change in net premiums earned is comparable with the decrease in net written premiums.

Net Investment Income. Net investment income decreased \$5.9 million, or 6.8%, to \$81.2 million for the three months ended March 31, 2012 compared with net investment income of \$87.1 million for the three months ended March 31, 2011, primarily as a result of a \$6.8 million decrease in investment income from our limited partnership investments. Net pre-tax investment income, as a percentage of average invested assets, was 4.0% for the three months ended March 31, 2012 compared to 4.4% for the three months ended March 31, 2011. The variance in this yield was primarily the result of fluctuations in our limited partnership income and to a lesser extent, lower reinvestment rates for the fixed income portfolio.

Net Realized Capital Gains (Losses). Net realized capital gains were \$176.1 million and \$40.5 million for the three months ended March 31, 2012 and 2011, respectively. Of the \$176.1 million, there were \$152.8 million of gains from fair value re-measurements and \$29.0 million of net realized capital gains from sales on our fixed maturity and equity securities, partially offset by \$5.7 million of other-than-temporary impairments on our available for sale fixed maturity securities. The net realized capital gains of \$40.5 million for the three months ended March 31, 2011 were the result of \$66.0 million of gains of fair value re-measurements, partially offset by \$13.6 million of other-than-temporary impairments and \$11.9 million of net realized capital losses from sales on our fixed maturity and equity securities.

Other Income (Expense). We recorded other expense of \$6.3 million and other income of \$0.0 million for the three months ended March 31, 2012 and 2011, respectively. The changes were primarily due to fluctuations in the amortization of deferred gains on retroactive reinsurance agreements with affiliates and fluctuations in currency exchange rates for the corresponding periods.

## Claims and Expenses.

Incurred Losses and Loss Adjustment Expenses. The following table presents our incurred losses and loss adjustment expenses ("LAE") for the periods indicated.

(Dollars in millions)	Three Months Ended March 31,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional (a)	\$ 235.4	54.2 %	\$ 1.8	0.4 %	\$ 237.2	54.6 %
Catastrophes	15.0	3.5 %	(1.9 )	-0.4 %	13.1	3.1 %
A&E	-	0.0 %	0.1	0.0 %	0.1	0.0 %
Total	\$ 250.4	57.7 %	\$ 0.0	0.0 %	\$ 250.4	57.7 %
2011						
Attritional (a)	\$ 256.5	55.9 %	\$ (10.5 )	-2.3 %	\$ 246.0	53.6 %
Catastrophes	304.3	66.2 %	2.7	0.6 %	307.0	66.8 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total	\$ 560.8	122.1 %	\$ (7.8 )	-1.7 %	\$ 553.0	120.4 %
Variance 2012/2011						
Attritional (a)	\$ (21.1 )	(1.7 ) pts	\$ 12.3	2.7 pts	\$ (8.8 )	1.0 pts



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

Catastrophes	(289.3 )	(62.7 ) pts	(4.6 )	(1.0 ) pts	(293.9 )	(63.7 ) pts
A&E	-	- pts	0.1	- pts	0.1	- pts
Total	\$ (310.4 )	(64.4 ) pts	\$ 7.8	1.7 pts	\$ (302.6 )	(62.7 ) 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 \$302.6 million, or 54.7%, for the three months ended March 31, 2012 compared to the three months ended March 31, 2011. Of the \$302.6 million decrease, current year catastrophe losses represented \$289.3 million, or 62.7 points, period over period, and attritional losses decreased \$8.8 million due, in part, to lower earned premium in the current quarter and by improved margins, particularly on catastrophe exposed business, which generated lower attritional losses for the current quarter.

## Table of Contents

**Commission, Brokerage, Taxes and Fees.** Commission, brokerage, taxes and fees decreased by \$1.0 million, or 1.2%, for the three months ended March 31, 2012 compared to the same period in 2011. The variance was primarily the result of lower premiums earned, fewer deferred expenses and fluctuations in the mix of business.

**Other Underwriting Expenses.** Other underwriting expenses increased slightly to \$39.5 million from \$38.2 million for the three months ended March 31, 2012 and 2011, respectively, due to higher employee benefit plan expenses.

**Corporate Expenses.** Corporate expenses, which are general operating expenses that are not allocated to segments, were \$1.6 million and \$1.2 million for the three months ended March 31, 2012 and 2011, respectively.

**Interest, Fees and Bond Issue Cost Amortization Expense.** Interest, fees and other bond amortization expense was \$12.7 million for the three months ended March 31, 2012 and 2011.

**Income Tax Expense (Benefit).** We had an income tax expense of \$78.5 million and an income tax benefit of \$9.1 million for the three months ended March 31, 2012 and 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 increase in tax year over year was primarily attributable to the impact on 2011 taxable income from the previously mentioned catastrophe losses partially mitigated by a tax reduction in the first quarter of 2012 of \$12.4 million due to correction of understatement in the deferred tax asset account.

### **Net Income (Loss).**

Our net income was \$214.7 million and our net loss was \$97.5 million for the three months ended March 31, 2012 and 2011, respectively. The increase was primarily driven by the decline in catastrophe losses in 2012 compared to the prior period.

### **Ratios.**

Our combined ratio decreased by 61.0 points to 87.0% for the three months ended March 31, 2012 compared to 148.0% for the three months ended March 31, 2011. The loss ratio component decreased 62.7 points for the three months ended March 31, 2012 over the same period last year due to lower catastrophe losses. The other underwriting expense ratio component and the commission and brokerage ratio component both increased slightly over the same period last year due to the increase in expenses explained above.

### **Stockholder's Equity.**

Stockholder's equity increased by \$231.8 million to \$3,173.1 million at March 31, 2012 from \$2,941.4 million at December 31, 2011, principally as a result of \$214.7 million of net income, \$9.1 million of unrealized appreciation on investments, net of tax, \$5.3 million of foreign currency translation adjustments, \$1.6 million of share-based compensation transactions and \$1.0 million of net benefit plan obligation adjustments.

## **Consolidated Investment Results**

### **Net Investment Income.**

Net investment income decreased 6.8% to \$81.2 million for the three months ended March 31, 2012 compared to \$87.1 million for the three months ended March 31, 2011, primarily due to a decrease in income from our limited partnership investments and a decline in income from our fixed maturities, reflective of reducing our municipal bond exposures and declining reinvestment rates. These decreases were partially offset by increased dividend income from equities due to our expanded public equity portfolio and emerging market debt mutual funds.



Table of Contents

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

(Dollars in millions)	Three Months Ended March 31,	
	2012	2011
Fixed maturities	\$54.8	\$60.6
Equity securities	10.3	5.2
Short-term investments and cash	0.1	0.2
Other invested assets		
Limited partnerships	11.6	18.4
Dividends from Parent's shares	4.7	4.6
Other	1.5	0.6
Total gross investment income	83.1	89.7
Interest debited (credited) and other expense	(1.8 )	(2.5 )
Total net investment income	\$81.2	\$87.1

(Some amounts may not reconcile due to rounding.)

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

	At March 31, 2012	At December 31, 2011
Imbedded pre-tax yield of cash and invested assets	3.5%	3.6%
Imbedded after-tax yield of cash and invested assets	2.6%	2.7%

  

	Three Months Ended March 31,	
	2012	2011
Annualized pre-tax yield on average cash and invested assets	4.0%	4.4%
Annualized after-tax yield on average cash and invested assets	2.9%	3.4%

Table of Contents

## Net Realized Capital Gains (Losses).

The following table presents the composition of our net realized capital gains (losses) for the periods indicated:

(Dollars in millions)	Three Months Ended March 31,		
	2012	2011	Variance
Gains (losses) from sales:			
Fixed maturity securities, market value			
Gains	\$ 3.6	\$ 14.1	\$ (10.5 )
Losses	(2.1 )	(26.4 )	24.3
Total	1.5	(12.3 )	13.8
Fixed maturity securities, fair value			
Gains	5.4	0.2	5.2
Losses	(0.2 )	(1.7 )	1.5
Total	5.2	(1.5 )	6.7
Equity securities, market value			
Gains	-	0.2	(0.2 )
Losses	-	(0.2 )	0.2
Total	-	-	-
Equity securities, fair value			
Gains	26.8	2.2	24.6
Losses	(4.5 )	(0.3 )	(4.2 )
Total	22.3	1.9	20.4
Total net realized gains (losses) from sales			
Gains	35.8	16.7	19.1
Losses	(6.8 )	(28.6 )	21.8
Total	29.0	(11.9 )	40.9
Other-than-temporary impairments:	(5.7 )	(13.6 )	7.9
Gains (losses) from fair value adjustments:			
Fixed maturities, fair value	3.0	(3.5 )	6.5
Equity securities, fair value	67.8	38.1	29.7
Other invested assets, fair value	81.9	31.4	50.5
Total	152.8	66.0	86.8
Total net realized capital gains (losses)	\$ 176.1	\$ 40.5	\$ 135.6

(Some amounts may not reconcile due to rounding.)

Net realized capital gains were \$176.1 million and \$40.5 for the three months ended March 31, 2012 and 2011, respectively. For the three months ended March 31, 2012, we recorded \$152.8 million of gains due to fair value re-measurements on fixed maturity and equity securities and other invested assets and \$29.0 million of net realized capital gains from sales of fixed maturity and equity securities, partially offset by \$5.7 million of

other-than-temporary impairments on fixed maturity securities. For the three months ended March 31, 2011, we recorded \$66.0 million in gains due to fair value re-measurements on fixed maturity and equity securities and other invested assets, partially offset by \$13.6 million of other-than-temporary impairments on fixed maturity securities and \$11.9 million of net realized capital losses from sales of fixed maturity and equity securities. The gains and losses on the sales of fixed maturity securities during the first quarter of 2011 included the impact of selling part of our municipal bond portfolio as credit concerns arose in this market sector.

Table of Contents

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 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. 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.

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

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

Our loss and LAE reserves are 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.

Table of Contents

The following discusses the underwriting results for each of our segments for the periods indicated:

## U.S. Reinsurance.

The following table presents the underwriting results and ratios for the U.S. Reinsurance segment for the periods indicated.

(Dollars in millions)	Three Months Ended March 31,				% Change
	2012	2011	Variance		
Gross written premiums	\$ 369.5	\$ 306.1	\$ 63.4		20.7 %
Net written premiums	187.2	165.1	22.2		13.4 %
Premiums earned	\$ 183.9	\$ 175.7	\$ 8.2		4.7 %
Incurred losses and LAE	109.7	142.6	(32.8 )		-23.0 %
Commission and brokerage	45.2	43.8	1.4		3.3 %
Other underwriting expenses	10.8	9.9	0.8		8.6 %
Underwriting gain (loss)	\$ 18.2	\$ (20.6 )	\$ 38.7		-188.5 %
					Point Chg
Loss ratio	59.7 %	81.2 %			(21.5 )
Commission and brokerage ratio	24.6 %	24.9 %			(0.3 )
Other underwriting expense ratio	5.8 %	5.6 %			0.2
Combined ratio	90.1 %	111.7 %			(21.6 )

(Some amounts may not reconcile due to rounding.)

Premiums. Gross written premiums increased by 20.7% to \$369.5 million for the three months ended March 31, 2012 from \$306.1 million for the three months ended March 31, 2011, primarily due to increased reinsurance premiums for treaty property business arising from new business and rate increases on renewals, particularly for catastrophe exposed risks, partially offset by the portfolio shift from pro rata to excess of loss contracts and lower reinstatement premiums. Net written premiums increased 13.4% to \$187.2 million for the three months ended March 31, 2012 compared to \$165.1 million for the three months ended March 31, 2011, which reflects the increase in gross written premiums for the quarter, partially offset by increased cessions under the affiliated quota share agreement. Premiums earned increased 4.7% to \$183.9 million for the three months ended March 31, 2012 compared to \$175.7 million for the three months ended March 31, 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.



Table of Contents

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

(Dollars in millions)	Current	Three Months Ended March 31,		Total	Ratio %/	
		Year	Pt Change			Prior
2012						
Attritional	\$ 94.7	51.5 %	\$ 4.3	2.4 %	\$ 99.0	53.8 %
Catastrophes	15.0	8.2 %	(4.4 )	-2.4 %	10.6	5.8 %
A&E	-	0.0 %	0.1	0.1 %	0.1	0.1 %
Total segment	\$ 109.7	59.7 %	\$ -	0.1 %	\$ 109.7	59.7 %
2011						
Attritional	\$ 86.4	49.3 %	\$ (2.4 )	-1.4 %	\$ 84.0	47.9 %
Catastrophes	57.8	32.9 %	0.8	0.4 %	58.6	33.3 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	\$ 144.2	82.2 %	\$ (1.6 )	-1.0 %	\$ 142.6	81.2 %
Variance						
2012/2011						
Attritional	\$ 8.3	2.2 pts	\$ 6.7	3.8 pts	\$ 15.0	6.0 pts
Catastrophes	(42.8 )	(24.7 ) pts	(5.2 )	(2.8 ) pts	(48.0 )	(27.5 ) pts
A&E	-	- pts	0.1	0.1 pts	0.1	0.1 pts
Total segment	\$ (34.5 )	(22.5 ) pts	\$ 1.6	1.1 pts	\$ (32.8 )	(21.5 ) pts

(Some amounts may not reconcile due to rounding.)

Incurred losses were \$32.8 million (21.5 points) lower at \$109.7 million for the three months ended March 31, 2012 compared to \$142.6 million for the three months ended March 31, 2011, primarily as a result of the \$42.8 million (24.7 points) decrease in current year catastrophe losses. Conversely, the current year attritional losses increased \$8.3 million (2.2 points), primarily due to the increase in earned premiums and a large marine loss.

Segment Expenses. Commission and brokerage expenses increased 3.3% to \$45.2 million for the three months ended March 31, 2012 compared to \$43.8 million for the three months ended March 31, 2011, primarily due to the increase in premiums earned and a lower expense deferral percentage, partially offset by a shift in the mix of business towards excess of loss, which carries a lower commission ratio. Segment other underwriting expenses increased to \$10.8 million for the three months ended March 31, 2012 compared to \$9.9 million for the same period in 2011.

Insurance.

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

(Dollars in millions)	2012	Three Months Ended March 31, 2011	Variance	% Change
-----------------------	------	--------------------------------------	----------	----------

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

Gross written premiums	\$ 207.2	\$ 271.5	\$ (64.2 )	-23.7 %
Net written premiums	103.8	136.9	(33.1 )	-24.2 %
Premiums earned	\$ 102.1	\$ 117.2	\$ (15.1 )	-12.9 %
Incurred losses and LAE	76.0	91.6	(15.6 )	-17.0 %
Commission and brokerage	10.6	7.6	2.9	38.2 %
Other underwriting expenses	22.0	21.9	0.1	0.7 %
Underwriting gain (loss)	\$ (6.5 )	\$ (3.9 )	\$ (2.6 )	65.7 %
				Point Chg
Loss ratio	74.5 %	78.2 %		(3.7 )
Commission and brokerage ratio	10.3 %	6.5 %		3.8
Other underwriting expense ratio	21.6 %	18.7 %		2.9
Combined ratio	106.4 %	103.4 %		3.0

(Some amounts may not reconcile due to rounding.)

Table of Contents

Premiums. Gross written premiums decreased by 23.7% to \$207.2 million for the three months ended March 31, 2012 compared to \$271.5 million for the three months ended March 31, 2011. This decrease was primarily driven by the termination and runoff of several large casualty programs and lower crop premium due to a shift in the seasonality of reporting this business, partially offset by an increase in A&H primary business. Net written premiums decreased 24.2% to \$103.8 million for the three months ended March 31, 2012 compared to \$136.9 million for the same period in 2011 due to the lower gross written premiums. Premiums earned decreased 12.9% to \$102.1 million for the three months ended March 31, 2012 compared to \$117.2 million for the three months ended March 31, 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.

Incurred Losses and LAE. The following table presents the incurred losses and LAE for the Insurance segment for the periods indicated.

(Dollars in millions)	Current Year	Three Months Ended March 31,		Total Incurred	Ratio %/ Pt Change
		Prior Years	Ratio %/ Pt Change		
2012					
Attrititional	\$ 75.5	74.0 %	\$ 0.5	0.5 %	\$ 76.0 74.5 %
Catastrophes	-	0.0 %	-	0.0 %	- 0.0 %
Total segment	\$ 75.5	74.0 %	\$ 0.5	0.5 %	\$ 76.0 74.5 %
2011					
Attrititional	\$ 95.8	81.8 %	\$ (4.2 )	-3.6 %	\$ 91.6 78.2 %
Catastrophes	-	0.0 %	-	0.0 %	- 0.0 %
Total segment	\$ 95.8	81.8 %	\$ (4.2 )	-3.6 %	\$ 91.6 78.2 %
Variance 2012/2011					
Attrititional	\$ (20.3 )	(7.8 ) pts	\$ 4.7	4.1 pts	\$ (15.6 ) (3.7 ) pts
Catastrophes	-	- pts	-	- pts	- - pts
Total segment	\$ (20.3 )	(7.8 ) pts	\$ 4.7	4.1 pts	\$ (15.6 ) (3.7 ) pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased by \$15.6 million, or 17.0%, to \$76.0 million for the three months ended March 31, 2012 compared to \$91.6 million for the three months ended March 31, 2011. This was due to a decrease of \$20.3 million in current year attrititional 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 increased to \$10.6 million for the three months ended March 31, 2012 compared to \$7.6 million for the three months ended March 31, 2011 reflecting the adoption of new accounting standards concerning the accounting for commission costs and variation in cessions under the affiliated quota share agreement. Segment other underwriting expenses for the three months ended March 31, 2012 increased to \$22.0 million from \$21.9 million for the three months ended March 31, 2011.



Table of Contents

## International.

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

(Dollars in millions)	Three Months Ended March 31,				
	2012	2011	Variance	% Change	
Gross written premiums	\$280.5	\$308.8	\$(28.4 )	-9.2	%
Net written premiums	136.3	158.1	(21.8 )	-13.8	%
Premiums earned	\$147.8	\$166.5	\$(18.7 )	-11.2	%
Incurred losses and LAE	64.6	318.8	(254.2 )	-79.7	%
Commission and brokerage	31.8	37.1	(5.4 )	-14.4	%
Other underwriting expenses	6.7	6.4	0.3	4.7	%
Underwriting gain (loss)	\$44.7	\$(195.9 )	\$240.5	-122.8	%
					Point Chg
Loss ratio	43.7	% 191.5	%	(147.8	)
Commission and brokerage ratio	21.5	% 22.3	%	(0.8	)
Other underwriting expense ratio	4.6	% 3.8	%	0.8	
Combined ratio	69.8	% 217.6	%	(147.8	)

(Some amounts may not reconcile due to rounding.)

Premiums. Gross written premiums decreased by 9.2% to \$280.5 million for the three months ended March 31, 2012 compared to \$308.8 million for the three months ended March 31, 2011, primarily due to a reduction in proportional property business starting in 2011 and continuing into 2012, particularly in regions recently affected by catastrophe losses. Net written premiums decreased by 13.8% to \$136.3 million for the three months ended March 31, 2012 compared to \$158.1 million for the three months ended March 31, 2011, primarily due to a decrease in gross written premiums and a change in our affiliated quota share agreement. Premiums earned decreased by 11.2% to \$147.8 million for the three months ended March 31, 2012 compared to \$166.5 million for the three months ended March 31, 2011. The change in premiums is relatively comparable with the decrease in net written premiums.

Incurred Losses and LAE. The following table presents the incurred losses and LAE for the International segment for the periods indicated.

(Dollars in millions)	Current	Three Months Ended March 31,				
		Ratio %/	Prior	Ratio %/	Total	Ratio %/
2012	Year	Pt Change	Years	Pt Change	Incurred	Pt Change
Attritional	\$ 65.1	44.0 %	\$ (3.0 )	-2.0 %	\$ 62.1	42.0 %
Catastrophes	-	0.0 %	2.5	1.7 %	2.5	1.7 %
Total segment	\$ 65.1	44.0 %	\$ (0.5 )	-0.3 %	\$ 64.6	43.7 %
2011						
Attritional	\$ 74.2	44.6 %	\$ (3.9 )	-2.3 %	\$ 70.3	42.3 %

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

Catastrophes	246.5	148.0 %	2.0	1.2 %	248.5	149.2 %
Total segment	\$ 320.7	192.6 %	\$ (1.9 )	-1.1 %	\$ 318.8	191.5 %

Variance

2012/2011

Attritional	\$ (9.1 )	(0.6 ) pts	\$ 0.9	0.3 pts	\$ (8.2 )	(0.3 ) pts
Catastrophes	(246.5 )	(148.0) pts	0.5	0.5 pts	(246.0 )	(147.5) pts
Total segment	\$ (255.6 )	(148.6) pts	\$ 1.4	0.8 pts	\$ (254.2 )	(147.8) pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased 79.7% to \$64.6 million for the three months ended March 31, 2012 compared to \$318.8 million for the three months ended March 31, 2011. The decrease was principally due to a \$246.5 million (148.0 points) decrease in current year catastrophes. Current years' attritional losses decreased by \$9.1 million due to a decrease in premiums earned and a shift in mix of business towards property catastrophe and excess of loss business, which generally carries a lower loss ratio.

Table of Contents

Segment Expenses. Commission and brokerage expenses decreased 14.4% to \$31.8 million for the three months ended March 31, 2012 compared to \$37.1 million for the three months ended March 31, 2011. These variances were principally due to a decrease in premiums earned, a lower expense deferral percentage and a shift in the mix of business. Segment other underwriting expenses increased slightly to \$6.7 million for the three months ended March 31, 2012 compared to \$6.4 million for the three months ended March 31, 2011.

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 \$8.7 billion investment portfolio, at March 31, 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 \$574.6 million of mortgage-backed securities in the \$5,223.1 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.

Table of Contents

The table below displays the potential impact of market value fluctuations and after-tax unrealized appreciation on our fixed maturity portfolio (including \$646.2 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.

(Dollars in millions)	Impact of Interest Rate Shift in Basis Points				
	At March 31, 2012				
	-200	-100	0	100	200
Total Market/Fair Value	\$6,134.8	\$6,005.5	\$5,869.3	\$5,719.3	\$5,561.8
Market/Fair Value Change from Base (%)	4.5	% 2.3	% 0.0	% -2.6	% -5.2
Change in Unrealized Appreciation					
After-tax from Base (\$)	\$172.6	\$88.5	\$-	\$(97.5 )	\$(199.9 )

We had \$8,169.2 million and \$8,290.6 million of gross reserves for losses and LAE as of March 31, 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.

(Dollars in millions)	Impact of Percentage Change in Equity Fair/Market Values				
	At March 31, 2012				
	-20%	-10%	0%	10%	20%
Fair/Market Value of the Equity Portfolio	\$930.9	\$1,047.3	\$1,163.6	\$1,280.0	\$1,396.4
After-tax Change in Fair/Market Value	(151.3 )	(75.6 )	-	75.6	151.3



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, the British Pound Sterling and the Euro. 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 March 31, 2012, there has been no material change in exposure to foreign exchange rates as compared to December 31, 2011.

Table of Contents

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.

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.

40

---

Table of Contents

ITEM 1A. RISK FACTORS

No material changes.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit  
Index:

Exhibit No. Description

31.1 Section 302 Certification of Joseph V. Taranto

31.2 Section 302 Certification of Dominic J. Adesso

32.1 Section 906 Certification of Joseph V. Taranto and Dominic J. Adesso

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



Table of Contents

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/ DOMINIC J. ADDESSO  
Dominic J. Addesso  
President and  
Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

Dated: May 15, 2012