

EVEREST REINSURANCE HOLDINGS INC
Form 10-K
March 19, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C 20549
FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 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)
477 Martinsville Road

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

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
5.40% Senior Notes Due 2014	NYSE
6.60% Long Term Notes Due 2067	NYSE
6.20% Trust Preferred Securities of Everest Re Capital Trust II guaranteed by Everest Reinsurance Holdings, Inc.	NYSE

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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Yes No X

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Yes X No

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	X	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

The aggregate market value on June 30, 2012, the last business day of the registrant's most recently completed second quarter, of the voting stock held by non-affiliates of the registrant was zero.

At March 15, 2013, the number of shares outstanding of the registrant common shares was 1,000, all of which are owned by Everest Underwriting Group (Ireland) Limited, a wholly-owned direct subsidiary of Everest Re Group, Ltd.

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

EVEREST REINSURANCE HOLDINGS, INC.

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PART I

Unless otherwise indicated, all financial data in this document have been prepared using accounting principles generally accepted in the United States of America (“GAAP”). As used in this document, “Holdings” means Everest Reinsurance Holdings, Inc.; “Group” means Everest Re Group, Ltd.; “Holdings Ireland” means Everest Underwriting Group (Ireland) Limited; “Everest Re” means Everest Reinsurance Company and its subsidiaries (unless the context otherwise requires) and the “Company”, “we”, “us”, and “our” means Holdings and its subsidiaries (unless the context otherwise requires).

ITEM 1. BUSINESS

The Company.

Holdings, a Delaware corporation, is a wholly-owned subsidiary of Holdings Ireland. On December 30, 2008, Group contributed Holdings to its recently established Irish holding company, Holdings Ireland. Holdings Ireland is a direct subsidiary of Group and was established to serve as a holding company for the U.S. and Irish reinsurance and insurance subsidiaries. Group is a Bermuda holding company whose common shares are publicly traded in the U.S. on the New York Stock Exchange under the symbol “RE”. Group files an annual report on Form 10-K with the Securities and Exchange Commission (the “SEC”) with respect to its consolidated operations, including Holdings.

The Company’s principal business, conducted through its operating segments, is the underwriting of reinsurance and insurance in the U.S. and international markets. The Company had gross written premiums, in 2012, of \$3.6 billion, with approximately 71% representing reinsurance and 29% representing insurance. Stockholder’s equity at December 31, 2012 was \$3.5 billion. The Company underwrites reinsurance both through brokers and directly with ceding companies, giving it the flexibility to pursue business based on the ceding company’s preferred reinsurance purchasing method. The Company underwrites insurance principally through general agent relationships, brokers and surplus lines brokers. Holdings’ active operating subsidiaries, excluding Mt. McKinley Insurance Company (“Mt. McKinley”), which is in runoff, are each rated A+ (“Superior”) by A.M. Best Company (“A.M. Best”), a leading provider of insurer ratings that assigns financial strength ratings to insurance companies based on their ability to meet their obligations to policyholders.

Following is a summary of the Company’s operating subsidiaries:

- Everest Re, a Delaware insurance company and a direct subsidiary of Holdings, is a licensed property and casualty insurer and/or reinsurer in all states, the District of Columbia and Puerto Rico and is authorized to conduct reinsurance business in Canada, Singapore and Brazil. Everest Re underwrites property and casualty reinsurance for insurance and reinsurance companies in the U.S. and international markets. Everest Re has engaged in reinsurance transactions with Everest Reinsurance (Bermuda), Ltd. (“Bermuda Re”), Everest International Reinsurance, Ltd. (“Everest International”) and Everest Insurance Company of Canada (“Everest Canada”), which are affiliated companies, primarily driven by enterprise risk and capital management considerations under which business is ceded at market rates and terms. At December 31, 2012 Everest Re had statutory surplus of \$2.6 billion.
- Everest National Insurance Company (“Everest National”), a Delaware insurance company and a direct subsidiary of Everest Re, is licensed in 50 states and the District of Columbia and is authorized to write property and casualty insurance on an admitted basis in the jurisdictions in which it is licensed. The majority of Everest National’s business is reinsured by its parent, Everest Re.

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- Everest Indemnity Insurance Company (“Everest Indemnity”), a Delaware insurance company and a direct subsidiary of Everest Re, writes excess and surplus lines insurance business in the U.S. on a non-admitted basis. Excess and surplus lines insurance is specialty property and liability coverage that an insurer not licensed to write insurance in a particular jurisdiction is permitted to provide to insureds when the specific specialty coverage is unavailable from admitted insurers. Everest Indemnity is licensed in Delaware and is eligible to write business on a non-admitted basis in all other states, the District of Columbia and Puerto Rico. The majority of Everest Indemnity’s business is reinsured by its parent, Everest Re.
- Everest Security Insurance Company (“Everest Security”), a Georgia insurance company and a direct subsidiary of Everest Re, writes property and casualty insurance on an admitted basis in Georgia and Alabama. The majority of Everest Security’s business is reinsured by its parent, Everest Re.
- Mt. McKinley, a Delaware insurance company and a direct subsidiary of Holdings, was acquired by Holdings in September 2000 from The Prudential Insurance Company of America (“The Prudential”). In 1985, Mt. McKinley ceased writing new and renewal insurance and commenced a run-off operation to service claims arising from its previously written business. Effective September 19, 2000, Mt. McKinley and Bermuda Re entered into a loss portfolio transfer reinsurance agreement, whereby Mt. McKinley transferred, for arm’s length consideration, all of its net insurance exposures and reserves to Bermuda Re.
- Heartland Crop Insurance, Inc. (“Heartland”), a Kansas based managing general agent and a direct subsidiary of Holdings, was acquired on January 2, 2011. Heartland specializes in crop insurance, which is written mainly through Everest National.

Reinsurance Industry Overview.

Reinsurance is an arrangement in which an insurance company, the reinsurer, agrees to indemnify another insurance or reinsurance company, the ceding company, against all or a portion of the insurance risks underwritten by the ceding company under one or more insurance contracts. Reinsurance can provide a ceding company with several benefits, including a reduction in its net liability on individual risks or classes of risks, catastrophe protection from large and/or multiple losses and/or a reduction in operating leverage as measured by the ratio of net premiums and reserves to capital. Reinsurance also provides a ceding company with additional underwriting capacity by permitting it to accept larger risks and write more business than would be acceptable relative to the ceding company’s financial resources. Reinsurance does not discharge the ceding company from its liability to policyholders; rather, it reimburses the ceding company for covered losses.

There are two basic types of reinsurance arrangements: treaty and facultative. Treaty reinsurance obligates the ceding company to cede and the reinsurer to assume a specified portion of a type or category of risks insured by the ceding company. Treaty reinsurers do not separately evaluate each of the individual risks assumed under their treaties, instead, the reinsurer relies upon the pricing and underwriting decisions made by the ceding company. In facultative reinsurance, the ceding company cedes and the reinsurer assumes all or part of the risk under a single insurance contract. Facultative reinsurance is negotiated separately for each insurance contract that is reinsured. Facultative reinsurance, when purchased by ceding companies, usually is intended to cover individual risks not covered by their reinsurance treaties because of the dollar limits involved or because the risk is unusual.

Both treaty and facultative reinsurance can be written on either a pro rata basis or an excess of loss basis. Under pro rata reinsurance, the ceding company and the reinsurer share the premiums as well as the losses and expenses in an agreed proportion. Under excess of loss reinsurance, the reinsurer indemnifies the ceding company against all or a specified portion of losses and expenses in excess of a specified dollar amount, known as the ceding company’s retention or reinsurer’s attachment point, generally subject to a negotiated reinsurance contract limit.

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In pro rata reinsurance, the reinsurer generally pays the ceding company a ceding commission. The ceding commission generally is based on the ceding company's cost of acquiring the business being reinsured (commissions, premium taxes, assessments and miscellaneous administrative expense and may contain profit sharing provisions, whereby the ceding commission is adjusted based on loss experience). Premiums paid by the ceding company to a reinsurer for excess of loss reinsurance are not directly proportional to the premiums that the ceding company receives because the reinsurer does not assume a proportionate risk. There is usually no ceding commission on excess of loss reinsurance.

Reinsurers may purchase reinsurance to cover their own risk exposure. Reinsurance of a reinsurer's business is called a retrocession. Reinsurance companies cede risks under retrocessional agreements to other reinsurers, known as retrocessionaires, for reasons similar to those that cause insurers to purchase reinsurance: to reduce net liability on individual or classes of risks, protect against catastrophic losses, stabilize financial ratios and obtain additional underwriting capacity.

Reinsurance can be written through intermediaries, generally professional reinsurance brokers, or directly with ceding companies. From a ceding company's perspective, the broker and the direct distribution channels have advantages and disadvantages. A ceding company's decision to select one distribution channel over the other will be influenced by its perception of such advantages and disadvantages relative to the reinsurance coverage being placed.

Business Strategy.

The Company's business strategy is to sustain its leadership position within targeted reinsurance and insurance markets, provide effective management throughout the property and casualty underwriting cycle and thereby achieve an attractive return for its stockholder. The Company's underwriting strategies seek to capitalize on its i) financial strength and capacity, ii) global franchise, iii) stable and experienced management team, iv) diversified product and distribution offerings, v) underwriting expertise and disciplined approach, vi) efficient and low-cost operating structure and vii) effective enterprise risk management practices.

The Company offers treaty and facultative reinsurance and admitted and non-admitted insurance. The Company's products include the full range of property and casualty reinsurance and insurance coverages, including marine, aviation, surety, errors and omissions liability ("E&O"), directors' and officers' liability ("D&O"), medical malpractice, other specialty lines, accident and health ("A&H") and workers' compensation.

The Company's underwriting strategies emphasize underwriting profitability over premium volume. Key elements of this strategy include careful risk selection, appropriate pricing through strict underwriting discipline and adjustment of the Company's business mix in response to changing market conditions. The Company focuses on reinsuring companies that effectively manage the underwriting cycle through proper analysis and pricing of underlying risks and whose underwriting guidelines and performance are compatible with its objectives.

The Company's underwriting strategies emphasize flexibility and responsiveness to changing market conditions, such as increased demand or favorable pricing trends. The Company believes that its existing strengths, including its broad underwriting expertise, U.S. and international presence, strong financial ratings and substantial capital, facilitate adjustments to its mix of business geographically, by line of business and by type of coverage, allowing it to participate in those market opportunities that provide the greatest potential for underwriting profitability. The Company's insurance operations complement these strategies by accessing business that is not available on a reinsurance basis. The Company carefully monitors its mix of business across all operations to avoid unacceptable geographic or other risk concentrations.

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Capital Transactions.

The Company's business operations are in part dependent on its financial strength and financial strength ratings, and the market's perception of its financial strength. The Company's stockholder's equity was \$3,478.6 million and \$2,941.4 million at December 31, 2012 and 2011, respectively. The Company possesses significant financial flexibility with access to the debt markets and, through its ultimate parent, equity markets, as a result of its perceived financial strength, as evidenced by the financial strength ratings as assigned by independent rating agencies. The Company's capital position remains strong, commensurate with its financial ratings and the Company has ample liquidity to meet its financial obligations for the foreseeable future.

On October 14, 2011, Group and Holdings renewed the 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.

On March 19, 2009, Group announced the commencement of a cash tender offer for any and all of the 6.6% fixed to floating rate long term subordinated notes. Upon expiration of the tender offer, the Company had reduced its outstanding debt by \$161.4 million.

On March 15, 2010, the \$200.0 million principal amount of 8.75% senior notes matured, and was paid off in cash.

Financial Strength Ratings.

The following table shows the current financial strength ratings of the Company's operating subsidiaries as reported by A.M. Best, Standard & Poor's Financial Services, LLC ("Standard & Poor's") and Moody's Investors Services, Inc. ("Moody's"). These ratings are based upon factors of concern to policyholders and should not be considered an indication of the degree or lack of risk involved in a direct or indirect equity investment in an insurance or reinsurance company.

All of the below-mentioned ratings are continually monitored and revised, if necessary, by each of the rating agencies. The ratings presented in the following table were in effect as of February 28, 2013.

The Company believes that its ratings, in general, are important to its operations because they provide the Company's customers and investors with an independent assessment of the Company's underlying financial strength using a scale that provides for relative comparisons. Strong financial ratings are particularly important for reinsurance companies. Ceding companies must rely on their reinsurers to pay covered losses well into the future. As a result, a highly rated reinsurer is generally preferred.

Operating Subsidiary:	A.M. Best	Standard & Poor's	Moody's
Everest Re	A+ (Superior)	A+ (Strong)	Aa3 (Excellent)
Everest National	A+ (Superior)	A+ (Strong)	Not Rated
Everest Indemnity	A+ (Superior)	Not Rated	Not Rated
Everest Security	A+ (Superior)	Not Rated	Not Rated
Mt. McKinley	Not Rated	Not Rated	Not Rated

A.M. Best states that the “A+” (“Superior”) rating is assigned to those companies which, in its opinion, have a superior ability to meet their ongoing insurance policy and contract obligations based on A.M. Best’s comprehensive quantitative and qualitative evaluation of a company’s balance sheet strength, operating performance and business profile. Standard & Poor’s states that the “A+” rating is assigned to those insurance companies which, in its opinion, have strong financial security characteristics with respect to their ability to pay under its insurance policies and contracts in accordance with their terms. Moody’s states that insurance companies rated “Aa” offer excellent financial security. Together with the “Aaa” rated companies, “Aa” rated companies constitute what are generally known as high-grade companies, with “Aa” rated companies generally having somewhat larger long-term risks. On January 24, 2012, Moody’s affirmed the rating of Everest Re but changed the outlook on the ratings from stable to negative reflecting their opinion of

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the likely direction of the ratings over the medium term (12 to 18 months). Management will continue to work with Moody's over this time to address their concerns but it is not possible to predict the potential outcome. Management does not believe that a potential one notch downgrade would have a material adverse affect on the Company's business.

Subsidiaries other than Everest Re may not be rated by some or any rating agencies because such ratings are not considered essential by the individual subsidiary's customers or because of the limited nature of the subsidiary's operations. In particular, Mt. McKinley is not rated because it is in run-off status.

Debt Ratings.

The following table shows the debt ratings by A.M. Best, Standard & Poor's and Moody's of the Holdings' senior notes due October 15, 2014, long term notes due May 1, 2067 and Everest Re Capital Trust II's ("Capital Trust II") trust preferred securities due March 29, 2034, all of which are considered investment grade. Debt ratings are the rating agencies' current assessment of the credit worthiness of an obligor with respect to a specific obligation.

	A.M. Best	Standard & Poor's	Moody's
Senior Notes	a- (Strong)	A- (Strong)	A3 (Good)
Long Term Notes	bbb (Adequate)	BBB (Adequate)	Baa1 (Adequate)
Trust Preferred Securities	bbb+ (Adequate)	BBB (Adequate)	Baa1 (Adequate)

A debt rating of "a-" is assigned by A.M. Best where the issuer, in A.M. Best's opinion, has a strong ability to meet the terms of the obligation. A.M. Best assigns a debt rating in the "bbb" range where the issuer, in A.M. Best's opinion, has adequate ability to meet the terms of the obligation. Standard & Poor's assigns a debt rating in the "A" range to issuers that exhibit strong capacity and willingness to meet its financial commitments on obligations as they come due. A debt rating in the "BBB" range is assigned by Standard & Poor's where the issuers exhibit adequate protection parameters although adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. According to Moody's, a debt rating of "A3" is assigned to issues that are considered upper-medium-grade obligations and subject to low credit risk. Obligations rated "Baa1" are subject to moderate credit risk and are considered medium-grade and as such may possess certain speculative characteristics. On January 24, 2012, Moody's affirmed the ratings of the Company's debt but changed the outlook on the ratings from stable to negative reflecting their opinion of the potential direction of the ratings over the medium term (12 to 18 months). The Company will continue to work with Moody's over this time to address their concerns but it is not possible to predict the potential outcome. The Company does not believe that a one notch downgrade would have a material adverse affect on the Company's business.

Competition.

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 the Company underwrites 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.

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The Company competes in the U.S. and international reinsurance and insurance markets with numerous global competitors. The Company's 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 the Company 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 the fourth quarter of 2012, the industry sustained significant losses from Superstorm Sandy and also sustained significant losses during 2011 from Australian floods, the New Zealand earthquake, the earthquake and tsunami in Japan, storms in the U.S., and the Thailand floods. It is too early to determine the longer term impact on market conditions as a result of these events. While the 2011 events have resulted in meaningful rate increases for catastrophe coverages in some global catastrophe prone regions, particularly areas impacted by these losses, whether the magnitude of these 2012 and 2011 losses is sufficient to increase rates and improve market conditions for other lines of business remains to be seen.

Overall, the Company believes that current marketplace conditions, particularly for catastrophe coverages, provide profit opportunities for it given its strong ratings, distribution system, reputation and expertise. The Company continues to employ its strategy of targeting business that offers the greatest profit potential, while maintaining balance and diversification in its overall portfolio.

Employees.

As of February 1, 2013, the Company employed 644 persons. Management believes that employee relations are good. None of the Company's employees are subject to collective bargaining agreements, and the Company is not aware of any current efforts to implement such agreements.

Available Information.

The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports are available free of charge through the Company's internet website at <http://www.everestgroup.com> as soon as reasonably practicable after such reports are electronically filed with the SEC.

ITEM 1A. RISK FACTORS

In addition to the other information provided in this report, the following risk factors should be considered when evaluating us. If the circumstances contemplated by the individual risk factors materialize, our business, financial condition and results of operations could be materially and adversely affected and our ability to service our debt, our debt ratings and our ability to issue new debt could decline significantly.

RISKS RELATING TO OUR BUSINESS

Fluctuations in the financial markets could result in investment losses.

Prolonged and severe disruptions in the public debt and equity markets, such as occurred during 2008, could result in significant realized and unrealized losses in our investment portfolio. For the year ended December 31, 2008, we incurred \$489.2 million of realized investment losses and \$276.5 million of unrealized investment losses. Although financial markets have significantly improved since 2008, they could deteriorate in the future. Such declines in the financial markets could result in significant realized and unrealized losses on investments and could have a material adverse impact on our results of operations, equity, business and insurer financial strength and debt ratings.

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Our results could be adversely affected by catastrophic events.

We are exposed to unpredictable catastrophic events, including weather-related and other natural catastrophes, as well as acts of terrorism. Any material reduction in our operating results caused by the occurrence of one or more catastrophes could inhibit our ability to pay dividends or to meet our interest and principal payment obligations. Subsequent to April 1, 2010, we define a catastrophe as an event that causes a loss on property exposures before reinsurance of at least \$10.0 million, before corporate level reinsurance and taxes. Prior to April 1, 2010, we used a threshold of \$5.0 million. By way of illustration, during the past five calendar years, pre-tax catastrophe losses, net of contract specific reinsurance but before cessions under corporate reinsurance programs, were as follows:

Calendar year: (Dollars in millions)	Pre-tax catastrophe losses
2012	\$ 235.8
2011	798.4
2010	267.1
2009	23.9
2008	202.4

Our losses from future catastrophic events could exceed our projections.

We use projections of possible losses from future catastrophic events of varying types and magnitudes as a strategic underwriting tool. We use these loss projections to estimate our potential catastrophe losses in certain geographic areas and decide on the purchase of retrocessional coverage or other actions to limit the extent of potential losses in a given geographic area. These loss projections are approximations, reliant on a mix of quantitative and qualitative processes, and actual losses may exceed the projections by a material amount, resulting in a material adverse effect on our financial condition and results of operations.

If our loss reserves are inadequate to meet our actual losses, our net income would be reduced or we could incur a loss.

We are required to maintain reserves to cover our estimated ultimate liability of losses and loss adjustment expenses (“LAE”) for both reported and unreported claims incurred. These reserves are only estimates of what we believe the settlement and administration of claims will cost based on facts and circumstances known to us. In setting reserves for our reinsurance liabilities, we rely on claim data supplied by our ceding companies and brokers and we employ actuarial and statistical projections. The information received from our ceding companies is not always timely or accurate, which can contribute to inaccuracies in our loss projections. Because of the uncertainties that surround our estimates of loss and LAE reserves, we cannot be certain that ultimate losses and LAE payments will not exceed our estimates. If our reserves are deficient, we would be required to increase loss reserves in the period in which such deficiencies are identified which would cause a charge to our earnings and a reduction of capital. By way of illustration, during the past five calendar years, the reserve re-estimation process resulted in a decrease to our pre-tax net income in all of the years:

Calendar year: (Dollars in millions)	Effect on pre-tax net income
2012	\$ 12.3 decrease

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2011	14.8	decrease
2010	62.8	decrease
2009	70.0	decrease
2008	142.0	decrease

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The difficulty in estimating our reserves is significantly more challenging as it relates to reserving for potential asbestos and environmental (“A&E”) liabilities. At year end 2012, 5.4% of our gross reserves were comprised of A&E reserves. A&E liabilities are especially hard to estimate for many reasons, including the long delays between exposure and manifestation of any bodily injury or property damage, difficulty in identifying the source of the asbestos or environmental contamination, long reporting delays and difficulty in properly allocating liability for the asbestos or environmental damage. Legal tactics and judicial and legislative developments affecting the scope of insurers’ liability, which can be difficult to predict, also contribute to uncertainties in estimating reserves for A&E liabilities.

The failure to accurately assess underwriting risk and establish adequate premium rates could reduce our net income or result in a net loss.

Our success depends on our ability to accurately assess the risks associated with the businesses on which the risk is retained. If we fail to accurately assess the risks we retain, we may fail to establish adequate premium rates to cover our losses and LAE. This could reduce our net income and even result in a net loss.

In addition, losses may arise from events or exposures that are not anticipated when the coverage is priced. In addition to unanticipated events, we also face the unanticipated expansion of our exposures, particularly in long-tail liability lines. An example of this is the expansion over time of the scope of insurers’ legal liability within the mass tort arena, particularly for A&E exposures discussed above.

Decreases in pricing for property and casualty reinsurance and insurance could reduce our net income.

The worldwide reinsurance and insurance businesses are highly competitive, as well as cyclical by product and market. These cycles, as well as other factors that influence aggregate supply and demand for property and casualty insurance and reinsurance products, are outside of our control. The supply of (re)insurance is driven by prevailing prices and levels of capacity that may fluctuate in response to a number of factors including large catastrophic losses and investment returns being realized in the insurance industry. Demand for (re)insurance is influenced by underwriting results of insurers and insureds, including catastrophe losses, and prevailing general economic conditions. If any of these factors were to result in a decline in the demand for (re)insurance or an overall increase in (re)insurance capacity, our net income could decrease.

If rating agencies downgrade the ratings of our insurance subsidiaries, future prospects for growth and profitability could be significantly and adversely affected.

Our active insurance company subsidiaries currently hold financial strength ratings assigned by third-party rating agencies which assess and rate the claims paying ability and financial strength of insurers and reinsurers. Our active subsidiaries carry an “A+” (“Superior”) rating from A.M. Best. Everest Re and Everest National hold an “A+” (“Strong”) rating from Standard & Poor’s. Everest Re holds an “Aa3” (“Excellent”) rating from Moody’s. Financial strength ratings are used by client companies and agents and brokers that place the business as an important means of assessing the financial strength and quality of reinsurers. A downgrade or withdrawal of any of these ratings might adversely affect our ability to market our insurance products and could have a material and adverse effect on future prospects for growth and profitability.

On January 24, 2012, Moody’s affirmed the ratings of Everest Re but changed the outlook on the ratings from stable to negative reflecting their opinion of the likely directions of the ratings over the medium term (12 to 18 months). We will continue to work with Moody’s over this time to address their concerns but it is not possible to predict the potential outcome.

On March 13, 2009, Standard & Poor's downgraded its ratings of Everest Re and Everest National one level to "A+". It is possible that a further downgrade will occur in the future if we do not continue to meet the evolving criteria expected of our current rating. In that regard, several of the rating agencies are in the process of modifying their approaches to evaluating enterprise risk management and its impact on ratings. Therefore, we cannot predict the outcome of this reassessment or its potential impact upon our ratings.

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Consistent with market practice, much of our treaty reinsurance business allows the ceding company to terminate the contract or seek collateralization of our obligations in the event of a rating downgrade below a certain threshold. The termination provision would generally be triggered if a rating fell below A.M. Best Company's A- rating level, which is three levels below Everest Re's current rating of A+. To a lesser extent, Everest Re also has modest exposure to reinsurance contracts that contain provisions for obligatory funding of outstanding liabilities in the event of a rating agency downgrade. Those provisions would also generally be triggered if Everest Re's rating fell below A.M. Best's A- rating level.

The failure of our insureds, intermediaries and reinsurers to satisfy their obligations to us could reduce our income.

In accordance with industry practice, we have uncollateralized receivables from insureds, agents and brokers and/or rely on agents and brokers to process our payments. We may not be able to collect amounts due from insureds, agents and brokers, resulting in a reduction to net income.

We are subject to credit risk of reinsurers in connection with retrocessional arrangements because the transfer of risk to a reinsurer does not relieve us of our liability to the insured. In addition, reinsurers may be unwilling to pay us even though they are able to do so. The failure of one or more of our reinsurers to honor their obligations to us in a timely fashion would impact our cash flow and reduce our net income and could cause us to incur a significant loss.

If we are unable or choose not to purchase reinsurance and transfer risk to reinsurers, our net income could be reduced or we could incur a net loss in the event of unusual loss experience.

We are generally less reliant on the purchase of reinsurance than many of our competitors, in part because of our strategic emphasis on underwriting discipline and management of the cycles inherent in our business. We try to separate our risk taking process from our risk mitigation process in order to avoid developing too great a reliance on reinsurance. We generally purchase reinsurance from other third parties only when we expect a net benefit. The percentage of business that we reinsure may vary considerably from year to year, depending on our view of the relationship between cost and expected benefit for the contract period.

We have entered into affiliated whole account quota share reinsurance agreements for 2002 through 2012 and entered into a new quota share agreement for 2013 with Bermuda Re. We believe that the terms, conditions and pricing of the quota share agreements reflect arm's length market conditions. In addition, we entered into a loss portfolio transfer agreement with Bermuda Re on October 1, 2008. These affiliated reinsurance arrangements allow us to more effectively leverage our capital, expertise, distribution platform and market presence than our stand alone capital position would otherwise allow.

Percentage of ceded written premiums to gross
written premiums

	2012	2011	2010	2009	2008
Unaffiliated	6.3%	5.0%	7.4%	6.0%	6.0%
Affiliated	46.3%	45.8%	41.1%	42.0%	36.2%

Our affiliated quota share agreements reflect general reinsurance market terms and conditions and are negotiated on an arms' length basis. As a result, there can be no assurance that these arrangements will continue beyond 2013. If the quota shares are not renewed, we may have to reduce our premium volume and we may be more exposed to reductions in net income from large losses.

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Our industry is highly competitive and we may not be able to compete successfully in the future.

Our industry is highly competitive and subject to pricing cycles that can be pronounced. We compete globally in the United States and international reinsurance and insurance markets with numerous 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 throughout the industry, 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.

We are dependent on our key personnel.

Our success has been, and will continue to be, dependent on our ability to retain the services of existing key executive officers and to attract and retain additional qualified personnel in the future. The loss of the services of any key executive officer or the inability to hire and retain other highly qualified personnel in the future could adversely affect our ability to conduct business. Generally, we consider key executive officers to be those individuals who have the greatest influence in setting overall policy and controlling operations: Chairman and Chief Executive Officer, Joseph V. Taranto (age 63), President, Dominic J. Adesso (age 59) and Executive Vice President and Chief Financial Officer, Craig Howie (age 49). We currently have employment contracts with Mr. Taranto and Mr. Adesso. Mr. Taranto's contract was filed with the SEC and provides for terms of employment ending on December 31, 2013. Mr. Adesso's contract was filed with the SEC and provides for terms of employment ending December 31, 2016.

Our investment values and investment income could decline because they are exposed to interest rate, credit and market risks.

A significant portion of our investment portfolio consists of fixed income securities and smaller portions consist of equity securities and other investments. Both the fair market value of our invested assets and associated investment income fluctuate depending on general economic and market conditions. For example, the fair market value of our predominant fixed income portfolio generally increases or decreases inversely to fluctuations in interest rates. The market value of our fixed income securities could also decrease as a result of a downturn in the business cycle, that causes the credit quality of such securities to deteriorate. The net investment income that we realize from future investments in fixed income securities will generally increase or decrease with interest rates.

Interest rate fluctuations also can cause net investment income from fixed income investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, to differ from the income anticipated from those securities at the time of purchase. In addition, if issuers of individual investments are unable to meet their obligations, investment income will be reduced and realized capital losses may arise.

The majority of our fixed income securities are classified as available for sale and temporary changes in the market value of these investments are reflected as changes to our stockholder's equity. Our actively managed equity security portfolios are fair valued and any changes in fair value are reflected as net realized capital gains or losses. As a result, a decline in the value of our securities reduces our capital or could cause us to incur a loss.

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We have invested a portion of our investment portfolio in equity securities. The value of these assets fluctuates with changes in the markets. In times of economic weakness, the fair value of these assets may decline, and may negatively impact net income. We also invest in non-traditional investments which have different risk characteristics than traditional fixed income and equity securities. These alternative investments are comprised primarily of private equity limited partnerships. The changes in value and investment income/(loss) for these partnerships may be more volatile than over-the-counter securities.

The following table quantifies the portion of our investment portfolio that consists of fixed income securities, equity securities and investments that carry prepayment risk.

(Dollars in millions)	At December 31, 2012	%	of Total
Mortgage-backed securities			
Commercial	\$ 52.5	0.6	%
Agency residential	683.7	7.5	%
Non-agency residential	2.3	0.0	%
Other asset-backed	46.5	0.5	%
Total asset-backed	785.0	8.6	%
Other fixed income	4,746.4	52.3	%
Total fixed income, at market value	5,531.4	60.9	%
Fixed maturities, at fair value	41.5	0.5	%
Equity securities, at fair value	1,199.8	13.2	%
Other invested assets, at market value	420.7	4.6	%
Other invested assets, at fair value	1,068.7	11.8	%
Cash and short-term investments	813.3	9.0	%
Total investments and cash	\$ 9,075.5	100.0	%

(Some amounts may not reconcile due to rounding.)

We may experience foreign currency exchange losses that reduce our net income and capital levels.

Through our international operations, we conduct business in a variety of foreign (non-U.S.) currencies, principally the Canadian dollar and the Singapore dollar. Assets, liabilities, revenues and expenses denominated in foreign currencies are exposed to changes in currency exchange rates. Our functional currency is the U.S. dollar, and exchange rate fluctuations relative to the U.S. dollar may materially impact our results and financial position. In 2012, we wrote approximately 25.1% of our coverages in non-U.S. currencies; as of December 31, 2012, we maintained approximately 16.4% of our investment portfolio in investments denominated in non-U.S. currencies. During 2012, 2011 and 2010, the impact on our quarterly pre-tax net income from exchange rate fluctuations ranged from a loss of \$12.2 million to a gain of \$24.1 million.

We are subject to cybersecurity risks that could negatively impact our business operations.

We are dependent upon our information technology platform, including our processing systems, data and electronic transmissions in our business operations. Security breaches could expose us to the loss or misuse of our information, litigation and potential liability. In addition, cyber incidents that impact the availability, reliability, speed, accuracy or

other proper functioning of these systems could have a significant negative impact on our operations and possibly our results. An incident could also result in a violation of applicable privacy and other laws, damage our reputation, cause a loss of customers or give rise to monetary fines and other penalties, which could be significant. Management is not aware of a cybersecurity incident that has had a material impact on our operations.

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RISKS RELATING TO REGULATION

Insurance laws and regulations restrict our ability to operate and any failure to comply with those laws and regulations could have a material adverse effect on our business.

We are subject to extensive and increasing regulation under U.S., state and foreign insurance laws. These laws limit the amount of dividends that can be paid to us by our operating subsidiaries, impose restrictions on the amount and type of investments that we can hold, prescribe solvency, accounting and internal control standards that must be met and maintained and require us to maintain reserves. These laws also require disclosure of material inter-affiliate transactions and require prior approval of “extraordinary” transactions. Such “extraordinary” transactions include declaring dividends from operating subsidiaries that exceed statutory thresholds. These laws also generally require approval of changes of control of insurance companies. The application of these laws could affect our liquidity and ability to pay dividends, interest and other payments on securities, as applicable, and could restrict our ability to expand our business operations through acquisitions of new insurance subsidiaries. We may not have or maintain all required licenses and approvals or fully comply with the wide variety of applicable laws and regulations or the relevant authority’s interpretation of the laws and regulations. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or monetarily penalize us. These types of actions could have a material adverse effect on our business. To date, no material fine, penalty or restriction has been imposed on us for failure to comply with any insurance law or regulation.

As a result of the recent dislocation of the financial markets, Congress and the Presidential administration in the United States, are contemplating changes in the way the financial services industry is regulated. It is possible that insurance regulation will be drawn into this process, and that federal regulatory initiatives in the insurance industry could emerge. In addition, regulatory bodies in Europe are developing a new capital adequacy directive for insurers and reinsurers. The future impact of such initiatives, if any, on our operation, net income (loss) or financial condition cannot be determined at this time.

RISK RELATING TO OUR SECURITIES

Because of our holding company structure, our ability to pay dividends, interest and principal is dependent on our receipt of dividends, loan payments and other funds from our subsidiaries.

We are a holding company, whose most significant asset consists of the stock of our operating subsidiaries. As a result, our ability to pay dividends, interest or other payments on our securities in the future will depend on the earnings and cash flows of the operating subsidiaries and the ability of the subsidiaries to pay dividends or to advance or repay funds to us. This ability is subject to general economic, financial, competitive, regulatory and other factors beyond our control. Payment of dividends and advances and repayments from some of the operating subsidiaries are regulated by U.S., state and foreign insurance laws and regulatory restrictions, including minimum solvency and liquidity thresholds. Accordingly, the operating subsidiaries may not be able to pay dividends or advance or repay funds to us in the future, which could prevent us from paying dividends, interest or other payments on our securities.

ITEM
1B. UNRESOLVED STAFF COMMENTS

None.

ITEM
2. PROPERTIES

Everest Re's corporate offices are located in approximately 230,500 square feet of leased office space in Liberty Corner, New Jersey. The Company's other fourteen locations occupy a total of approximately 129,435 square feet, all of which are leased. Management believes that the above described office space is adequate for its current and anticipated needs.

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ITEM
3. LEGAL PROCEEDINGS

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

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

ITEM
4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holder of Common Stock.

As of December 31, 2012, all of the Company's common stock was owned by Holdings Ireland and was not publicly traded.

Dividend History and Restrictions.

The Company did not pay any dividends in 2012, 2011 and 2010. The declaration and payment of future dividends, if any, by the Company will be at the discretion of the Board of Directors and will depend upon many factors, including the Company's earnings, financial condition, business needs and growth objectives, capital and surplus requirements of its operating subsidiaries, regulatory restrictions, rating agency considerations and other factors. As an insurance holding company, the Company is dependent on dividends and other permitted payments from its subsidiaries to pay cash dividends to its stockholder. The payment of dividends to Holdings by Everest Re is subject to limitations imposed by Delaware law. Generally, Everest Re may only pay dividends out of its statutory earned surplus, which was \$1.7 billion at December 31, 2012, and only after it has given 10 days prior notice to the Delaware Insurance Commissioner. During this 10-day period, the Commissioner may, by order, limit or disallow the payment of ordinary dividends if the Commissioner finds the insurer to be presently or potentially in financial distress. Further, the maximum amount of dividends that may be paid without the prior approval of the Delaware Insurance Commissioner in any twelve month period is the greater of (1) 10% of an insurer's statutory surplus as of the end of the prior calendar year or (2) the insurer's statutory net income, not including realized capital gains, for the prior calendar year. The maximum amount that is available for the payment of dividends by Everest Re in 2013 without prior regulatory approval is \$359.0 million.

Recent Sales of Unregistered Securities.

None.

ITEM
6. SELECTED FINANCIAL DATA

Information for Item 6 is not required pursuant to General Instruction I(2) of Form 10-K.

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

The following is a discussion and analysis of our results of operations and financial condition. It should be read in conjunction with the Consolidated Financial Statements and accompanying notes thereto presented under ITEM 8, "Financial Statements and Supplementary Data".

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 the fourth quarter of 2012, the industry sustained significant losses from Superstorm Sandy and also sustained significant losses during 2011 from Australian floods, the New Zealand earthquake, the earthquake and tsunami in Japan, storms in the U.S., and the Thailand floods. It is too early to determine the longer term impact on market conditions as a result of these events. While the 2011 events have resulted in meaningful rate increases for catastrophe coverages in some global catastrophe prone regions, particularly areas impacted by these losses, whether the magnitude of these 2012 and 2011 losses is sufficient to increase rates and improve market conditions for other lines of business remains to be seen.

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

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Financial Summary.

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

(Dollars in millions)	Years Ended December 31,			Percentage Increase/(Decrease)			
	2012	2011	2010	2012/2011		2011/2010	
Gross written premiums	\$3,569.4	\$3,558.5	\$3,467.8	0.3	%	2.6	%
Net written premiums	1,691.6	1,754.0	1,788.7	-3.6	%	-1.9	%
REVENUES:							
Premiums earned	\$1,773.9	\$1,793.9	\$1,813.8	-1.1	%	-1.1	%
Net investment income	306.1	312.9	350.3	-2.2	%	-10.7	%
Net realized capital gains (losses)	391.7	(41.1)	65.3		NM	-163.0	%
Other income (expense)	12.1	(11.7)	12.1	-203.3	%	-197.3	%
Total revenues	2,483.9	2,053.9	2,241.5	20.9	%	-8.4	%
CLAIMS AND EXPENSES:							
Incurred losses and loss adjustment expenses	1,249.7	1,877.6	1,477.5	-33.4	%	27.1	%
Commission, brokerage, taxes and fees	310.7	338.7	335.1	-8.3	%	1.1	%
Other underwriting expenses	170.6	154.3	139.8	10.5	%	10.4	%
Corporate expense	8.8	6.1	5.9	44.3	%	3.5	%
Interest, fee and bond issue cost amortization expense	50.7	50.8	54.6	0.0	%	-6.9	%
Total claims and expenses	1,790.6	2,427.4	2,012.8	-26.2	%	20.6	%
INCOME (LOSS) BEFORE TAXES	693.3	(373.5)	228.8		NM		NM
Income tax expense (benefit)	173.0	(170.7)	(36.6)	-201.4	%		NM
NET INCOME (LOSS)	\$520.3	\$(202.8)	\$265.4		NM	-176.4	%
RATIOS:							
						Point Change	
Loss ratio	70.5	% 104.7	% 81.5	% (34.2)	23.2	
Commission and brokerage ratio	17.5	% 18.9	% 18.5	% (1.4)	0.4	
Other underwriting expense ratio	9.6	% 8.6	% 7.6	% 1.0		1.0	
Combined ratio	97.6	% 132.2	% 107.6	% (34.6)	24.6	
Balance sheet data:							
		At December 31,			Percentage Increase/ (Decrease)		
(Dollars in millions)	2012	2011	2010	2012/2011		2011/2010	
Total investments and cash	\$9,075.5	\$8,396.3	\$8,293.9	8.1	%	1.2	%
Total assets	15,088.0	14,349.2	13,845.7	5.1	%	3.7	%
Loss and loss adjustment expense reserves	8,143.1	8,290.6	7,652.3	-1.8	%	8.3	%
Total debt	818.2	818.1	868.1	0.0	%	-5.8	%

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Total liabilities	11,609.3	11,407.8	10,717.9	1.8	%	6.6	%
Stockholder's equity	3,478.6	2,941.4	3,127.7	18.3	%	-6.0	%

(NM, not meaningful)

(Some amounts may not reconcile due to rounding)

Revenues.

Premiums. Gross written premiums increased by 0.3% to \$3,569.4 million in 2012 compared to \$3,558.5 million in 2011, reflecting an \$80.1 million increase in our insurance business, partially offset by a \$69.2 million decrease in our reinsurance business. The increase in insurance premiums was primarily due to the growth in crop and primary A&H medical stop loss insurance, partially offset by the termination and runoff of several large casualty programs. The decreases in reinsurance premiums was primarily due to the non-renewal of a large Florida quota share reinsurance contract and a \$27.7 million decline due to movement in foreign exchange rates, partially offset by increases in new business and rate increases on renewals, particularly for catastrophe exposed contracts. Net written premiums decreased by 3.6% to \$1,691.6 million in 2012 compared to \$1,754.0 million in 2011. The variance between the changes in gross and net written premiums was primarily attributable to the growth in the crop business, for which the Company uses a higher level of reinsurance. Premiums earned decreased by 1.1% to \$1,773.9 million in 2012 compared to

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\$1,793.9 million in 2011. The fluctuations in premiums earned in comparison to net written premiums were primarily attributable to changes in the mix of business, particularly crop insurance which has a different premiums earning pattern.

Gross written premiums increased by 2.6% to \$3,558.5 million in 2011 compared to \$3,467.8 million in 2010, reflecting a \$103.7 million increase in our insurance business, partially offset by a \$12.9 million decrease in our reinsurance business. The year over year increase in insurance premiums was primarily due to the acquisition of Heartland, which provided \$169.6 million of new crop insurance business, our recent initiative in primary medical stop loss insurance, which added \$54.0 million of premium and improved premium rates on our California workers' compensation business, partially offset by our reduced participation on a large casualty program. The decrease in reinsurance premiums was due to the continued reduction in U.S. casualty business, the loss of several large crop reinsurance contracts, as well as the planned reduction of catastrophe exposed business in certain territories, partially offset by higher reinstatement premiums, \$24.5 million resulting from catastrophe losses and favorable foreign exchange impact, year over year, of \$33.4 million. Net written premiums decreased by 1.9% to \$1,754.0 million in 2011 compared to \$1,788.7 million in 2010. The fluctuations in net written premiums relative to the change in gross written premiums were due to a combination of a higher percentage of premiums ceded under an affiliated quota share agreement and a lower level of ceded reinsurance in the Insurance segment due to the planned reduction in one casualty program. Premiums earned decreased 1.1% to \$1,793.9 million in 2011 compared to \$1,813.8 million in 2010. The change in net premiums earned is relatively consistent with the decline in net written premiums.

Net Investment Income. Net investment income decreased by 2.2% to \$306.1 million in 2012 compared with net investment income of \$312.9 million in 2011. Net pre-tax investment income, as a percentage of average invested assets was 3.7% in 2012 compared to 3.9% in 2011. The decline in income and yield was primarily the result of lower reinvestment rates for the fixed income portfolio, partially offset by additional dividend income from equity investments.

Net investment income decreased 10.7% to \$312.9 million in 2011 compared with net investment income of \$350.3 million in 2010, primarily due to a \$58.2 million decline in income from our fixed maturities, reflective of reducing our municipal bond exposures and declining reinvestment rates. These decreases were partially offset by an increase of \$19.5 million in income from equities due to our expanded public equity portfolio and emerging market debt mutual funds. Net pre-tax investment income, as a percentage of average invested assets, was 3.9% in 2011 compared to 4.4% in 2010. The variance in this yield was primarily the result of fluctuations in our limited partnership income.

Net Realized Capital Gains (Losses). Net realized capital gains were \$391.7 million, net realized capital losses were \$41.1 million and net realized capital gains were \$65.3 million in 2012, 2011 and 2010, respectively. Of the \$391.7 million, there were \$364.5 million of gains from fair value re-measurements and \$33.9 million of net realized capital gains from sales on our fixed maturity and equity securities, partially offset by \$6.6 million of other-than-temporary impairments on our available for sale fixed maturity securities. The net realized capital losses of \$41.1 million in 2011 were the result of \$16.7 million of losses from fair value re-measurements, \$14.5 million of other-than-temporary impairments on our available for sale fixed maturity securities and \$9.9 million of net realized capital losses from sales on our fixed maturity and equity securities. The net realized capital gains of \$65.3 million in 2010 were the result of \$93.8 million of gains of fair value re-measurements, partially offset by \$26.4 million of net realized capital losses from sales on our fixed maturity and equity securities and \$2.1 million of other-than-temporary impairments.

Other Income (Expense). We recorded other income of \$12.1 million, other expense of \$11.7 million and other income of \$12.1 million in 2012, 2011 and 2010, respectively. The changes were primarily due to fluctuations in currency exchange rates for the corresponding periods and fluctuations in the amortization of deferred gains on retroactive reinsurance agreements with affiliates.

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Claims and Expenses.

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

(Dollars in millions)	Years Ended December 31,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional (a)	\$ 991.6	55.9 %	\$ 22.2	1.3 %	\$ 1,013.8	57.2 %
Catastrophes	245.9	13.9 %	(10.1)	-0.6 %	235.8	13.3 %
A&E	-	0.0 %	0.1	0.0 %	0.1	0.0 %
Total	\$ 1,237.5	69.8 %	\$ 12.2	0.7 %	\$ 1,249.7	70.5 %
2011						
Attritional (a)	\$ 1,073.9	59.9 %	\$ 5.3	0.3 %	\$ 1,079.2	60.2 %
Catastrophes	788.9	44.0 %	9.5	0.5 %	798.4	44.5 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total	\$ 1,862.8	103.9 %	\$ 14.8	0.8 %	\$ 1,877.6	104.7 %
2010						
Attritional (a)	\$ 1,144.1	63.1 %	\$ 66.2	3.7 %	\$ 1,210.4	66.7 %
Catastrophes	270.5	14.9 %	(3.4)	-0.2 %	267.1	14.7 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total	\$ 1,414.6	78.0 %	\$ 62.8	3.5 %	\$ 1,477.5	81.5 %
Variance						
2012/2011						
Attritional (a)	\$ (82.3)	(4.0) pts	\$ 16.9	1.0 pts	\$ (65.4)	(3.0) pts
Catastrophes	(543.0)	(30.1) pts	(19.6)	(1.1) pts	(562.6)	(31.2) pts
A&E	-	- pts	0.1	- pts	0.1	- pts
Total	\$ (625.3)	(34.1) pts	\$ (2.6)	(0.1) pts	\$ (627.9)	(34.2) pts
Variance						
2011/2010						
Attritional (a)	\$ (70.2)	(3.2) pts	\$ (60.9)	(3.4) pts	\$ (131.2)	(6.5) pts
Catastrophes	518.4	29.1 pts	12.9	0.7 pts	531.3	29.8 pts
A&E	-	- pts	-	- pts	-	- pts
Total	\$ 448.2	25.9 pts	\$ (48.0)	(2.7) pts	\$ 400.1	23.2 pts

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

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased by 33.4% to \$1,249.7 million for the year ended December 31, 2012 compared to \$1,877.6 million in 2011, representing 34.2 loss ratio points. Current year catastrophe losses were lower by \$543.0

million, or 30.1 points, period over period. The \$245.9 million of current year catastrophe losses for 2012 related to Superstorm Sandy (\$203.4 million), U.S. storms (\$30.0 million) and Hurricane Isaac (\$12.6 million). The \$788.9 million of current year catastrophe losses for 2011 related primarily to the Japanese earthquake and tsunami (\$344.1 million), the 2011 New Zealand earthquake (\$166.8 million), the Thailand floods (\$131.2 million), U.S. storms (\$40.3 million), the 2011 Australian floods (\$37.1 million) and Hurricane Irene (\$22.4 million) as well as \$33.4 million of IBNR reserves for these 2011 catastrophe events collectively, which were not allocated to a specific event. During 2012, \$27.4 million of the IBNR reserve was allocated to specific 2011 catastrophes, leaving \$6.0 million of unallocated IBNR reserves at December 31, 2012. Current year attritional losses decreased \$82.3 million, representing 4.0 loss ratio points, due to a shift in mix of business towards excess of loss business, which generally has lower attritional losses, and the impact of year over year cessions under our affiliated quota share agreements resulting from changes in ceding percentages.

Incurred losses and LAE increased by 27.1% to \$1,877.6 million in 2011 compared to \$1,477.5 million in 2010. Current year catastrophe losses increased \$518.4 million (29.1 points), period over period, primarily due to 2011 losses discussed above. The \$270.5 million of current year catastrophe losses for 2010 related primarily to the Chile earthquake (\$196.9 million), the 2010 New Zealand earthquake (\$36.4 million) and the 2010 Australia hailstorms and floods (\$33.9 million). Partially offsetting the catastrophe increase was

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the decrease in attritional losses of \$131.2 million, primarily due to the non-recurrence of prior years' development, the decrease in premiums earned and changes in the mix of business.

Commission, Brokerage, Taxes and Fees. Commission, brokerage, taxes and fees decreased by 8.3% to \$310.7 million in 2012 compared to \$338.7 million in 2011. The 2012 decrease is due primarily to an increase in excess of loss business which carries a lower commission than pro rata business, and growth in crop insurance on a direct distribution basis, which has lower acquisition costs, partially offset by the one-time effect of the non-renewal of the Florida quota share and the adoption of new accounting standards concerning the accounting for acquisition costs.

Commission, brokerage, taxes and fees increased by 1.1% to \$338.7 million in 2011 compared to \$335.1 million in 2010. The variance was primarily the result of fluctuations in the mix of business and a change in the affiliated quota share agreement.

Other Underwriting Expenses. Other underwriting expenses were \$170.6 million, \$154.3 million and \$139.8 million in 2012, 2011 and 2010, respectively. The increase in other underwriting expense for 2012 compared to 2011 was mainly due to higher employee benefit plan expenses. The increase in other underwriting expenses for 2011 compared to 2010 was mainly due to expenses of Heartland, which was acquired in January, 2011.

Corporate Expenses. Corporate expenses, which are general operating expenses that are not allocated to segments, were \$8.8 million, \$6.1 million and \$5.9 million for the years ended December 31, 2012, 2011 and 2010, respectively. These increases were also primarily due to higher employee benefit plan expenses.

Interest, Fees and Bond Issue Cost Amortization Expense. Interest, fees and other bond amortization expense was \$50.7 million, \$50.8 million and \$54.6 million in 2012, 2011 and 2010, respectively. The decrease from 2010 to 2011 was primarily due to the maturing of debt in March, 2010.

Income Tax Expense (Benefit). We had income tax expense of \$173.0 million and income tax benefits of \$170.7 million and \$36.6 million in 2012, 2011 and 2010, respectively. Our income tax is primarily a function of the statutory tax rates coupled with the impact from tax-preferenced investment income. Variations in our effective tax rate generally result from changes in the relative levels of pre-tax income. The increases in tax expense were mainly due to the improvement in taxable income resulting from lower catastrophe losses in 2012. The 2012 income tax expense also reflects tax benefits of \$17.5 million realized due to corrections of understatement in the deferred tax asset account and \$31.9 million of tax benefits from a reduction in our reserve for uncertain tax positions due to the re-measurement of our exposure following the closing of an IRS audit. The tax benefit in 2010 resulted primarily from a tax audit settlement.

Net Income (Loss).

Our net income was \$520.3 million and our net loss was \$202.8 million in 2012 and 2011, respectively. The increase was primarily driven by the decline in catastrophe losses in 2012 compared to 2011.

Our net loss was \$202.8 million in 2011 compared to a net income of \$265.4 million in 2010. The variance was primarily driven by higher catastrophe losses in 2011.

Ratios.

Our combined ratio decreased by 34.6 points to 97.6% in 2012 compared to 132.2% in 2011. The loss ratio component decreased 34.2 points in 2012 over the same period last year primarily due to the decline in catastrophe losses in 2012 compared to 2011. The commission and brokerage ratio component decreased slightly over the same period last year due to an increase in excess of loss business which carries a lower commission than pro rata business, and growth in crop insurance on a direct distribution basis, which has lower acquisition costs, partially offset by the

one-time effect of the non-renewal of the Florida quota share and the adoption of new accounting standards concerning the accounting for acquisition costs. The other underwriting expense ratio component increased slightly from the same period last year due to higher employee benefit costs.

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Our combined ratio increased by 24.6 points to 132.2% in 2011 compared to 107.6% in 2010. The loss ratio component increased by 23.2 points in 2011, over the same period last year, principally due to higher current year catastrophe losses as a result of the Japan earthquake, New Zealand earthquake, Thailand floods, U.S. storms and the Australia floods. The commission and brokerage expense ratio increased slightly to 18.9% in 2011 compared to 18.5% in 2010. The other underwriting expense ratio component increased to 8.6% in 2011 compared to 7.6% in 2010 due primarily to the acquisition of Heartland.

Stockholder's Equity.

Stockholder's equity increased by \$537.2 million to \$3,478.6 million at December 31, 2012 from \$2,941.4 million at December 31, 2011, principally as a result of \$520.3 million of net income, \$10.0 million of unrealized appreciation on investments, net of tax, \$7.0 million of net foreign currency translation adjustments, and \$6.8 million of share-based compensation transactions, partially offset by \$7.0 million of net benefit plan obligation adjustments.

Stockholder's equity decreased by \$186.3 million to \$2,941.4 million at December 31, 2011 from \$3,127.7 million at December 31, 2010, principally as a result of \$202.8 million of net loss, \$29.5 million of net benefit plan obligation adjustments and \$0.9 million of foreign currency translation adjustments, partially offset by \$41.1 million of unrealized appreciation on investments, net of tax, and \$6.4 million of share-based compensation transactions.

Consolidated Investment Results**Net Investment Income.**

Net investment income decreased 2.2% to \$306.1 million in 2012 compared to \$312.9 million in 2011. The decrease was primarily due to a decline in income from our fixed maturities resulting from lower reinvestment rates, partially offset by additional dividend income from equity investments.

Net investment income decreased 10.7% to \$312.9 million in 2011 compared to \$350.3 million in 2010, primarily due to a \$58.2 million decline in income from our fixed maturities, reflective of reducing our municipal bond exposures and declining reinvestment rates. These decreases were partially offset by an increase of \$19.5 million in income from equities due to our expanded public equity portfolio and emerging market debt mutual funds.

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

(Dollars in millions)	Years Ended December 31,		
	2012	2011	2010
Fixed maturities	\$216.8	\$232.3	\$290.5
Equity securities	39.3	29.7	10.2
Short-term investments and cash	1.1	1.1	0.4
Other invested assets			
Limited partnerships	39.7	42.3	45.5
Dividends from Parent's shares	18.7	18.6	14.0
Other	3.8	2.7	1.3
Total gross investment income	319.4	326.8	361.8
Interest debited (credited) and other expense	(13.2)	(13.9)	(11.5)
Total net investment income	\$306.1	\$312.9	\$350.3
(Some amounts may not reconcile due to rounding)			

The following table shows a comparison of various investment yields for the periods indicated:

	2012	2011	2010
Imbedded pre-tax yield of cash and invested assets at December 31	3.4%	3.6%	3.6%
Imbedded after-tax yield of cash and invested assets at December 31	2.4%	2.7%	2.8%
Annualized pre-tax yield on average cash and invested assets	3.7%	3.9%	4.4%
Annualized after-tax yield on average cash and invested assets	2.7%	3.0%	3.5%

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Net Realized Capital Gains (Losses).

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

(Dollars in millions)	Years Ended December 31,			2012/2011	2011/2010
	2012	2011	2010	Variance	Variance
Gains (losses) from sales:					
Fixed maturity securities, market value					
Gains	\$ 14.8	\$ 38.3	\$ 7.6	\$ (23.5)	\$ 30.7
Losses	(9.1)	(55.0)	(41.0)	45.9	(14.0)
Total	5.7	(16.7)	(33.3)	22.4	16.6
Fixed maturity securities, fair value					
Gains	6.3	1.1	0.8	5.2	0.3
Losses	(0.6)	(2.0)	-	1.4	(2.0)
Total	5.7	(0.9)	0.8	6.6	(1.7)
Equity securities, market value					
Gains	-	0.2	-	(0.2)	0.2
Losses	-	(0.2)	-	0.2	(0.2)
Total	-	-	-	-	-
Equity securities, fair value					
Gains	40.8	15.7	11.4	25.1	4.3
Losses	(18.2)	(8.0)	(5.3)	(10.2)	(2.7)
Total	22.6	7.6	6.2	15.0	1.5
Total net realized gains (losses) from sales					
Gains	61.9	55.3	19.9	6.6	35.5
Losses	(28.0)	(65.2)	(46.3)	37.2	(18.9)
Total	33.9	(9.9)	(26.4)	43.8	16.5
Other than temporary impairments:	(6.6)	(14.5)	(2.1)	7.9	(12.4)
Gains (losses) from fair value adjustments:					
Fixed maturities, fair value	1.9	(15.5)	15.1	17.4	(30.6)
Equity securities, fair value	111.2	7.2	52.8	104.0	(45.6)
Other invested assets, fair value	251.4	(8.4)	25.9	259.8	(34.3)
Total	364.5	(16.7)	93.8	381.2	(110.5)
Total net realized gains (losses)	\$ 391.7	\$ (41.1)	\$ 65.3	\$ 432.8	\$ (106.4)

(Some amounts may not reconcile due to rounding)

Net realized capital gains were \$391.7 million, net realized capital losses were \$41.1 million and net realized capital gains were \$65.3 million in 2012, 2011 and 2010, respectively. In 2012, we recorded \$364.5 million of gains due to fair value re-measurements on fixed maturity, equity securities and other invested assets and \$33.9 million of net realized capital gains from sales of fixed maturity and equity securities, partially offset by \$6.6 million of other-than-temporary impairments on fixed maturity securities. The fixed maturity sales in 2012 related primarily to maintaining a balanced foreign currency exposure and the equity sales related primarily to reducing our equity exposure. In 2011, we recorded \$16.7 million of losses due to fair value re-measurements on fixed maturity and equity securities and other invested assets, \$14.5 million of other-than-temporary impairments on fixed maturity securities and \$9.9 million of net realized capital losses from sales of fixed maturity and equity securities. In 2010, we recorded \$93.8 million in gains due to fair value re-measurements on fixed maturity and equity securities and other invested assets, partially offset by \$26.4 million of net realized capital losses from sales of fixed maturity and equity securities and \$2.1 million of other-than-temporary impairments on fixed maturity securities. The losses in 2011 and 2010 included the impact of selling part of our municipal bond portfolio as credit concerns arose in this market sector. We were able to carry the 2010 realized losses back for income tax purposes to offset previously realized gains. This carry back availability expired at the end of 2010.

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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 8% of our premiums earned and their volume is projected to remain approximately 8%. As a result of the size of these remaining operating units and their similarity to the business reported within U.S. Reinsurance, they have been reclassified to the U.S. Reinsurance segment. There has been no change to the International reporting segment. We have restated all segment information for prior years to conform to the new reporting segment structure.

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

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

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

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.

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

U.S. Reinsurance.

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

(Dollars in millions)	Years Ended December 31,			2012/2011		2011/2010	
	2012	2011	2010	Variance	% Change	Variance	% Change
Gross written premiums	\$ 1,310.7	\$ 1,346.8	\$ 1,395.4	\$(36.1)	-2.7 %	\$(48.6)	-3.5 %
Net written premiums	659.7	688.5	773.6	(28.8)	-4.2 %	(85.1)	-11.0 %
Premiums earned	\$ 722.4	\$ 697.7	\$ 777.7	\$24.6	3.5 %	\$(80.0)	-10.3 %
Incurred losses and LAE	582.4	623.1	556.5	(40.7)	-6.5 %	66.6	12.0 %
Commission and brokerage	168.6	156.0	169.3	12.6	8.1 %	(13.3)	-7.9 %
Other underwriting expenses	44.8	39.3	42.5	5.5	14.0 %	(3.2)	-7.6 %
Underwriting gain (loss)	\$ (73.4)	\$ (120.7)	\$ 9.3	\$47.3	-39.2 %	\$(130.0)	NM
					Point Chg		Point Chg
Loss ratio	80.6 %	89.3 %	71.6 %		(8.7)		17.7
Commission and brokerage ratio	23.3 %	22.4 %	21.8 %		0.9		0.6
Other underwriting expense ratio	6.3 %	5.6 %	5.4 %		0.7		0.2
Combined ratio	110.2 %	117.3 %	98.8 %		(7.1)		18.5

(NM, not meaningful)

(Some amounts may not reconcile due to rounding)

Premiums. Gross written premiums decreased by 2.7% to \$1,310.7 million in 2012 from \$1,346.8 million in 2011, primarily due to the non-renewal of a large Florida quota share reinsurance contract, partially offset by increased new business and higher premium rates on renewals, particularly for contracts with catastrophe exposed risks. Net written premiums decreased 4.2% to \$659.7 million in 2012 compared to \$688.5 million in 2011, which is in line with the decrease in gross written premiums. Premiums earned increased 3.5% to \$722.4 million in 2012 compared to \$697.7 million in 2011. The variance difference between premiums earned and net written premiums is primarily attributable to the non-renewal of the large Florida quota share reinsurance contract, which had a larger negative impact on gross and net written premiums, increases in new business, rate increases on renewals, particularly for catastrophe exposed

contracts and changes in the mix of business.

Gross written premiums decreased by 3.5% to \$1,346.8 million in 2011 from \$1,395.4 million in 2010, primarily due to reduced reinsurance premiums for accident and health, crop and marine business, partially offset by a \$24.4 million increase in reinstatement premiums due to higher catastrophe loss activity in the period. Net written premiums decreased 11.0% to \$688.5 million in 2011 compared to \$773.6 million in 2010, primarily due to the decrease in gross written premiums and a higher percentage of premium ceded under an affiliated quota share agreement. Premiums earned decreased 10.3% to \$697.7 million in 2011 compared to \$777.7 million in 2010, primarily due to the decline in net written premiums.

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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)	Years Ended December 31,					
	Current	Ratio %/	Prior	Ratio %/	Total	Ratio %/
	Year	Pt Change	Years	Pt Change	Incurred	Pt Change
2012						
Attrititional	\$ 349.6	48.4 %	\$ 1.0	0.1 %	\$ 350.5	48.5 %
Catastrophes	235.3	32.6 %	(3.6)	-0.5 %	231.7	32.1 %
A&E	-	0.0 %	0.1	0.0 %	0.1	0.0 %
Total segment	\$ 584.9	81.0 %	\$ (2.5)	-0.4 %	\$ 582.4	80.6 %
2011						
Attrititional	\$ 399.5	57.2 %	\$ 37.4	5.4 %	\$ 436.9	62.6 %
Catastrophes	176.6	25.3 %	9.6	1.4 %	186.2	26.7 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	\$ 576.1	82.5 %	\$ 47.0	6.8 %	\$ 623.1	89.3 %
2010						
Attrititional	\$ 469.5	60.4 %	\$ 63.3	8.1 %	\$ 532.8	68.5 %
Catastrophes	17.5	2.3 %	6.2	0.8 %	23.7	3.1 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	\$ 487.0	62.7 %	\$ 69.5	8.9 %	\$ 556.5	71.6 %
Variance						
2012/2011						
Attrititional	\$ (49.9)	(8.8) pts	\$ (36.4)	(5.3) pts	\$ (86.4)	(14.1) pts
Catastrophes	58.7	7.3 pts	(13.2)	(1.9) pts	45.5	5.4 pts
A&E	-	- pts	0.1	- pts	0.1	- pts
Total segment	\$ 8.8	(1.5) pts	\$ (49.5)	(7.2) pts	\$ (40.7)	(8.7) pts
Variance						
2011/2010						
Attrititional	\$ (70.0)	(3.2) pts	\$ (25.9)	(2.7) pts	\$ (95.9)	(5.9) pts
Catastrophes	159.1	23.0 pts	3.4	0.6 pts	162.5	23.6 pts
A&E	-	- pts	-	- pts	-	- pts
Total segment	\$ 89.1	19.8 pts	\$ (22.5)	(2.1) pts	\$ 66.6	17.7 pts

(Some amounts may not reconcile due to rounding.)

Incurred losses decreased 6.5% to \$582.4 million in 2012 compared to \$623.1 million in 2011, primarily due to a decrease in attrititional losses of \$86.4 million (14.1 points) partially offset by the \$58.7 million (7.3 points) increase in current year catastrophe losses. The current year attrititional losses decreased \$49.9 million due primarily to a shift in business to excess of loss contracts which generally have lower attrititional losses than pro rata contracts and prior years' attrititional losses decreased by \$36.4 million due to less reserve development in 2012. The \$235.3 million of

current year catastrophe losses for 2012 related to Superstorm Sandy (\$193.5 million), U.S. storm losses (\$29.9 million) and Hurricane Isaac (\$11.9 million). The \$176.6 million of current year catastrophe losses for 2011 related primarily to the Japanese earthquake and tsunami (\$48.3 million), the 2011 New Zealand earthquake (\$42.4 million), U.S. storms (\$39.6 million), Hurricane Irene (\$18.4 million), the Thailand floods (\$11.4 million) and the 2011 Australian floods (\$3.9 million).

Incurred losses were \$66.6 million (17.7 points) higher at \$623.1 million in 2011 compared to \$556.5 million in 2010, primarily as a result of the \$159.1 million (23.0 points) increase in 2011 current year catastrophe losses discussed above. The \$17.5 million of current year catastrophe losses for 2010 related primarily to the Chile earthquake (\$9.0 million) and the 2010 New Zealand earthquake (\$8.4 million). Partially offsetting this increase, the current year attritional losses decreased \$70.0 million (3.2 points), primarily due to a shift in the mix of business, with a higher level of excess of loss business in the current year, which carries a lower attritional loss ratio, than pro rata business as well as the decline in earned premiums.

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Segment Expenses. Commission and brokerage expenses increased 8.1% to \$168.6 million in 2012 compared to \$156.0 million in 2011. These variances were primarily due to the increase in premiums earned and the effect resulting from commissions of the non-renewed Florida quota share contract. Segment other underwriting expenses increased to \$44.8 million in 2012 compared to \$39.3 million for the same period in 2011. These increases were primarily due to higher share-based compensation and employee benefit plan expenses.

Commission and brokerage expenses decreased 7.9% to \$156.0 million in 2011 compared to \$169.3 million in 2010. This decrease was primarily due to the decline in premiums earned. Segment other underwriting expenses decreased to \$39.3 million in 2011 compared to \$42.5 million for the same period in 2010. This decline was due to reduced operating costs for the segment.

International.

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

(Dollars in millions)	Years Ended December 31,			2012/2011		2011/2010	
	2012	2011	2010	Variance	% Change	Variance	% Change
Gross written premiums	\$ 1,209.5	\$ 1,242.6	\$ 1,207.0	\$ (33.1)	-2.7 %	\$ 35.7	3.0 %
Net written premiums	550.7	615.1	641.4	(64.3)	-10.5 %	(26.3)	-4.1 %
Premiums earned	\$ 572.5	\$ 636.7	\$ 626.3	\$ (64.2)	-10.1 %	\$ 10.4	1.7 %
Incurred losses and LAE	261.5	856.1	561.9	(594.7)	-69.5 %	294.3	52.4 %
Commission and brokerage	124.6	142.3	136.2	(17.7)	-12.5 %	6.1	4.5 %
Other underwriting expenses	29.3	27.3	27.6	2.0	7.3 %	(0.3)	-1.2 %
Underwriting gain (loss)	\$ 157.1	\$ (389.0)	\$ (99.4)	\$ 546.2	-140.4 %	\$ (289.6)	NM
					Point Chg		Point Chg
Loss ratio	45.7 %	134.5 %	89.7 %		(88.8)		44.8
Commission and brokerage ratio	21.8 %	22.3 %	21.7 %		(0.5)		0.6
Other underwriting expense ratio	5.0 %	4.3 %	4.5 %		0.7		(0.2)
Combined ratio	72.5 %	161.1 %	115.9 %		(88.6)		45.2

(Some amounts may not reconcile due to rounding)

Premiums. Gross written premiums decreased by 2.7% to \$1,209.5 million in 2012 compared to \$1,242.6 million in 2011, primarily due to a shift in the mix of business towards excess of loss business, which generates a lower premium rate commensurate with lower loss exposure, a \$25.0 million decline due to the impact of foreign exchange rate movement and a lower level of reinstatement premiums in 2012. Net written premiums decreased by 10.5% to \$550.7 million in 2012 compared to \$615.1 million in 2011, primarily due to the decline in gross written premiums and the impact of changes in our affiliated quota share agreements. Premiums earned decreased by 10.1% to \$572.5 million in 2012 compared to \$636.7 million in 2011. The change in premiums earned is comparable to the change in net written premiums.

Gross written premiums increased by 3.0% to \$1,242.6 million in 2011 compared to \$1,207.0 million in 2010, primarily due to the effects of foreign exchange. Eliminating this effect, premiums were essentially flat. Growth from increased rate levels, particularly in regions recently affected by catastrophe losses was offset by the termination of business that did not meet our current pricing targets. Net written premiums decreased by 4.1% to \$615.1 million in 2011 compared to \$641.4 million in 2010, primarily due to the change in our affiliated quota share agreement. Premiums earned increased by 1.7% to \$636.7 million in 2011 compared to \$626.3 million in 2010. 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.

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

(Dollars in millions)	Years Ended December 31,					
	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional	\$ 270.4	47.3 %	\$ (8.4)	-1.5 %	\$ 262.0	45.9 %
Catastrophes	6.0	1.0 %	(6.5)	-1.1 %	(0.5)	-0.1 %
Total segment	\$ 276.4	48.4 %	\$ (14.9)	-2.6 %	\$ 261.5	45.7 %
2011						
Attritional	\$ 302.8	47.6 %	\$ (56.8)	-8.9 %	\$ 246.0	38.7 %
Catastrophes	610.5	95.9 %	(0.3)	-0.1 %	610.2	95.8 %
Total segment	\$ 913.3	143.5 %	\$ (57.1)	-9.0 %	\$ 856.1	134.5 %
2010						
Attritional	\$ 345.4	55.1 %	\$ (26.9)	-4.3 %	\$ 318.5	50.8 %
Catastrophes	253.0	40.4 %	(9.6)	-1.5 %	243.4	38.9 %
Total segment	\$ 598.4	95.5 %	\$ (36.5)	-5.8 %	\$ 561.9	89.7 %
Variance						
2012/2011						
Attritional	\$ (32.4)	(0.3) pts	\$ 48.4	7.4 pts	\$ 16.0	7.2 pts
Catastrophes	(604.5)	(94.9) pts	(6.2)	(1.0) pts	(610.7)	(95.9) pts
Total segment	\$ (636.9)	(95.1) pts	\$ 42.2	6.4 pts	\$ (594.6)	(88.8) pts
Variance						
2011/2010						
Attritional	\$ (42.6)	(7.5) pts	\$ (29.9)	(4.6) pts	\$ (72.5)	(12.1) pts
Catastrophes	357.5	55.5 pts	9.3	1.4 pts	366.8	56.9 pts
Total segment	\$ 314.9	48.0 pts	\$ (20.6)	(3.2) pts	\$ 294.2	44.8 pts
(Some amounts may not reconcile due to rounding.)						

Incurred losses and LAE decreased 69.5% to \$261.5 million in 2012 compared to \$856.1 million in 2011, representing 88.8 loss ratio points. The decrease was principally due to a \$604.5 million (94.9 points) decrease in current year catastrophes. The \$6.0 million of 2012 current year catastrophes related primarily to Superstorm Sandy (\$5.9 million). The \$610.5 million of 2011 current year catastrophes related primarily to the Japanese earthquake and tsunami (\$295.8 million), the 2011 New Zealand earthquake (\$124.4 million), the Thailand floods (\$119.8 million) and the 2011 Australian flood (\$33.2 million). Attritional losses increased by \$16.0 million (7.2 points) primarily due to less favorable reserve development in 2012 than in 2011.

Incurred losses and LAE increased 52.4% to \$856.1 million in 2011 compared to \$561.9 million in 2010. The increase was principally due to a \$357.5 million (55.5 points) increase in 2011 current year catastrophes as discussed

above. The \$253.0 million of current year catastrophe losses for 2010 related primarily to the Chile earthquake (\$187.8 million), the 2010 Australian hailstorms and floods (\$33.8 million) and the 2010 New Zealand earthquake (\$28.0 million). Current year attritional losses decreased by \$42.6 million (7.5 points), primarily due to a shift in the mix of business towards property, catastrophe and excess of loss business, which generally carries a lower loss ratio. Prior years' attritional losses decreased by \$29.9 million (4.6 points) due to favorable development on non-catastrophe property business in Singapore and other international markets.

Segment Expenses. Commission and brokerage expenses decreased 12.5% to \$124.6 million in 2012 compared to \$142.3 million in 2011. This is consistent with the reduction in earned premium and a shift in the mix of business towards property catastrophe and excess of loss business which have lower commission rates. Segment other underwriting expenses increased to \$29.3 million in 2012 compared to \$27.3 million in 2011. The increases relate to higher personnel benefit costs.

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Commission and brokerage expenses increased 4.5% to \$142.3 million in 2011 compared to \$136.2 million in 2010. These variances were due to the changes in premiums and the mix of business. Segment other underwriting expenses decreased slightly to \$27.3 million in 2011 compared to \$27.6 million in 2010.

Insurance.

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

(Dollars in millions)	Years Ended December 31,			2012/2011		2011/2010	
	2012	2011	2010	Variance	% Change	Variance	% Change
Gross written premiums	\$ 1,049.2	\$ 969.1	\$ 865.4	\$ 80.1	8.3 %	\$ 103.7	12.0 %
Net written premiums	481.2	450.4	373.7	30.8	6.8 %	76.6	20.5 %
Premiums earned	\$ 479.0	\$ 459.4	\$ 409.8	\$ 19.6	4.3 %	\$ 49.6	12.1 %
Incurred losses and LAE	405.8	398.4	359.0	7.5	1.9 %	39.3	10.9 %
Commission and brokerage	17.5	40.4	29.6	(22.8)	-56.5 %	10.8	36.5 %
Other underwriting expenses	96.5	87.7	69.7	8.8	10.0 %	18.1	25.9 %
Underwriting gain (loss)	\$ (40.9)	\$ (67.0)	\$ (48.5)	\$ 26.2	-39.0 %	\$ (18.5)	38.3 %
					Point Chg		Point Chg
Loss ratio	84.7 %	86.7 %	87.6 %		(2.0)		(0.9)
Commission and brokerage ratio	3.7 %	8.8 %	7.2 %		(5.1)		1.6
Other underwriting expense ratio	20.1 %	19.1 %	17.0 %		1.0		2.1
Combined ratio	108.5 %	114.6 %	111.8 %		(6.1)		2.8

(Some amounts may not reconcile due to rounding)

Premiums. Gross written premiums increased by 8.3% to \$1,049.2 million in 2012 compared to \$969.1 million in 2011. This increase was primarily driven by crop and primary A&H medical stop loss business, partially offset by the termination and runoff of several large casualty programs. Net written premiums increased 6.8% to \$481.2 million in 2012 compared to \$450.4 million for 2011. The lower increase in net written premiums in comparison to gross written premiums is primarily attributable to a higher level of reinsurance employed for the crop business. Premiums earned increased 4.3% to \$479.0 million in 2012 compared to \$459.4 million in 2011. The change in premiums earned is relatively consistent with the increase in net written premiums.

Gross written premiums increased by 12.0% to \$969.1 million in 2011 compared to \$865.4 million in 2010. This was due to strategic portfolio changes with growth in short-tail business, primarily driven by the acquisition of Heartland, which provided \$169.6 million of new crop insurance premium in 2011 and \$54.0 million growth in A&H primary business, partially offset by the reduction of a large casualty program. Net written premiums increased 20.5% to \$450.4 million in 2011 compared to \$373.7 million for the same period in 2010 due to higher gross premiums and reduced levels of ceded reinsurance, primarily due to the reduction of the large casualty program. Premiums earned increased 12.1% to \$459.4 million in 2011 compared to \$409.8 million in 2010. The change in premiums earned is consistent with the change in net written premiums.

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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	Ratio %/ Pt Change		Years Ended December 31, Prior Years		Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012								
Attritional	\$ 371.6	77.5 %		\$ 29.6	6.2 %		\$ 401.2	83.7 %
Catastrophes	4.6	1.0 %		-	0.0 %		4.6	1.0 %
Total segment	\$ 376.2	78.4 %		\$ 29.6	6.2 %		\$ 405.8	84.7 %
2011								
Attritional	\$ 371.7	80.9 %		\$ 24.7	5.4 %		\$ 396.4	86.3 %
Catastrophes	1.8	0.4 %		0.2	0.0 %		2.0	0.4 %
Total segment	\$ 373.5	81.3 %		\$ 24.9	5.4 %		\$ 398.4	86.7 %
2010								
Attritional	\$ 329.2	80.3 %		\$ 29.9	7.3 %		\$ 359.0	87.6 %
Catastrophes	-	0.0 %		-	0.0 %		-	0.0 %
Total segment	\$ 329.2	80.3 %		\$ 29.9	7.3 %		\$ 359.0	87.6 %
Variance 2012/2011								
Attritional	\$ (0.1)	(3.4) pts		\$ 4.9	0.8 pts		\$ 4.8	(2.6) pts
Catastrophes	2.8	0.6 pts		(0.2)	- pts		2.6	0.6 pts
Total segment	\$ 2.7	(2.9) pts		\$ 4.7	0.8 pts		\$ 7.4	(2.0) pts
Variance 2011/2010								
Attritional	\$ 42.5	0.6 pts		\$ (5.2)	(1.9) pts		\$ 37.3	(1.3) pts
Catastrophes	1.8	0.4 pts		0.2	- pts		2.0	0.4 pts
Total segment	\$ 44.3	1.0 pts		\$ (5.0)	(1.9) pts		\$ 39.3	(0.9) pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE increased by 1.9% to \$405.8 million in 2012 compared to \$398.4 million in 2011. This was primarily due to an increase of \$4.8 million in attritional losses resulting primarily from higher prior years' losses in 2012 resulting from development on excess casualty and workers' compensation reserves and a \$2.8 million increase in current year catastrophe losses due primarily to Superstorm Sandy (\$4.0 million).

Incurred losses and LAE increased by 10.9% to \$398.4 million in 2011 compared to \$359.0 million in 2010. This increase was primarily due to an increase of \$42.5 million (0.6 points) in current year attritional losses primarily due to higher net premiums earned. The \$24.7 million of prior years' development was primarily attributable to excess casualty and California workers' compensation reserves.

Segment Expenses. Commission and brokerage expenses decreased 56.5% to \$17.5 million in 2012 compared to \$40.4 million in 2011, driven by growth in direct distribution business, which has lower acquisition costs and changes in our affiliated quota share agreements. Segment other underwriting expenses in 2012 increased to \$96.5 million from \$87.7 million in 2011. These increases are primarily the result of increased personnel benefit costs.

Commission and brokerage expenses increased 36.5% to \$40.4 million in 2011 compared to \$29.6 million in 2010. These increases were primarily the result of an increase in net premiums earned and changes in distribution, mix of business and ceded reinsurance. Segment other underwriting expenses in 2011 increased to \$87.7 million from \$69.7 million in 2010. These increases were primarily due to the expenses of the newly acquired Heartland.

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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 ITEM 1A, “Risk Factors”. 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Sensitive Instruments.

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

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

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

Interest Rate Risk. Our \$9.1 billion investment portfolio, at December 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 \$738.5 million of mortgage-backed securities in the \$5,572.9 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.

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The tables below display the potential impact of market value fluctuations and after-tax unrealized appreciation on our fixed maturity portfolio (including \$465.5 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 December 31, 2012				
	-200	-100	0	100	200
Total Market/Fair Value	\$6,318.8	\$6,179.6	\$6,038.4	\$5,887.7	\$5,727.5
Market/Fair Value Change from Base (%)	4.6	% 2.3	% 0.0	% -2.5	% -5.2
Change in Unrealized Appreciation					
After-tax from Base (\$)	\$182.2	\$91.7	\$-	\$(98.0)	\$(202.1)

(Dollars in millions)	Impact of Interest Rate Shift in Basis Points				
	At December 31, 2011				
	-200	-100	0	100	200
Total Market/Fair Value	\$5,913.2	\$5,782.7	\$5,644.3	\$5,490.5	\$5,327.6
Market/Fair Value Change from Base (%)	4.8	% 2.5	% 0.0	% -2.7	% -5.6
Change in Unrealized Appreciation					
After-tax from Base (\$)	\$174.8	\$90.0	\$-	\$(100.0)	\$(205.9)

We had \$8,143.1 million and \$8,290.6 million of gross reserves for losses and LAE as of December 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. The primary objective of the equity portfolio is to obtain greater total return relative to bonds over time through market appreciation and income.

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

Impact of Percentage Change in Equity Fair/Market Values At December 31, 2012					
(Dollars in millions)	-20%	-10%	0%	10%	20%
Fair/Market Value of the Equity Portfolio	\$959.9	\$1,079.9	\$1,199.9	\$1,319.8	\$1,439.8
After-tax Change in Fair/Market Value	(156.0)	(78.0)	-	78.0	156.0

Impact of Percentage Change in Equity Fair/Market Values At December 31, 2011					
(Dollars in millions)	-20%	-10%	0%	10%	20%
Fair/Market Value of the Equity Portfolio	\$965.7	\$1,086.4	\$1,207.1	\$1,327.8	\$1,448.5
After-tax Change in Fair/Market Value	(156.9)	(78.5)	-	78.5	156.9

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

The tables below display the potential impact of a parallel and immediate 10% and 20% increase and decrease in foreign exchange rates on the valuation of invested assets subject to foreign currency exposure for the periods indicated. This analysis includes the after-tax impact of translation from transactional currency to functional currency as well as the after-tax impact of translation from functional currency to the U.S. dollar reporting currency.

Change in Foreign Exchange Rates in Percent At December 31, 2012					
(Dollars in millions)	-20%	-10%	0%	10%	20%
Total After-tax Foreign Exchange Exposure	\$(182.5)	\$(91.3)	\$-	\$91.3	\$182.5

Change in Foreign Exchange Rates in Percent

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At December 31, 2011

(Dollars in millions)	-20%	-10%	0%	10%	20%
Total After-tax Foreign Exchange Exposure	\$(175.7)	\$(87.8)	\$-	\$87.8	\$175.7

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ITEM
8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and schedules listed in the accompanying Index to Financial Statements and Schedules on page F-1 are filed as part of this report.

ITEM
9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM
9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act), our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on our assessment we concluded that, as of December 31, 2012, our internal control over financial reporting is effective based on those criteria.

Attestation Report of the Registered Public Accounting Firm

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report due to the Company's status as a non-accelerated filer.

Changes in Internal Control Over Financial Reporting

As required by Rule 13a-15(d) of the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated our internal control over financial reporting to determine whether any changes occurred during the fourth fiscal quarter covered by this annual 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 fourth quarter.

ITEM
9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information for Item 10 is not required pursuant to General Instruction I(2) of Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Information for Item 11 is not required pursuant to General Instruction I(2) of Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information for Item 12 is not required pursuant to General Instruction I(2) of Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information for Item 13 is not required pursuant to General Instruction I(2) of Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The PricewaterhouseCoopers LLP (and its worldwide affiliates) fees incurred are as follows for the periods indicated:

(Dollars in thousands)		2012	2011
(1)	Audit Fees	\$2,154.6	\$2,319.2
(2)	Audit-Related Fees	83.6	78.9
(3)	Tax Fees	88.5	119.6
(4)	All Other Fees	2.8	2.8

Audit fees include the annual audit and quarterly financial statement reviews, subsidiary audits, and procedures required to be performed by the independent auditor to be able to form an opinion on our consolidated financial statements. These other procedures include information systems and procedural reviews and testing performed in order to understand and place reliance on the systems of internal control, and consultations relating to the audit or quarterly review. Audit fees may also include statutory audits or financial audits for our subsidiaries or affiliates and services associated with SEC registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings.

Audit-related fees include assurance and related services that are reasonably related to the performance of the audit or review of our financial statements, including due diligence services pertaining to potential business acquisitions/dispositions, accounting consultations related to accounting, financial reporting or disclosure matters not classified as “audit services”; assistance with understanding and implementing new accounting and financial reporting guidance from rule making authorities; financial audits of employee benefit plans; agreed-upon or expanded audit procedures related to accounting and/or billing records required to respond to or comply with financial, accounting or

regulatory reporting matters and assistance with internal control reporting requirements.

Tax fees include tax compliance, tax planning and tax advice and is granted general pre-approval by Group's Audit Committee.

All other fees represent an accounting research subscription and software.

PricewaterhouseCoopers LLP used no leased employees on the Company's audit engagement.

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Under its Charter and the “Audit and Non-Audit Services Pre-Approval Policy” (the “Policy”), the Audit Committee is required to pre-approve the audit and non-audit services to be performed by the independent auditors. The Policy mandates specific approval by the Audit Committee for any service that has not received a general pre-approval or that exceeds pre-approved cost levels or budgeted amounts. For both specific and general pre-approval, the Audit Committee considers whether such services are consistent with the SEC’s rules on auditor independence. The Audit Committee also considers whether the independent auditors are best positioned to provide the most effective and efficient service and whether the service might enhance the Company’s ability to manage or control risk or improve audit quality. The Audit Committee is also mindful of the relationship between fees for audit and non-audit services in deciding whether to pre-approve any such services. It may determine, for each fiscal year, the appropriate ratio between the total amount of audit, audit-related and tax fees and a total amount of fees for certain permissible non-audit services classified below as “All Other Fees”. All such factors are considered as a whole, and no one factor is determinative. The Audit Committee further considered whether the performance by PricewaterhouseCoopers LLP of the non-audit related services disclosed below is compatible with maintaining their independence. The Audit Committee approved all of the audit-related fees, tax fees and all other fees for 2012 and 2011.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Exhibits

The exhibits listed on the accompanying Index to Exhibits on page E-1 are filed as part of this report except that the certifications in Exhibit 32 are being furnished to the SEC, rather than filed with the SEC, as permitted under applicable SEC rules.

Financial Statements and Schedules.

The financial statements and schedules listed in the accompanying Index to Financial Statements and Schedules on page F-1 are filed as part of this report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on March 19, 2013.

EVEREST REINSURANCE HOLDINGS, INC.

By: /S/ JOSEPH V. TARANTO
Joseph V. Taranto
(Chairman and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ JOSEPH V. TARANTO Joseph V. Taranto	Chairman and Chief Executive Officer and Director (Principal Executive Officer)	March 19, 2013
/S/ CRAIG HOWIE Craig Howie	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 19, 2013
/S/ KEITH T. SHOEMAKER Keith T. Shoemaker	Comptroller (Principal Accounting Officer)	March 19, 2013

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INDEX TO EXHIBITS

Exhibit No.

2.	1	Agreement and Plan of Merger among Everest Reinsurance Holdings, Inc., Everest Re Group, Ltd. and Everest Re Merger Corporation, incorporated herein by reference to Exhibit 2.1 to the Registration Statement on Form S-4 (No. 333-87361)
3.	1	Certificate of Incorporation of Everest Reinsurance Holdings, Inc., incorporated herein by reference to Exhibit 4.1 to the Registration Statement on Form S-8 (No. 333-05771)
3.	2	By-Laws of Everest Reinsurance Holdings, Inc., incorporated herein by reference to Exhibit 3.2 to the Everest Reinsurance Holdings, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2000
4.	1	Indenture, dated March 14, 2000, between Everest Reinsurance Holdings, Inc. and The Chase Manhattan Bank, as Trustee, incorporated herein by reference to Exhibit 4.1 to Everest Reinsurance Holdings, Inc. Form 8-K filed on March 15, 2000
4.	2	Second Supplemental Indenture relating to the 8.75% Senior Notes due March 15, 2010, dated March 14, 2000, between Everest Reinsurance Holdings, Inc. and The Chase Manhattan Bank, as Trustee, incorporated herein by reference to Exhibit 4.3 to the Everest Reinsurance Holdings, Inc. Form 8-K filed on March 15, 2000
4.	3	Junior Subordinated Indenture, dated November 14, 2002, between Everest Reinsurance Holdings, Inc. and JPMorgan Chase Bank as Trustee, incorporated herein by reference to Exhibit 4.5 to the Registration Statement on Form S-3 (No. 333-106595)
4.	4	Second Supplemental Indenture relating to Holdings 6.20% Junior Subordinated Debt Securities due March 29, 2034, dated as of March 29, 2004, among Holdings, Group and JPMorgan Chase Bank, as Trustee, incorporated herein by reference to Exhibit 4.1 to Everest Reinsurance Holdings, Inc. Form 8-K filed on March 30, 2004 (the "March 30, 2004 8-K")
4.	5	Amended and Restated Trust Agreement of Everest Re Capital Trust II, dated as of March 29, 2004, incorporated herein by reference to Exhibit 4.2 to the March 30, 2004 8-K
4.	6	Guarantee Agreement, dated as of March 29, 2004, between Holdings and JPMorgan Chase Bank, incorporated herein by

reference to Exhibit 4.3 to the March 30, 2004 8-K

- | | | |
|-----|---|--|
| 4. | 7 | Expense Agreement, dated as of March 29, 2004, between Holdings and Everest Re Capital Trust II, incorporated herein by reference to Exhibit 4.4 to the March 30, 2004 8-K |
| 4. | 8 | Third Supplemental Indenture relating to Holdings 5.40% Senior Notes due October 15, 2014, dated as of October 12, 2004, among Holdings and JPMorgan Chase Bank, as Trustee, incorporated herein by reference to Exhibit 4.1 to Everest Reinsurance Holdings, Inc. Form 8-K filed on October 12, 2004 |
| 10. | 1 | Credit Agreement, dated August 23, 2006, between Everest Reinsurance Holdings, Inc., the lenders named therein and Citibank N.A., as administrative agent, providing for \$150.0 million five year senior revolving credit facility, incorporated herein by reference to Exhibit 10.1 to Everest Re Group, Ltd. Quarterly Report on Form 10-Q for the quarter ended September 30, 2006. This new agreement replaces the October 10, 2003 three year senior revolving credit facility which expired on October 10, 2006 |

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- 10. 2 Completion of Tender Offer relating to Everest Reinsurance Holdings, Inc. 6.60% Fixed to Floating Rate Long Term Subordinated Notes (LoTSSM) dated March 19, 2009, incorporated herein by reference to Exhibit 99.1 to Everest Re Group, Ltd. Form 8-K filed on March 31, 2009
- *10. 3 Employment Agreement between Everest Global Services, Inc., Everest Reinsurance Holdings, Inc. and Joseph V. Taranto, dated January 1, 2011, incorporated herein by reference to Exhibit 10.1 to Everest Re Group, Ltd. Form 8-K filed on March 31, 2011
- *10. 4 Change of Control Agreement between and among Everest Reinsurance Company, Everest Reinsurance Holdings, Inc., Everest Re Group, Ltd., Everest Global Services, Inc. and Joseph V. Taranto, dated January 1, 2011, incorporated herein by reference to Exhibit 10.2 to Everest Re Group, Ltd. Form 8-K filed on March 31, 2011
- *10. 5 Employment Agreement between Everest Global Services, Inc., Everest Reinsurance Holdings, Inc. and Dominic J. Addesso, dated June 16, 2011, incorporated herein by reference to Exhibit 10.1 to Everest Re Group, Ltd. Form 8-K filed on June 20, 2011
- *10. 6 Employment Agreement between Everest Global Services, Inc., Everest Reinsurance Holdings, Inc. and Joseph V. Taranto, dated January 1, 2011, This employment supersedes the prior agreement between registrant and Joseph V. Taranto dated March 25, 2011. This new agreement dated January 1, 2011, incorporated herein by reference to Exhibit 10.2 to Everest Re Group, Ltd. Form 8-K filed on June 20, 2011
- 10. 7 Credit Agreement, dated August 15, 2011, between Everest Reinsurance Holdings, Inc., the lenders named therein and Citibank, National Association, as administrative agent, providing for a \$150.0 million three year revolving credit facility, incorporated herein by reference to Exhibit 10.30 to Everest Re Group, Ltd. Form 10K filed on February 29, 2012. This new agreement replaces the August 23, 2006 five year senior revolving credit facility
- *10. 8 Employment agreement between Everest Global Services, Inc., Everest Reinsurance Holdings, Inc. and Dominic J. Addesso, dated July 1, 2012, incorporated herein by reference to Exhibit 10.1 to Everest Re Group, Ltd. Form 8-K filed on July 20, 2012
- *10. 9 Employment agreement between Everest Global Services, Inc., Everest Reinsurance Holdings, Inc. and Joseph V. Taranto, dated July 1, 2012, incorporated herein by reference to Exhibit 10.2 to Everest Re Group, Ltd. Form 8-K filed on July 20, 2012
- *10. 10 Change of Control Agreement between and among Everest Reinsurance Company, Everest Reinsurance Holdings, Inc., Everest Re Group, Ltd., Everest Global Services, Inc. and Joseph V. Taranto, dated January 1, 2012, incorporated herein by reference to Exhibit 10.3 to Everest Re Group, Ltd. Form 8-K filed on July 20, 2012

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23.1	Consent of PricewaterhouseCoopers LLP, filed herewith
31.1	Section 302 Certification of Joseph V. Taranto, filed herewith
31.2	Section 302 Certification of Craig Howie, filed herewith
32.1	Section 906 Certification of Joseph V. Taranto and Craig Howie, filed herewith
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 Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Management contract or compensatory plan or arrangement.

EVEREST REINSURANCE HOLDINGS, INC.

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

	Pages
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets at December 31, 2012 and 2011</u>	F-3
<u>Consolidated Statements of Operations and Comprehensive Income (Loss) for the Years Ended</u> <u>December 31, 2012, 2011 and 2010</u>	F-4
<u>Consolidated Statements of Changes in Stockholder's Equity for the Years Ended</u> <u>December 31, 2012, 2011 and 2010</u>	F-5
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Schedules other than those listed above are omitted for the reason that they are not applicable or the information is otherwise contained in the Financial Statements.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder
of Everest Reinsurance Holdings, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Everest Reinsurance Holdings, Inc. and its subsidiaries (the “Company”) at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
New York, New York
March 19, 2013

IndexEVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
(Dollars in thousands, except par value per share)	2012	2011
ASSETS:		
Fixed maturities - available for sale, at market value (amortized cost: 2012, \$5,289,619; 2011, \$4,880,654)	\$5,531,410	\$5,107,028
Fixed maturities - available for sale, at fair value	41,470	113,606
Equity securities - available for sale, at market value (cost: 2012, \$15; 2011, \$15)	13	10
Equity securities - available for sale, at fair value	1,199,848	1,207,053
Short-term investments	465,550	423,663
Other invested assets (cost: 2012, \$420,744; 2011, \$379,342)	420,744	379,342
Other invested assets, at fair value	1,068,711	817,352
Cash	347,720	348,267
Total investments and cash	9,075,466	8,396,321
Accrued investment income	54,914	55,849
Premiums receivable	1,001,267	856,375
Reinsurance receivables - unaffiliated	650,261	570,128
Reinsurance receivables - affiliated	2,976,992	2,901,174
Funds held by reinsureds	161,694	176,156
Deferred acquisition costs	97,522	166,806
Prepaid reinsurance premiums	557,460	625,391
Deferred tax asset	214,175	366,490
Income taxes recoverable	61,244	39,014
Other assets	236,955	195,476
TOTAL ASSETS	\$15,087,950	\$14,349,180
LIABILITIES:		
Reserve for losses and loss adjustment expenses	\$8,143,055	\$8,290,619
Unearned premium reserve	1,093,822	1,239,705
Funds held under reinsurance treaties	90,079	123,479
Losses in the course of payment	179,774	11,002
Commission reserves	39,324	40,353
Other net payable to reinsurers	900,794	629,871
5.4% Senior notes due 10/15/2014	249,907	249,858
6.6% Long term notes due 5/1/2067	238,357	238,354
Junior subordinated debt securities payable	329,897	329,897
Accrued interest on debt and borrowings	4,781	4,781
Unsettled securities payable	48,830	8,793
Other liabilities	290,724	241,075
Total liabilities	11,609,344	11,407,787
Commitments and Contingencies (Note 16)		
STOCKHOLDER'S EQUITY:		
Common stock, par value: \$0.01; 3,000 shares authorized;		

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1,000 shares issued and outstanding (2012 and 2011)	-	-
Additional paid-in capital	340,223	333,416
Accumulated other comprehensive income (loss), net of deferred income tax expense (benefit) of \$99,544 at 2012 and \$94,118 at 2011	184,867	174,790
Retained earnings	2,953,516	2,433,187
Total stockholder's equity	3,478,606	2,941,393
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$15,087,950	\$14,349,180

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

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

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
REVENUES:			
Premiums earned	\$ 1,773,898	\$ 1,793,855	\$ 1,813,823
Net investment income	306,145	312,933	350,344
Net realized capital gains (losses):			
Other-than-temporary impairments on fixed maturity securities	(6,634)	(14,522)	(2,106)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-	-
Other net realized capital gains (losses)	398,336	(26,594)	67,397
Total net realized capital gains (losses)	391,702	(41,116)	65,291
Other income (expense)	12,136	(11,745)	12,074
Total revenues	2,483,881	2,053,927	2,241,532
CLAIMS AND EXPENSES:			
Incurred losses and loss adjustment expenses	1,249,744	1,877,603	1,477,450
Commission, brokerage, taxes and fees	310,699	338,655	335,061
Other underwriting expenses	170,604	154,331	139,832
Corporate expenses	8,764	6,073	5,867
Interest, fee and bond issue cost amortization expense	50,746	50,763	54,553
Total claims and expenses	1,790,557	2,427,425	2,012,763
INCOME (LOSS) BEFORE TAXES	693,324	(373,498)	228,769
Income tax expense (benefit)	172,995	(170,677)	(36,628)
NET INCOME (LOSS)	\$ 520,329	\$ (202,821)	\$ 265,397
Other comprehensive income (loss), net of tax :			
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	9,390	22,049	(51,265)
Less: reclassification adjustment for realized losses (gains) included in net income (loss)	633	20,240	23,029
Total URA(D) on securities arising during the period	10,023	42,289	(28,236)
Foreign currency translation adjustments	7,030	(2,805)	27,039
Pension adjustments	(6,976)	(29,452)	(1,815)
Total other comprehensive income (loss), net of tax	10,077	10,032	(3,012)
COMPREHENSIVE INCOME (LOSS)	\$ 530,406	\$ (192,789)	\$ 262,385

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

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

(Dollars in thousands, except share amounts)	Years Ended December 31,		
	2012	2011	2010
COMMON STOCK (shares outstanding):			
Balance, beginning of period	1,000	1,000	1,000
Balance, end of period	1,000	1,000	1,000
ADDITIONAL PAID-IN CAPITAL:			
Balance, beginning of period	\$333,416	\$327,767	\$321,185
Share-based compensation plans	6,807	6,441	6,582
Reclassification due to sale of subsidiary to related party	-	(792)	-
Balance, end of period	340,223	333,416	327,767
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES:			
Balance, beginning of period	174,790	163,966	166,978
Reclassification due to sale of subsidiary to related party	-	792	-
Net increase (decrease) during the period	10,077	10,032	(3,012)
Balance, end of period	184,867	174,790	163,966
RETAINED EARNINGS:			
Balance, beginning of period	2,433,187	2,636,008	2,370,611
Net income (loss)	520,329	(202,821)	265,397
Balance, end of period	2,953,516	2,433,187	2,636,008
TOTAL STOCKHOLDER'S EQUITY, END OF PERIOD	\$3,478,606	\$2,941,393	\$3,127,741

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

IndexEVEREST REINSURANCE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$520,329	\$(202,821)	\$265,397
Adjustments to reconcile net income to net cash provided by operating activities:			
Decrease (increase) in premiums receivable	(141,501)	(214,581)	131,870
Decrease (increase) in funds held by reinsureds, net	(17,897)	(62,082)	(8,910)
Decrease (increase) in reinsurance receivables	(152,887)	(96,003)	(271,644)
Decrease (increase) in current income taxes	(22,149)	79,504	(13,560)
Decrease (increase) in deferred tax asset	146,888	(187,967)	28,192
Decrease (increase) in prepaid reinsurance premiums	68,312	3,655	(66,408)
Increase (decrease) in reserve for losses and loss adjustment expenses	(206,435)	674,001	318,301
Increase (decrease) in unearned premiums	(150,747)	(46,182)	40,729
Increase (decrease) in other net payable to reinsurers	270,776	153,508	22,072
Increase (decrease) in losses in course of payment	169,698	(3,440)	(29,810)
Change in equity adjustments in limited partnerships	(38,579)	(42,047)	(45,463)
Change in other assets and liabilities, net	44,032	72,989	(33,463)
Non-cash compensation expense	6,803	6,166	6,382
Amortization of bond premium (accrual of bond discount)	19,124	10,125	8,614
Amortization of underwriting discount on senior notes	52	49	76
Net realized capital (gains) losses	(391,702)	41,116	(65,291)
Net cash provided by (used in) operating activities	124,117	185,990	287,084
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from fixed maturities matured/called - available for sale, at market value	927,867	695,921	676,822
Proceeds from fixed maturities matured/called - available for sale, at fair value	1,300	12,775	-
Proceeds from fixed maturities sold - available for sale, at market value	476,491	1,209,150	953,714
Proceeds from fixed maturities sold - available for sale, at fair value	84,917	65,158	20,237
Proceeds from equity securities sold - available for sale, at market value	-	27,096	-
Proceeds from equity securities sold - available for sale, at fair value	546,463	237,849	230,562
Proceeds from sale of subsidiary to related party	-	61,005	-
Distributions from other invested assets	48,688	121,176	60,283
Cost of fixed maturities acquired - available for sale, at market value	(1,784,344)	(1,455,940)	(785,831)
Cost of fixed maturities acquired - available for sale, at fair value	(7,955)	(27,481)	(134,324)
Cost of equity securities acquired - available for sale, at market value	-	(27,059)	-
Cost of equity securities acquired - available for sale, at fair value	(404,051)	(746,604)	(475,047)
Cost of other invested assets acquired	(51,512)	(53,070)	(33,021)
Cost of other invested assets acquired, at fair value	-	(37,611)	(379,591)
Cost of businesses acquired	-	(63,100)	-
Net change in short-term investments	(42,027)	89,735	(254,160)

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Net change in unsettled securities transactions	35,075	13,467	(11,773)
Net cash provided by (used in) investing activities	(169,088)	122,467	(132,129)

CASH FLOWS FROM FINANCING ACTIVITIES:

Tax benefit from share-based compensation	4	275	200
Net cost of senior notes maturing	-	-	(200,000)
Revolving credit borrowings	-	(50,000)	50,000
Net cash provided by (used in) financing activities	4	(49,725)	(149,800)

EFFECT OF EXCHANGE RATE CHANGES ON CASH	44,420	(28,557)	5,457
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Net increase (decrease) in cash	(547)	230,175	10,612
Cash, beginning of period	348,267	118,092	107,480
Cash, end of period	\$347,720	\$348,267	\$118,092

SUPPLEMENTAL CASH FLOW INFORMATION:

Income taxes paid (recovered)	\$38,548	\$(62,137)	\$(51,360)
Interest paid	50,072	50,091	59,921

Non-cash transaction:

Net assets acquired and liabilities assumed from business acquisitions	-	19,130	-
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The accompanying notes are an integral part of the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2012, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Business and Basis of Presentation.

Everest Reinsurance Holdings, Inc. (“Holdings”), a Delaware company and direct subsidiary of Everest Underwriting Group (Ireland) Limited (“Holdings Ireland”), which is a direct subsidiary of Everest Re Group, Ltd. (“Group”), through its subsidiaries, principally provides property and casualty reinsurance and insurance in the United States of America and internationally. As used in this document, “Company” means Holdings and its subsidiaries. On December 30, 2008, Group contributed the Company to its Irish holding company, Holdings Ireland.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The statements include all of the following domestic and foreign direct and indirect subsidiaries of the Company: Everest Reinsurance Company (“Everest Re”), Everest National Insurance Company (“Everest National”), Everest Indemnity Insurance Company (“Everest Indemnity”), Everest Security Insurance Company (“Everest Security”), Heartland Crop Insurance, Inc. (“Heartland”), Specialty Insurance Group, Inc. (“Specialty”), Everest Insurance Company of Canada (“Everest Canada”), Premiere Insurance Underwriting Services (“Premiere”), Mt. Whitney Securities, Inc., Everest Reinsurance Company – Escritório de Representação No Brasil Ltda. (“Everest Brazil”), Mt. McKinley Managers, L.L.C., Workcare Southeast, Inc., Workcare Southeast of Georgia, Inc. and Mt. McKinley Insurance Company (“Mt. McKinley”). The Company sold Everest Canada and Premiere to Holdings Ireland, an affiliated company, during the fourth quarter of 2011. All amounts are reported in U.S. dollars.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and disclosure of contingent assets and liabilities) at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate actual results could differ, possibly materially, from those estimates.

All intercompany accounts and transactions have been eliminated.

Certain reclassifications and format changes have been made to prior years’ amounts to conform to the 2012 presentation.

B. Investments.

Fixed maturity and equity security investments available for sale, at market value, reflect unrealized appreciation and depreciation, as a result of temporary changes in market value during the period, in stockholder’s equity, net of income taxes in “accumulated other comprehensive income (loss)” in the consolidated balance sheets. Fixed maturity, equity securities and other invested assets carried at fair value reflect fair value re-measurements as net realized capital gains and losses in the consolidated statements of operations and comprehensive income (loss). The Company records changes in fair value for its fixed maturities-available for sale, at market value through shareholders’ equity, net of taxes in accumulated other comprehensive income (loss) since cash flows from these investments will be primarily used to settle its reserve for losses and loss adjustment expense liabilities. The Company anticipates holding these investments for an extended period as the cash flow from interest and maturities will fund the projected payout of these liabilities. Fixed maturities carried at fair value represent a portfolio of convertible bond securities, which have characteristics similar to equity securities and at times, designated foreign denominated fixed maturity securities, which will be used to settle loss and loss adjustment reserves in the same currency. The Company carries all of its equity securities at fair value except for mutual fund investments whose underlying investments are comprised of

fixed maturity securities. For equity securities, available for sale, at fair value, the Company reflects changes in value as net realized capital gains and losses since these securities may be sold in the near term depending on financial market conditions. Other

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invested assets, at fair value, are comprised of common shares of the Company's ultimate parent, Everest Re Group, Ltd. Interest income on all fixed maturities and dividend income on all equity securities are included as part of net investment income in the consolidated statements of operations and comprehensive income (loss). Unrealized losses on fixed maturities, which are deemed other-than-temporary and related to the credit quality of a security, are charged to net income (loss) as net realized capital losses. Short-term investments are stated at cost, which approximates market value. Realized gains or losses on sales of investments are determined on the basis of identified cost. For non-publicly traded securities, market prices are determined through the use of pricing models that evaluate securities relative to the U.S. Treasury yield curve, taking into account the issue type, credit quality, and cash flow characteristics of each security. For publicly traded securities, market value is based on quoted market prices or valuation models that use observable market inputs. When a sector of the financial markets is inactive or illiquid, the Company may use its own assumptions about future cash flows and risk-adjusted discount rates to determine fair value. Retrospective adjustments are employed to recalculate the values of asset-backed securities. 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 to effect the calculation of projected and prepayments for pass-through security types. Other invested assets include limited partnerships, rabbi trusts and an affiliated entity. Limited partnerships and the affiliated entity are accounted for under the equity method of accounting, which can be recorded on a monthly or quarterly lag.

C. Uncollectible Receivable Balances.

The Company provides reserves for uncollectible reinsurance recoverable and premium receivable balances based on management's assessment of the collectability of the outstanding balances. Such reserves are presented in the table below for the periods indicated.

(Dollars in thousands)	Years Ended December 31,	
	2012	2011
Reinsurance recoverable and premium receivables	\$ 31,638	\$ 33,430

D. Deferred Acquisition Costs.

Acquisition costs, consisting principally of commissions and brokerage expenses and certain premium taxes and fees incurred at the time a contract or policy is issued and that vary with and are directly related to the Company's reinsurance and insurance business, are deferred and amortized over the period in which the related premiums are earned. Deferred acquisition costs are limited to their estimated realizable value by line of business based on the related unearned premiums, anticipated claims and claim expenses and anticipated investment income. Deferred acquisition costs amortized to income are presented in the table below for the periods indicated.

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Deferred acquisition costs	\$310,699	\$338,655	\$335,061

E. Reserve for Losses and Loss Adjustment Expenses.

The reserve for losses and loss adjustment expenses ("LAE") is based on individual case estimates and reports received from ceding companies. A provision is included for losses and LAE incurred but not reported ("IBNR") based on past experience. A provision is also included for certain potential liabilities relating to asbestos and environmental ("A&E")

exposures, which liabilities cannot be estimated using traditional reserving techniques. See also Note 3. The reserves are reviewed periodically and any changes in estimates are reflected in earnings in the period the adjustment is made. The Company's loss and LAE reserves represent management's best estimate of the ultimate liability. Loss and LAE reserves are presented gross of reinsurance receivables and incurred losses and LAE are presented net of reinsurance.

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Accruals for commissions are established for reinsurance contracts that provide for the stated commission percentage to increase or decrease based on the loss experience of the contract. Changes in estimates for such arrangements are recorded as commission expense. Commission accruals for contracts with adjustable features are estimated based on expected loss and LAE.

F. Premium Revenues.

Written premiums are earned ratably over the periods of the related insurance and reinsurance contracts. Unearned premium reserves are established relative to the unexpired contract period. Such reserves are established based upon reports received from ceding companies or estimated using pro rata methods based on statistical data. Reinstatement premiums represent additional premium received on reinsurance coverages, most prevalently catastrophe related, when limits have been depleted under the original reinsurance contract and additional coverage is granted. Written and earned premiums and the related costs, which have not yet been reported to the Company, are estimated and accrued. Premiums are net of ceded reinsurance.

G. Prepaid Reinsurance Premiums.

Prepaid reinsurance premiums represent unearned premium reserves ceded to other reinsurers. Prepaid reinsurance premiums for any foreign reinsurers comprising more than 10% of the outstanding balance at December 31, 2012 were collateralized either through a trust arrangement or letters of credit, thereby limiting the credit risk to the Company.

H. Income Taxes.

The Company and its wholly-owned subsidiaries file a consolidated U.S. federal income tax return. Foreign branches of subsidiaries file local tax returns as required. Deferred income taxes have been recorded to recognize the tax effect of temporary differences between the financial reporting and income tax bases of assets and liabilities, which arise because of differences between GAAP and income tax accounting rules.

I. Foreign Currency.

Assets and liabilities relating to foreign operations are translated into U.S. dollars at the exchange rates in effect at the balance sheet date; revenues and expenses are translated into U.S. dollars using average exchange rates in effect during the reporting period. Gains and losses resulting from translating foreign currency financial statements, net of deferred income taxes, are excluded from net income (loss) and accumulated in stockholder's equity. Gains and losses resulting from foreign currency transactions, other than debt securities available for sale, are recorded through the consolidated statements of operations and comprehensive income (loss) in other income (expense). Gains and losses resulting from changes in the foreign currency exchange rates on debt securities, available for sale at market value, are recorded in the consolidated balance sheets in accumulated other comprehensive income (loss) as unrealized appreciation (depreciation) and any losses which are deemed other-than-temporary are changed to net income (loss) as net realized capital loss.

J. Segmentation.

The Company, through its subsidiaries, operates in three segments: U.S. Reinsurance, International and Insurance. See also Note 18.

K. Retroactive Reinsurance.

Premiums on ceded retroactive contracts are earned when written with a corresponding reinsurance recoverable established for the amount of reserves ceded. The initial gain, if applicable, is deferred and amortized into income over an actuarially determined expected payout period. Any future loss is recognized immediately and charged against earnings.

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L. 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.

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 \$5,818 thousand of previously deferrable acquisition costs expensed in 2012. If the guidance had been applicable for the prior periods, the Company would have expensed \$7,462 thousand of deferrable acquisition costs during 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.

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2. 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 December 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	\$77,611	\$ 1,448	\$ (869)	\$78,190
Obligations of U.S. states and political subdivisions	1,214,990	78,096	(1,123)	1,291,963
Corporate securities	1,510,186	61,137	(6,471)	1,564,852
Asset-backed securities	44,070	2,417	-	46,487
Mortgage-backed securities				
Commercial	45,157	7,534	(67)	52,624
Agency residential	672,724	12,722	(1,724)	683,722
Non-agency residential	1,933	429	(33)	2,329
Foreign government securities	732,277	51,461	(3,735)	780,003
Foreign corporate securities	990,671	46,850	(6,281)	1,031,240
Total fixed maturity securities	\$5,289,619	\$ 262,094	\$ (20,303)	\$5,531,410
Equity securities	\$15	\$ -	\$ (2)	\$13

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

The \$780,003 thousand of foreign government securities at December 31, 2012 included \$90,169 thousand of European sovereign securities. Approximately 48.9%, 15.8%, 11.6%, 7.3% and 5.4% of European Sovereign Securities represented securities held in the governments of France, the United Kingdom, Sweden, the Netherlands

and Austria, respectively. No other countries represented more than 5% of the European sovereign securities. The Company held no sovereign securities of Portugal, Italy, Ireland, Greece or Spain at December 31, 2012.

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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,	
	2012	2011
Pre-tax cumulative unrealized appreciation (depreciation)	\$399	\$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 December 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	\$329,474	\$330,149	\$224,406	\$223,507
Due after one year through five years	2,380,093	2,462,430	2,055,299	2,129,437
Due after five years through ten years	1,008,653	1,064,579	955,253	1,009,893
Due after ten years	807,515	889,090	1,006,307	1,083,532
Asset-backed securities	44,070	46,487	44,351	45,103
Mortgage-backed securities				
Commercial	45,157	52,624	41,953	47,874
Agency residential	672,724	683,722	528,946	543,393
Non-agency residential	1,933	2,329	24,139	24,289
Total fixed maturity securities	\$5,289,619	\$5,531,410	\$4,880,654	\$5,107,028

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)	Years Ended December 31,	
	2012	2011
Increase (decrease) during the period between the market value and cost of investments carried at market value, and deferred taxes thereon:		
Fixed maturity securities	\$ 15,653	\$ 66,765
Fixed maturity securities, other-than-temporary impairment	(236)	(188)
Fixed maturity securities, reclassification due to sale of subsidiary to related party, pre-tax	-	(1,785)
Equity securities	3	(3)
Other invested assets	-	(1,515)
Change in unrealized appreciation (depreciation), pre-tax	15,420	63,274

Deferred tax benefit (expense)	(5,480)	(22,837)
Deferred tax benefit (expense), other-than-temporary impairment	83	66
Deferred tax benefit (expense), reclassification due to sale of subsidiary to related party	-	625
Change in unrealized appreciation (depreciation), net of deferred taxes, included in stockholder's equity	\$ 10,023	\$ 41,128

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

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security; and it is more likely than not that the Company will not have to sell the security before recovery of its cost basis, the carrying value of the investment is written down to fair value. The fair value adjustment that is credit or foreign exchange related is recorded in net realized capital gains (losses) in the Company's consolidated statements of operations and comprehensive income (loss). The fair value adjustment that is non-credit related is recorded as a component of other comprehensive income (loss), net of tax, and is included in accumulated other comprehensive income (loss) in the Company's consolidated balance sheets. The Company's assessments are based on the issuers current and expected future financial position, timeliness with respect to interest and/or principal payments, speed of repayments and any applicable credit enhancements or breakeven constant default rates on mortgage-backed and asset-backed securities, as well as relevant information provided by rating agencies, investment advisors and analysts.

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

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

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

	Duration of Unrealized Loss at December 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	\$8,058	\$ (292)	\$3,386	\$ (577)	\$11,444	\$ (869)
Obligations of U.S. states and political subdivisions	38,754	(1,072)	5,781	(51)	44,535	(1,123)
Corporate securities	122,138	(1,566)	62,492	(4,905)	184,630	(6,471)

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Asset-backed securities	-	-	-	-	-	-
Mortgage-backed securities						
Commercial	-	-	10,729	(67)	10,729	(67)
Agency residential	177,336	(1,042)	54,595	(682)	231,931	(1,724)
Non-agency residential	-	-	446	(33)	446	(33)
Foreign government securities	13,958	(105)	34,355	(3,630)	48,313	(3,735)
Foreign corporate securities	44,945	(565)	53,672	(5,716)	98,617	(6,281)
Total fixed maturity securities	\$405,189	\$ (4,642)	\$225,456	\$ (15,661)	\$630,645	\$ (20,303)
Equity securities	-	-	13	(2)	13	(2)
Total	\$405,189	\$ (4,642)	\$225,469	\$ (15,663)	\$630,658	\$ (20,305)

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(Dollars in thousands)	Duration of Unrealized Loss at December 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
Fixed maturity securities						
Due in one year or less	\$5,875	\$ (24)	\$19,291	\$ (2,833)	\$25,166	\$ (2,857)
Due in one year through five years	103,313	(1,671)	110,161	(10,564)	213,474	(12,235)
Due in five years through ten years	57,225	(678)	16,385	(1,008)	73,610	(1,686)
Due after ten years	61,440	(1,227)	13,849	(474)	75,289	(1,701)
Asset-backed securities	-	-	-	-	-	-
Mortgage-backed securities	177,336	(1,042)	65,770	(782)	243,106	(1,824)
Total fixed maturity securities	\$405,189	\$ (4,642)	\$225,456	\$ (15,661)	\$630,645	\$ (20,303)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at December 31, 2012 were \$630,658 thousand and \$20,305 thousand, respectively. There were no unrealized losses on a single issuer that exceeded 0.02% of the market value of the fixed maturity securities at December 31, 2012. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The \$4,642 thousand of unrealized losses related to fixed maturity securities that have been in an unrealized loss position for less than one year were primarily comprised of domestic corporate securities, state and municipal securities as well as agency residential mortgage-backed securities. Of these unrealized losses, \$3,281 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The \$15,661 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, \$14,401 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 floating interest rate bank loan securities. The gross unrealized depreciation for mortgage-backed securities included \$33 thousand related to sub-prime and alt-A loans. In all instances, there were no projected cash flow shortfalls to recover the full book value of the investments and the related interest obligations. The mortgage-backed securities still have excess credit coverage and are current on interest and principal payments.

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

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

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

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Other invested assets, at fair value, is comprised of common shares of the Company's ultimate parent, Group. At December 31, 2012, the Company held 9,719,971 shares of Group representing 15.9% of the total outstanding shares.

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

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Fixed maturity securities	\$216,796	\$232,287	\$290,454
Equity securities	39,284	29,694	10,190
Short-term investments and cash	1,051	1,078	407
Other invested assets			
Limited partnerships	39,696	42,349	45,464
Dividends from Parent's shares	18,663	18,645	14,029
Other	3,851	2,741	1,274
Total gross investment income	319,341	326,794	361,818
Interest debited (credited) and other investment expense	(13,196)	(13,861)	(11,474)
Total net investment income	\$306,145	\$312,933	\$350,344

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 \$67,980 thousand in limited partnerships at December 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.

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

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Fixed maturity securities, market value:			
Other-than-temporary impairments	\$(6,634)	\$(14,522)	\$(2,106)
Gains (losses) from sales	5,660	(16,652)	(33,323)
Fixed maturity securities, fair value:			
Gain (losses) from sales	5,675	(905)	775
Gains (losses) from fair value adjustments	1,941	(15,518)	15,091
Equity securities, market value:			
Gains (losses) from sales	-	37	-
Equity securities, fair value:			
Gains (losses) from sales	22,562	7,644	6,153
Gains (losses) from fair value adjustments	111,155	7,200	52,790
Other invested assets, fair value:			
Gains (losses) from fair value adjustments	251,359	(8,400)	25,912
Short-term investment gains (losses)	(16)	-	(1)

Total net realized capital gains (losses)	\$391,702	\$(41,116)	\$65,291
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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.

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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)	Years Ended December 31,		
	2012	2011	2010
Proceeds from sales of fixed maturity securities	\$561,408	\$1,274,308	\$973,951
Gross gains from sales	21,051	39,363	8,436
Gross losses from sales	(9,716)	(56,920)	(40,984)
Proceeds from sales of equity securities	\$546,463	\$264,945	\$230,562
Gross gains from sales	40,808	15,875	11,446
Gross losses from sales	(18,246)	(8,194)	(5,293)

Securities with a carrying value amount of \$1,478,079 thousand at December 31, 2012, were on deposit with various state or governmental insurance departments in compliance with insurance laws.

3. RESERVES FOR LOSSES AND LAE

Reserves for losses and LAE.

Activity in the reserve for losses and LAE is summarized for the periods indicated:

(Dollars in thousands)	At December 31,		
	2012	2011	2010
Gross reserves at January 1	\$8,290,619	\$7,652,303	\$7,300,139
Less reinsurance recoverables	(3,374,427)	(3,265,528)	(3,051,704)
Net reserves at January 1	4,916,192	4,386,775	4,248,435
Incurred related to:			
Current year	1,237,486	1,862,836	1,414,604
Prior years	12,258	14,767	62,846
Total incurred losses and LAE	1,249,744	1,877,603	1,477,450
Paid related to:			
Current year	365,805	447,182	277,177
Prior years	1,097,353	894,242	1,086,262
Total paid losses and LAE	1,463,158	1,341,424	1,363,438
Foreign exchange/translation adjustment	(4,693)	(6,762)	24,328
Net reserves at December 31	4,698,085	4,916,192	4,386,775
Plus reinsurance recoverables	3,444,970	3,374,427	3,265,528
Gross reserves at December 31	\$8,143,055	\$8,290,619	\$7,652,303

(Some amounts may not reconcile due to rounding.)

Prior years' reserves increased by \$12,258 thousand, \$14,767 thousand and \$62,846 thousand for the years ended December 31, 2012, 2011 and 2010, respectively. The increase for 2012 was attributable to a \$29,612 thousand increase in insurance business, primarily related to development on contractors' liability and workers compensation reserves, partially offset by the \$17,354 thousand decrease in reinsurance business, primarily related to favorable development on treaty casualty reserves.

The increase for 2011 was attributable to a \$71,896 thousand increase in insurance and U.S. reinsurance business, primarily related to development on contractors' liability, excess casualty and California workers compensation reserves, partially offset by the \$57,129 thousand decrease in non-US reinsurance business, primarily related to favorable development on non-catastrophe property reserves.

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Prior years' reserve development for 2010 was the result of \$29,884 thousand increase in insurance reserves, primarily due to reserve strengthening on several terminated programs and \$32,962 thousand increase in reinsurance reserves, as a result of losses from contractors' liability exposure.

Reinsurance Receivables. Reinsurance receivables for both paid and unpaid losses totaled \$3,627,253 thousand and \$3,471,302 thousand at December 31, 2012 and 2011, respectively. At December 31, 2012, \$2,881,060 thousand, or 79.4%, was receivable from Everest Reinsurance (Bermuda), Ltd. ("Bermuda Re") and \$181,535 thousand, or 5.0%, was receivable from C.V. Starr (Bermuda). Bermuda Re and CV Starr (Bermuda) receivables are fully collateralized by trust agreements. No other retrocessionaire accounted for more than 5% of reinsurance receivables.

The Company continues to receive claims under expired insurance and reinsurance contracts asserting injuries and/or damages relating to or resulting from environmental pollution and hazardous substances, including asbestos. Environmental claims typically assert liability for (a) the mitigation or remediation of environmental contamination or (b) bodily injury or property damage caused by the release of hazardous substances into the land, air or water. Asbestos claims typically assert liability for bodily injury from exposure to asbestos or for property damage resulting from asbestos or products containing asbestos.

The Company's reserves include an estimate of the Company's ultimate liability for A&E claims. The Company's A&E liabilities emanate from Mt. McKinley, a direct subsidiary of the Company, direct insurance business and Everest Re's assumed reinsurance business. All of the contracts of insurance and reinsurance under which the Company has received claims during the past three years, expired more than 20 years ago. There are significant uncertainties surrounding the Company's reserves for its A&E losses.

A&E exposures represent a separate exposure group for monitoring and evaluating reserve adequacy. The following table summarizes incurred losses with respect to A&E reserves on both a gross and net of reinsurance basis for the periods indicated:

(Dollars in thousands)	At December 31,		
	2012	2011	2010
Gross basis:			
Beginning of period reserves	\$499,911	\$554,790	\$638,674
Incurred losses	132	753	-
Paid losses	(57,222)	(55,632)	(83,884)
End of period reserves	\$442,821	\$499,911	\$554,790
Net basis:			
Beginning of period reserves	\$341,251	\$382,507	\$430,421
Incurred losses	17	(30)	(300)
Paid losses	(35,799)	(41,226)	(47,614)
End of period reserves	\$305,469	\$341,251	\$382,507

At December 31, 2012, the gross reserves for A&E losses were comprised of \$138,449 thousand representing case reserves reported by ceding companies, \$90,637 thousand representing additional case reserves established by the Company on assumed reinsurance claims, \$36,667 thousand representing case reserves established by the Company on direct excess insurance claims, including Mt. McKinley and \$177,068 thousand representing IBNR reserves.

With respect to asbestos only, at December 31, 2012, the Company had gross asbestos loss reserves of \$422,849 thousand, or 95.5%, of total A&E reserves, of which \$339,654 thousand was for assumed business and \$83,195 thousand was for direct business.

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4. FAIR VALUE

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

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

The Company internally manages a small public equity portfolio which had a fair value at December 31, 2012 of \$61,893 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.

At December 31, 2012 and 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 the third party asset managers and the Company.

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

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

	December 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)
(Dollars in thousands)				
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 78,190	\$-	\$78,190	\$ -
Obligations of U.S. States and political subdivisions	1,291,963	-	1,291,963	-
Corporate securities	1,564,852	-	1,564,852	-
Asset-backed securities	46,487	-	41,638	4,849
Mortgage-backed securities				
Commercial	52,624	-	52,624	-
Agency residential	683,722	-	654,324	29,398
Non-agency residential	2,329	-	2,324	5
Foreign government securities	780,003	-	780,003	-
Foreign corporate securities	1,031,240	-	1,019,819	11,421
Total fixed maturities, market value	5,531,410	-	5,485,737	45,673
Fixed maturities, fair value	41,470	-	41,470	-
Equity securities, market value	13	13	-	-
Equity securities, fair value	1,199,848	1,059,288	140,560	-
Other invested assets, fair value	1,068,711	1,068,711	-	-

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

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

(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)	December 31, 2012				December 31, 2011				
	Asset-backed Securities	Foreign Corporate	Non-agency RMBS	Agency RMBS	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	114	(33)	3	(3)	81	194	(7)	11	198
Included in other comprehensive income (loss)	696	144	(1)	(164)	675	(659)	(66)	54	(671)

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Purchases, issuances and settlements	4,411	18,057	(4)	29,565	52,029	15,550	2,609	(168)	17,991
Transfers in and/or (out) of Level 3	(16,418)	(9,283)	-	-	(25,701)	-	(3,635)	(348)	(3,983)
Ending balance	\$ 4,849	\$ 11,421	\$ 5	\$ 29,398	\$ 45,673	\$ 16,046	\$ 2,536	\$ 7	\$ 18,589

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

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

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5. 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 December 31, 2012, was \$1,990,497 thousand. As of December 31, 2012, the Company was in compliance with all Holdings Credit Facility covenants.

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

(Dollars in thousands)		At December 31, 2012			At December 31, 2011		
		In Use	Loan	Date of Maturity/Expiry	In Use	Loan	Date of Maturity/Expiry
Bank	Commitment						
Citibank							
Holdings Credit Facility	\$ 150,000	\$ -		\$ 150,000	\$ -		
Total revolving credit borrowings		-			-		
Total letters of credit		1,551	12/31/2013	5,020		12/31/2012	
Total Citibank Holdings Credit Facility	\$ 150,000	\$ 1,551		\$ 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)	Years Ended December 31,		
	2012	2011	2010
Credit facility fees incurred	\$582	\$476	\$457

6. 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	December 31, 2012		December 31, 2011	
				Consolidated Sheet Balance Amount	Market Value	Consolidated Sheet Balance Amount	Market Value
5.40% Senior notes	10/12/2004	10/15/2014	\$ 250,000	\$ 249,907	\$ 266,390	\$ 249,858	\$ 251,370
8.75% Senior notes (matured and paid on March 15, 2010)	03/14/2000	03/15/2010	\$ 200,000	\$ -	\$ -	\$ -	\$ -

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

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Interest expense incurred	\$13,548	\$13,546	\$17,219

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7. 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		December 31, 2012		December 31, 2011	
			Scheduled	Final	Consolidated Sheet Amount	Market Value	Consolidated Sheet Amount	Market Value
6.6% Long term subordinated notes	04/26/2007	\$ 400,000	05/15/2037	05/01/2067	\$ 238,357	\$ 242,138	\$ 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)	Years Ended December 31,		
	2012	2011	2010

Interest expense incurred	\$ 15,748	\$ 15,748	\$ 15,748
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8. 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	December 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	\$ 333,225	\$ 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)	Years Ended December 31,		
	2012	2011	2010
Interest expense incurred	\$20,454	\$20,454	\$20,454

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 5) 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, 2012, \$2,272,346 thousand of the \$3,068,916 thousand in net assets of Holdings' consolidated subsidiaries were subject to

the foregoing regulatory restrictions.

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 December 31, 2012, the total amount on deposit in the trust account was \$139,921 thousand.

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10. OPERATING LEASE AGREEMENTS

The future minimum rental commitments, exclusive of cost escalation clauses, at December 31, 2012, for all of the Company's operating leases with remaining non-cancelable terms in excess of one year are as follows:

(Dollars in thousands)

2013	\$ 10,305
2014	10,192
2015	11,072
2016	11,162
2017	10,526
Thereafter	36,365
Net commitments	\$89,622

(Some amounts may not reconcile due to rounding.)

All of these leases, the expiration terms of which range from 2017 to 2024, are for the rental of office space. Rental expense was \$12,232 thousand, \$12,656 thousand and \$11,769 thousand for the years ended December 31, 2012, 2011 and 2010, respectively.

11. INCOME TAXES

All the income of Holdings' U.S. subsidiaries is subject to the applicable federal, foreign, state and local taxes on corporations. Additionally, the income of foreign branches of the Company's insurance operating companies is subject to various income taxes. The provision for income taxes in the consolidated statement of operations and comprehensive income (loss) has been determined in accordance with the individual income of each entity and the respective applicable tax laws. The provision reflects the permanent differences between financial and taxable income relevant to each entity. The significant components of the provision are as follows for the periods indicated:

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Current tax expense (benefit):			
U.S.	\$ 18,498	\$ 660	\$(73,747)
Foreign	10,545	19,227	9,797
Total current tax expense (benefit)	29,043	19,887	(63,950)
Total deferred U.S. tax expense (benefit)	143,952	(190,564)	27,322
Total income tax expense (benefit)	\$ 172,995	\$(170,677)	\$(36,628)

A reconciliation of the U.S. Federal income tax rate to company's effective tax rate is as follows for the periods indicated:

(Dollars in thousands)	Years Ended December 31,							
	2012		2011		2010			
	\$ 242,664	35.0 %	\$ (130,724)	35.0 %	\$ 80,069	35.0 %		

Expected income tax provision at the U.S. statutory tax rate

Increase (reduction) in taxes resulting from:

Tax exempt income	(20,623)	-3.0 %	(33,672)	9.0 %	(56,457)	-24.7 %
Dividend received deduction	(7,924)	-1.1 %	(6,517)	1.7 %	(2,535)	-1.1 %
Proration	3,138	0.5 %	5,080	-1.4 %	8,510	3.7 %
Tax audit settlement	(2,508)	-0.4 %	(710)	0.2 %	(48,867)	-21.4 %
Uncertain tax positions	(31,912)	-4.6 %	8,139	-2.2 %	(5,237)	-2.3 %
Other, net	(9,840)	-1.4 %	(12,273)	3.3 %	(12,111)	-5.3 %
Total income tax provision and effective tax rate	\$ 172,995	25.0 %	\$ (170,677)	45.7 %	\$ (36,628)	-16.0 %

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During 2012, the Internal Revenue Service ("IRS") completed its audit of the Company for the 2007 and 2008 tax years. At the conclusion of the audit, the Company paid additional federal income taxes of \$12,747 thousand plus interest of \$1,702 thousand. The additional tax liability resulted primarily from adjustments to the timing of the Company's utilization of foreign tax credits and, therefore, including interest but net of a permanent benefit from previously unrecorded tax exempt income, this resulted in a \$354 thousand income tax benefit. Also as a result of closing the IRS audit, the Company was able to remeasure its exposure and take down its reserve for uncertain tax positions by \$31,912 thousand and related interest by \$2,154 thousand, resulting in an income tax benefit of \$34,067 thousand.

The Company identified net understatements in its Deferred tax asset account of \$17,520 thousand during 2012. The understatements resulted from differences between filed and recorded amounts that had accumulated over several prior periods. The Company corrected these understatements, resulting in a \$17,520 thousand income tax benefit included in the income tax expense (benefit) caption in the Consolidated Statements of Operations and Comprehensive Income (Loss) and increased net income for the same amount. The Company also increased its Deferred tax asset in its Consolidated Balance Sheets by \$17,520 thousand. The Company believes that the out of period adjustments are immaterial to these financial statements and to all prior periods. As such, the Company has not restated any prior period amounts.

Deferred income taxes reflect the tax effect of the temporary differences between the value of assets and liabilities for financial statement purposes and such values as measured by the U.S. tax laws and regulations. The principal items making up the net deferred income tax assets are as follows for the periods indicated:

(Dollars in thousands)	At December 31,	
	2012	2011
Deferred tax assets:		
Loss reserve	\$ 159,320	\$ 183,883
Foreign tax credits	90,941	74,253
Net operating loss carryforward	64,353	167,089
Alternative minimum tax credits	64,088	21,438
Deferred expenses	40,200	19,351
Unearned premium reserve	37,558	43,020
Unfunded pension liability	33,660	29,903
Deferred gain on reinsurance	30,265	31,464
Deferred compensation	6,690	7,243
Uncollectible reinsurance reserve	5,675	5,675
Investment impairments	3,009	4,478
Other assets	10,646	17,717
Total deferred tax assets	546,405	605,514
Deferred tax liabilities:		
Net unrealized fair value income	139,374	20,990
Net unrealized investment gains	84,934	76,452
Net unrealized foreign currency gains	42,747	45,837
Deferred acquisition costs	33,969	58,571
Gain on tender of debt	27,395	27,395
Bond market discount	3,050	2,902
Other liabilities	761	6,877
Total deferred tax liabilities	332,230	239,024

Net deferred tax assets	\$214,175	\$366,490
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A reconciliation of the beginning and ending amount of unrecognized tax benefits for the periods indicated is as follows:

(Dollars in thousands)	2012	2011	2010
Balance at January 1	\$31,912	\$23,773	\$29,010
Additions based on tax positions related to the current year	-	8,139	7,119
Additions for tax positions of prior years	-	-	-
Reductions for tax positions of prior years	(31,912)	-	-
Settlements with taxing authorities	-	-	(12,356)
Lapses of applicable statutes of limitations	-	-	-
Balance at December 31	\$-	\$31,912	\$23,773

As a result of closing the 2007 and 2008 IRS audit during 2012, the Company was able to remeasure its exposure and take down its reserve for uncertain tax positions by \$31,912 thousand and accrued interest of \$2,154 thousand. Thus, the entire amount of unrecognized tax benefits at December 31, 2011 and 2010 were recognized and beneficially affected the effective tax rate in 2012. The Company is no longer subject to U.S federal, state and local or foreign income tax examinations by tax authorities for years before 2009.

In 2010, the Company favorably settled a 2003 and 2004 IRS audit. During the years ended December 31, 2011 and 2010, the Company recorded a net overall tax benefit including accrued interest of \$710 thousand and \$25,920 thousand respectively. In addition, in 2010, the Company was able to take down a \$12,356 thousand reserve for uncertain tax positions that had been established with respect to 2003 and 2004.

The Company recognizes accrued interest related to net unrecognized tax benefits and penalties in income taxes. During the year ended December 31, 2012, 2011 and 2010 the Company accrued and recognized a net expense/(benefit) of approximately \$(2,154) thousand, \$957 thousand and \$(9,938) thousand, respectively, in interest and penalties. Included within the 2010 net expense (benefit) of \$(9,938) thousand is \$(10,591) thousand of accrued interest related to the 2003 and 2004 IRS audit.

For U.S. income tax purposes the Company has foreign tax credit carry forwards of \$90,941 thousand that begin to expire in 2017 and net operating loss carryforwards of \$183,866 thousand that begin to expire in 2031. In addition, for U.S. income tax purposes the Company has \$64,088 thousand of Alternative Minimum Tax credits that do not expire. Management believes that it is more likely than not that the Company will realize the benefits of its net deferred tax assets and accordingly, no valuation allowance has been recorded for the periods presented.

The Company has recorded tax benefits related to share-based compensation deductions for dividends on restricted stock, vestings of restricted stock and exercised stock options in 2012 and 2011 respectively of \$2 thousand and \$(11) thousand in additional paid-in capital on the shareholders' equity section of the consolidated balance sheets.

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12. REINSURANCE

The Company utilizes reinsurance agreements to reduce its exposure to large claims and catastrophic loss occurrences. These agreements provide for recovery from reinsurers of a portion of losses and LAE under certain circumstances without relieving the ceding company of its obligations to the policyholders. Losses and LAE incurred and premiums earned are reported after deduction for reinsurance. In the event that one or more of the reinsurers were unable to meet their obligations under these reinsurance agreements, the Company would not realize the full value of the reinsurance recoverable balances. The Company may hold partial collateral, including letters of credit, trust accounts and funds held, under these agreements. See also Note 1C and Note 3.

Premiums written and earned and incurred losses and LAE are comprised of the following for the periods indicated:

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Written premiums:			
Direct	\$1,050,248	\$808,526	\$823,305
Assumed	2,519,142	2,749,993	2,644,451
Ceded	(1,877,789)	(1,804,508)	(1,679,045)
Net written premiums	\$1,691,601	\$1,754,011	\$1,788,711
Premiums earned:			
Direct	\$1,032,576	\$867,340	\$823,734
Assumed	2,687,521	2,734,765	2,602,704
Ceded	(1,946,199)	(1,808,250)	(1,612,615)
Net premiums earned	\$1,773,898	\$1,793,855	\$1,813,823
Incurred losses and LAE:			
Direct	\$910,136	\$738,823	\$703,229
Assumed	1,630,386	2,491,002	1,946,124
Ceded	(1,290,778)	(1,352,222)	(1,171,903)
Net incurred losses and LAE	\$1,249,744	\$1,877,603	\$1,477,450

The Company engages in reinsurance transactions with Bermuda Re, Everest International Reinsurance, Ltd. (“Everest International”) and Everest Canada, which are affiliated companies primarily driven by enterprise risk and capital management considerations under which business is ceded at market rates and terms.

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

(Dollars in thousands)

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

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

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

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

(3) Amounts shown are Canadian dollars.

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

(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	Bermuda Re	100 %	All years
10/01/2001	Everest Re (Belgium Branch)	Bermuda Re	100 %	All years
10/01/2008	Everest Re	Bermuda Re	\$ 747,022	01/01/2002-12/31/2007

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

Bermuda Re (Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Ceded written premiums	\$ 1,649,473	\$ 1,627,298	\$ 1,375,778
Ceded earned premiums	1,701,811	1,565,561	1,282,720
Ceded losses and LAE (a)	1,095,331	1,226,832	923,123

Everest International (Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Ceded written premiums	\$ 1,828	\$ 885	\$ 48,128
Ceded earned premiums	3,535	18,238	99,731
Ceded losses and LAE	(2,815)	5,084	93,648

Everest Canada (Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Assumed written premiums	\$ 17,216	\$ 388	\$ -

Assumed earned premiums	15,455	94	-
Assumed losses and LAE	9,489	57	-

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

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

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13. COMPREHENSIVE INCOME (LOSS)

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

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Net income (loss)	\$520,329	\$(202,821)	\$265,397
Other comprehensive income (loss), before tax:			
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period			
URA(D) of investments - temporary	14,682	34,109	(81,731)
URA(D) of investments - non-credit OTTI	(236)	(188)	2,862
URA(D) on securities arising during the period	14,446	33,921	(78,869)
Less: reclassification adjustment for realized losses (gains) included in net income (loss)	974	31,138	35,429
Total URA(D) on securities arising during the period	15,420	65,059	(43,440)
Foreign currency translation adjustments	10,815	(4,316)	41,597
Pension adjustments	(10,732)	(45,310)	(2,792)
Total other comprehensive income (loss), before tax	15,504	15,434	(4,635)
Income tax benefit (expense) related to items of other comprehensive income (loss):			
Tax benefit (expense) on URA(D) arising during the period			
Tax benefit (expense) on URA(D) of investments - temporary	(5,139)	(11,939)	28,606
Tax benefit (expense) on URA(D) of investments - non-credit OTTI	83	66	(1,002)
Tax benefit (expense) on URA(D) on securities arising during the period	(5,056)	(11,873)	27,604
Less: reclassification of tax expense (benefit) on realized losses (gains) included in net income (loss)	(341)	(10,898)	(12,400)
Total tax benefit (expense) from URA(D) arising during the period	(5,397)	(22,771)	15,204
Tax benefit (expense) from foreign currency translation	(3,786)	1,511	(14,558)
Tax benefit (expense) on pension	3,756	15,858	977
Total income tax benefit (expense) related to items of other comprehensive income (loss):	(5,427)	(5,402)	1,623
Other comprehensive income (loss), net of tax	10,077	10,032	(3,012)
Comprehensive income (loss)	\$530,406	\$(192,789)	\$262,385

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)	Years Ended December 31,	
	2012	2011
Beginning balance of URA (D) on securities	\$ 147,140	\$ 106,009
Current period change in URA (D) of investments - temporary	10,177	42,413

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Current period change in URA (D) of investments - non-credit OTTI	(154)	(122)
Current period change in URA (D) of investments - reclassification due to sale of subsidiary to related party	-	(1,160)
Ending balance of URA (D) on securities	157,163	147,140
Beginning balance of foreign currency translation adjustments	83,185	84,040
Current period change in foreign currency translation adjustments	7,030	(2,807)
Current period change in foreign currency translation adjustments - reclassification due to sale of subsidiary to related party	-	1,952
Ending balance of foreign currency translation adjustments	90,215	83,185
Beginning balance of pension	(55,535)	(26,083)
Current period change in pension	(6,976)	(29,452)
Ending balance of pension	(62,511)	(55,535)
Ending balance of accumulated other comprehensive income (loss)	\$ 184,867	\$ 174,790

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14. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plans.

The Company maintains both qualified and non-qualified defined benefit pension plans for its U.S. employees employed prior to April 1, 2010. Generally, the Company computes the benefits based on average earnings over a period prescribed by the plans and credited length of service. The Company's non-qualified defined benefit pension plan, affected in October 1995, provides compensating pension benefits for participants whose benefits have been curtailed under the qualified plan due to Internal Revenue Code limitations.

Although not required to make contributions under IRS regulations, the following table summarizes the Company's contributions to the defined benefit pension plans for the periods indicated:

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Company contributions	\$267	\$3,223	\$6,759

The following table summarizes the Company's pension expense for the periods indicated:

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Pension expense	\$16,542	\$10,874	\$10,783

The following table summarizes the status of these defined benefit plans for U.S. employees for the periods indicated:

(Dollars in thousands)	Years Ended December 31,	
	2012	2011
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 175,364	\$ 138,392
Service cost	9,370	7,548
Interest cost	7,971	7,702
Actuarial loss	21,786	26,802
Benefits paid	(2,332)	(5,080)
Projected benefit obligation at end of year	212,159	175,364
Change in plan assets:		
Fair value of plan assets at beginning of year	101,304	114,470
Actual return on plan assets	15,568	(11,309)
Actual contributions during the year	267	3,223
Benefits paid	(2,332)	(5,080)
Fair value of plan assets at end of year	114,807	101,304
Funded status at end of year	\$ (97,352)	\$ (74,060)

Amounts recognized in the consolidated balance sheets for the periods indicated:

(Dollars in thousands)	At December 31,	
	2012	2011
Other assets (due beyond one year)	\$-	\$-
Other liabilities (due within one year)	(5,497)	(3,497)
Other liabilities (due beyond one year)	(91,855)	(70,563)
Net amount recognized in the consolidated balance sheets	\$(97,352)	\$(74,060)

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Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive income (loss) for the periods indicated:

(Dollars in thousands)	At December 31,	
	2012	2011
Prior service cost	\$ (119)	\$ (168)
Accumulated income (loss)	(85,820)	(78,755)
Accumulated other comprehensive income (loss)	\$ (85,939)	\$ (78,923)

Other changes in other comprehensive income (loss) for the periods indicated are as follows:

(Dollars in thousands)	Years Ended December 31,	
	2012	2011
Other comprehensive income (loss) at December 31, prior year	\$ (78,923)	\$ (36,436)
Net gain (loss) arising during period	(13,961)	(47,177)
Recognition of amortizations in net periodic benefit cost:		
Prior service cost	49	49
Actuarial loss	6,896	4,641
Other comprehensive income (loss) at December 31, current year	\$ (85,939)	\$ (78,923)

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

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Service cost	\$9,370	\$7,548	\$6,944
Interest cost	7,971	7,702	7,052
Expected return on assets	(7,743)	(9,067)	(7,971)
Amortization of actuarial loss from earlier periods	6,896	3,367	2,467
Amortization of unrecognized prior service cost	49	49	49
Settlement	-	1,275	2,242
Net periodic benefit cost	\$16,542	\$10,874	\$10,783
Other changes recognized in other comprehensive income (loss):			
Other comprehensive income (loss) attributable to change from prior year	7,017	42,487	
Total recognized in net periodic benefit cost and other comprehensive income (loss)	\$23,559	\$53,361	

(Some amounts may not reconcile due to rounding.)

The estimated transition obligation, actuarial loss and prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year are \$0 thousand, \$7,415 thousand and \$49

thousand, respectively.

The weighted average discount rates used to determine net periodic benefit cost for 2012, 2011 and 2010 were 4.60%, 5.60% and 6.10%, respectively. The rate of compensation increase used to determine the net periodic benefit cost for 2012, 2011 and 2010 was 4.0%. The expected long-term rate of return on plan assets for 2012, 2011 and 2010 was 7.75%, 8.0% and 8.0%, respectively, and was based on expected portfolio returns and allocations.

The weighted average discount rates used to determine the actuarial present value of the projected benefit obligation for year end 2012, 2011 and 2010 were 4.00%, 4.60% and 5.60%, respectively.

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The following table summarizes the accumulated benefit obligation for the periods indicated:

(Dollars in thousands)	At December 31,	
	2012	2011
Qualified Plan	\$ 148,107	\$ 118,981
Non-qualified Plan	25,579	21,231
Total	\$ 173,686	\$ 140,212

The following table displays the plans with projected benefit obligations in excess of plan assets for the periods indicated:

(Dollars in thousands)	At December 31,	
	2012	2011
Qualified Plan		
Projected benefit obligation	\$ 181,617	\$ 146,350
Fair value of plan assets	114,807	101,304
Non-qualified Plan		
Projected benefit obligation	\$ 30,542	\$ 29,014
Fair value of plan assets	-	-

The following table displays the plans with accumulated benefit obligations in excess of plan assets for the periods indicated:

(Dollars in thousands)	At December 31,	
	2012	2011
Qualified Plan		
Accumulated benefit obligation	\$ 148,107	\$ 118,981
Fair value of plan assets	114,807	101,304
Non-qualified Plan		
Accumulated benefit obligation	\$ 25,579	\$ 21,231
Fair value of plan assets	-	-

The following table displays the expected benefit payments in the periods indicated:

(Dollars in thousands)	
2013	\$ 8,567
2014	7,233
2015	6,582
2016	6,759
2017	7,299
Next 5 years	48,914

Plan assets consist of shares in investment trusts with approximately 68%, 29% and 3% of the underlying assets consisting of equity securities, fixed maturities and cash, respectively. The Company manages the qualified plan investments for U.S. employees. The assets in the plan consist of debt and equity mutual funds. Due to the long term nature of the plan, the target asset allocation has historically been 70% equities and 30% bonds.

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The following tables present the fair value measurement levels for the qualified plan assets at fair value for the periods indicated:

(Dollars in thousands)	December 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:				
Cash	\$ -	\$-	\$-	\$ -
Short-term investments, which approximates fair value (a)	3,343	3,343	-	-
Mutual funds, fair value				
Fixed income (b)	33,783	33,783	-	-
Equities (c)	63,065	63,065	-	-
Multi-strategy equity fund, fair value (d)	9,092	-	-	9,092
Private equity limited partnership (e)	5,524	-	-	5,524
Total	\$ 114,807	\$100,191	\$-	\$ 14,616

- (a) This category includes high quality, short-term money market instruments, which are issued and payable in U.S. dollars.
- (b) This category includes three fixed income funds, which invest in investment grade securities of corporations, governments and government agencies with approximately half in U.S. securities and half in international securities.
- (c) This category includes eight funds, which invest in small, mid and multi-cap equity securities including common stocks, securities convertible into common stock and securities with common stock characteristics, such as rights and warrants, with approximately three-fourths in U.S. equities and one-fourth in international equities.
- (d) This category consists of a privately held fund of U.S. and international equity funds and may include currency hedges for the foreign funds. The fair value is provided by the external investment manager.
- (e) This category consists of two private equity limited partnerships.

(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:				

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Cash	\$ 317	\$317	\$-	\$ -
Short-term investments, which approximates fair value				
(a)	3,109	3,109	-	-
Mutual funds, fair value				
Fixed income (b)	33,573	33,573	-	-
Equities (c)	55,423	55,423	-	-
Multi-strategy equity fund, fair value (d)	7,891	-	-	7,891
Private equity limited partnership (e)	991	-	-	991
Total	\$ 101,304	\$92,422	\$-	\$ 8,882

- (a) This category includes high quality, short-term money market instruments, which are issued and payable in U.S. dollars.
- (b) This category includes three fixed income funds, which invest in investment grade securities of corporations, governments and government agencies with approximately half in U.S. securities and half in international securities.
- (c) This category includes eight funds, which invest in small, mid and multi-cap equity securities including common stocks, securities convertible into common stock and securities with common stock characteristics, such as rights and warrants, with approximately three-fourths in U.S. equities and one-fourth in international equities.
- (d) This category consists of a privately held fund of U.S. and international equity funds and may include currency hedges for the foreign funds. The fair value is provided by the external investment manager.
- (e) This category consists of a private equity limited partnership.

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The following table presents the activity under Level 3, fair value measurements using significant unobservable inputs for fixed maturity investments, for the period indicated:

(Dollars in thousands)	Years Ended December 31,	
	2012	2011
Assets:		
Balance, beginning of period	\$ 8,882	\$ 10,259
Actual return on plan assets:		
Realized gains (losses)	(22)	21
Unrealized gains (losses)	997	(2,380)
Purchases and capital contributions	5,955	1,200
Investment income earned on assets	118	(95)
Sales and capital distributions	(1,314)	(123)
Transfers in and/or (out) of Level 3	-	-
Balance, end of period	\$ 14,616	\$ 8,882
The amount of total gains (losses) for the period included in changes in net assets attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date		
	\$ 1,019	\$ (2,401)

(Some amounts may not reconcile due to rounding.)

The Company does not expect to make any contributions to the qualified plan in 2013.

Defined Contribution Plans.

The Company also maintains both qualified and non-qualified defined contribution plans (“Savings Plan” and “Non-Qualified Savings Plan”, respectively) covering U.S. employees. Under the plans, the Company contributes up to a maximum 3% of the participants’ compensation based on the contribution percentage of the employee. The Non-Qualified Savings Plan provides compensating savings plan benefits for participants whose benefits have been curtailed under the Savings Plan due to Internal Revenue Code limitations. In addition, effective for new hires (and rehires) on or after April 1, 2010, the Company will contribute between 3% and 8% of an employee’s earnings for each payroll period based on the employee’s age. These contributions will be 100% vested after three years.

The following table presents the Company’s incurred expenses related to these plans for the periods indicated:

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Incurred expenses	\$3,209	\$2,062	\$1,801

In addition, the Company maintains several defined contribution pension plans covering non-U.S. employees. Each non-U.S. office (Brazil, Canada and Singapore) maintains a separate plan for the non-U.S. employees working in that location. The Company contributes various amounts based on salary, age and/or years of service. The contributions as a percentage of salary for the branch offices range from 6.7% to 9.2%. The contributions are generally used to purchase pension benefits from local insurance providers. The following table presents the Company’s incurred

expenses related to these plans for the periods indicated:

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Incurred expenses	\$412	\$419	\$377

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Post-Retirement Plan.

The Company sponsors a Retiree Health Plan for employees employed prior to April 1, 2010. This plan provides healthcare benefits for eligible retired employees (and their eligible dependants), who have elected coverage. The Company anticipates that most covered employees will become eligible for these benefits if they retire while working for the Company. The cost of these benefits is shared with the retiree. The Company accrues the post-retirement benefit expense during the period of the employee's service.

The following medical cost trend rates were used to determine net cost and benefit obligations: a healthcare inflation rate for pre-Medicare claims of 7.7% in 2012 was assumed to decrease gradually to 4.5% in 2027 and then remain at that level; and a healthcare inflation rate for post-Medicare claims of 6.3% in 2012 was assumed to decrease gradually to 4.5% in 2027 and then remain at that level.

Changes in the assumed healthcare cost trend can have a significant effect on the amounts reported for the healthcare plans. A one percent change in the rate would have the following effects on:

(Dollars in thousands)	Percentage Point Increase (\$ Impact)	Percentage Point Decrease (\$ Impact)
a. Effect on total service and interest cost components	\$ 617	\$ (478)
b. Effect on accumulated post-retirement benefit obligation	5,905	(4,611)

The following table presents the post-retirement benefit expenses for the periods indicated:

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Post-retirement benefit expenses	\$3,141	\$2,258	\$1,947

The following table summarizes the status of this plan for the periods indicated:

(Dollars in thousands)	At December 31,	
	2012	2011
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$21,462	\$16,754
Service cost	1,677	1,165
Interest cost	1,033	934
Actuarial loss	4,136	2,930
Excise tax cost	11	53
Benefits paid	(381)	(374)
Benefit obligation at end of year	27,938	21,462
Change in plan assets:		
Fair value of plan assets at beginning of year	-	-
Employer contributions	381	374

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Benefits paid	(381)	(374)
Fair value of plan assets at end of year	-	-
Funded status at end of year	\$(27,938)	\$(21,462)

Amounts recognized in the consolidated balance sheets for the periods indicated:

(Dollars in thousands)	At December 31,	
	2012	2011
Other liabilities (due within one year)	\$(472)	\$(470)
Other liabilities (due beyond one year)	(27,466)	(20,992)
Net amount recognized in the consolidated balance sheets	\$(27,938)	\$(21,462)

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Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive income (loss) for the periods indicated:

(Dollars in thousands)	At December 31,	
	2012	2011
Accumulated income (loss)	\$(10,231)	\$(6,516)
Accumulated other comprehensive income (loss)	\$(10,231)	\$(6,516)

Other changes in other comprehensive income (loss) for the periods indicated are as follows:

(Dollars in thousands)	Years Ended December 31,	
	2012	2011
Other comprehensive income (loss) at December 31, prior year	\$(6,516)	\$(3,692)
Net gain (loss) arising during period	(4,147)	(2,983)
Recognition of amortizations in net periodic benefit cost:		
Actuarial loss (gain)	432	159
Other comprehensive income (loss) at December 31, current year	\$(10,231)	\$(6,516)

Net periodic benefit cost included the following components for the periods indicated:

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Service cost	\$1,677	\$1,165	\$1,017
Interest cost	1,033	934	849
Net loss recognition	432	159	81
Net periodic cost	\$3,142	\$2,258	\$1,947
Other changes recognized in other comprehensive income (loss):			
Other comprehensive gain (loss) attributable to change from prior year	3,715	2,823	
Total recognized in net periodic benefit cost and other comprehensive income (loss)	\$6,857	\$5,081	

The estimated transition obligation, actuarial loss and prior service cost that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are \$0 thousand, \$614 thousand and \$0 thousand, respectively.

The weighted average discount rates used to determine net periodic benefit cost for 2012, 2011 and 2010 were 4.60%, 5.60% and 6.10%, respectively.

The weighted average discount rates used to determine the actuarial present value of the projected benefit obligation at year end 2012, 2011 and 2010 were 4.00%, 4.60% and 5.60%, respectively.

The following table displays the expected benefit payments in the years indicated:

(Dollars in thousands)

2013	\$472
2014	538
2015	672
2016	760
2017	820
Next 5 years	6,403

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15. DIVIDEND RESTRICTIONS AND STATUTORY FINANCIAL INFORMATION

Dividend Restrictions.

Delaware law provides that an insurance company which is a member of an insurance holding company system and is domiciled in the state shall not pay dividends without giving prior notice to the Insurance Commissioner of Delaware and may not pay dividends without the approval of the Insurance Commissioner if the value of the proposed dividend, together with all other dividends and distributions made in the preceding twelve months, exceeds the greater of (1) 10% of statutory surplus or (2) net income, not including realized capital gains, each as reported in the prior year's statutory annual statement. In addition, no dividend may be paid in excess of unassigned earned surplus. At December 31, 2012, Everest Re has \$359,026 thousand available for payment of dividends in 2013 without the need for prior regulatory approval.

Statutory Financial Information.

Everest Re prepares its statutory financial statements in accordance with accounting practices prescribed or permitted by the National Association of Insurance Commissioners ("NAIC") and the Delaware Insurance Department. Prescribed statutory accounting practices are set forth in the NAIC Accounting Practices and Procedures Manual. The capital and statutory surplus of Everest Re was \$2,612,995 thousand and \$2,322,115 thousand at December 31, 2012 and 2011, respectively. The statutory net income of Everest Re was \$359,816 thousand and net loss was \$326,400 thousand for the years ended December 31, 2012 and 2011 and the statutory net income of Everest Re was \$218,452 thousand for the year ended December 31, 2010, respectively.

16. 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)	Years Ended December 31,	
	2012	2011
	\$ 144,628	\$ 143,447

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

(Dollars in thousands)	Years Ended December 31,	
	2012	2011
	\$ 29,132	\$ 27,634

17. 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 December 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)	Years Ended December 31,		
	2012	2011	2010
Dividends received	\$18,663	\$18,645	\$14,029

Affiliated Companies

During the fourth quarter of 2011, the Company sold its subsidiaries, Everest Canada and 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.

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

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

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Expenses incurred	\$78,398	\$61,108	\$62,740

Outside Directors

During the normal course of business, the Company, through its affiliates, engages in insurance and brokerage and commission business transactions, with companies controlled by or affiliated with one or more of Group’s outside directors. Such transactions, individually and in the aggregate, are not material to the Company’s financial condition, results of operation and cash flows. See also Note 12.

18. 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 8% of the Company’s premiums earned and their volume is projected to remain approximately 8%. As a result of the size of these remaining operating units and their similarity to the business reported within U.S. Reinsurance, they have been reclassified to the U.S. Reinsurance segment. There has been no change to the International reporting segment. The Company has restated all segment information for prior years to conform to the new reporting segment structure.

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

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

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

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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)	Years Ended December 31,		
	2012	2011	2010
Gross written premiums	\$ 1,310,683	\$ 1,346,830	\$ 1,395,433
Net written premiums	659,692	688,524	773,615
Premiums earned	\$ 722,384	\$ 697,737	\$ 777,704
Incurred losses and LAE	582,436	623,113	556,529
Commission and brokerage	168,606	156,026	169,327
Other underwriting expenses	44,776	39,290	42,510
Underwriting gain (loss)	\$(73,434)	\$(120,692)	\$9,338

International (Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Gross written premiums	\$ 1,209,523	\$ 1,242,609	\$ 1,206,953
Net written premiums	550,732	615,064	641,359
Premiums earned	\$ 572,466	\$ 636,681	\$ 626,295
Incurred losses and LAE	261,473	856,131	561,872
Commission and brokerage	124,552	142,273	136,166
Other underwriting expenses	29,294	27,307	27,646
Underwriting gain (loss)	\$ 157,147	\$(389,030)	\$(99,389)

Insurance (Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
Gross written premiums	\$ 1,049,184	\$ 969,079	\$ 865,371
Net written premiums	481,177	450,423	373,737
Premiums earned	\$ 479,048	\$ 459,437	\$ 409,824
Incurred losses and LAE	405,835	398,359	359,049
Commission and brokerage	17,541	40,356	29,568
Other underwriting expenses	96,534	87,734	69,676
Underwriting gain (loss)	\$(40,862)	\$(67,012)	\$(48,469)

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)	Years Ended December 31,		
	2012	2011	2010
Underwriting gain (loss)	\$ 42,851	\$(576,734)	\$(138,520)

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Net investment income	306,145	312,933	350,344
Net realized capital gains (losses)	391,702	(41,116)	65,291
Corporate expense	(8,764)	(6,073)	(5,867)
Interest, fee and bond issue cost amortization expense	(50,746)	(50,763)	(54,553)
Other income (expense)	12,136	(11,745)	12,074
Income (loss) before taxes	\$693,324	\$(373,498)	\$228,769

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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)	Years Ended December 31,		
	2012	2011	2010
Canada	\$148,529	\$185,184	\$186,861

Approximately 21.1%, 29.9% and 27.0% of the Company's gross written premiums in 2012, 2011 and 2010, respectively, were sourced through the Company's largest intermediary.

19. 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.

The Company subsequently sold both Premiere and the financial lines of business of Executive Risk to an affiliated company, Holdings Ireland in the fourth quarter of 2011.

Overall, the Company recorded \$46,215 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. Intangible assets of \$7,417 thousand related to these acquisitions were subsequently sold as part of the sale of Premiere and the financial lines of business of Executive Risk to Holdings Ireland. All remaining intangible assets recorded as part of these acquisitions will be amortized on a straight line basis over seven years, subject to recoverability tests.

20. SUBSEQUENT EVENTS

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

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21. UNAUDITED QUARTERLY FINANCIAL DATA

Summarized quarterly financial data for the periods indicated:

(Dollars in thousands)	2012			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Operating data:				
Gross written premiums	\$857,191	\$732,879	\$1,010,883	\$968,437
Net written premiums	427,379	339,432	458,866	465,924
Premiums earned	433,711	438,470	427,112	474,605
Net investment income	81,242	74,206	76,342	74,355
Net realized capital gains (losses)	176,141	82,589	95,943	37,029
Total claims and underwriting expenses	377,402	428,041	359,279	566,325
Net income (loss)	214,724	125,653	155,985	23,967

(Dollars in thousands)	2011			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Operating data:				
Gross written premiums	\$886,399	\$811,508	\$923,180	\$937,431
Net written premiums	460,083	410,002	439,835	444,093
Premiums earned	459,393	452,050	442,862	439,550
Net investment income	87,132	84,459	78,325	63,017
Net realized capital gains (losses)	40,476	(68,184)	(179,036)	165,628
Total claims and underwriting expenses	679,757	432,337	435,649	822,846
Net income (loss)	(97,533)	8,807	261	(114,356)

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SCHEDULE I – SUMMARY OF INVESTMENTS -
OTHER THAN INVESTMENTS IN RELATED PARTIES
DECEMBER 31, 2012

Column A	Column B	Column C	Column D
	Cost	Market Value	Amount Shown in Balance Sheet
(Dollars in thousands)			
Fixed maturities-available for sale			
Bonds:			
U.S. government and government agencies	\$77,611	\$78,190	\$78,190
State, municipalities and political subdivisions	1,214,990	1,291,963	1,291,963
Foreign government securities	732,277	780,003	780,003
Foreign corporate securities	990,671	1,031,240	1,031,240
Public utilities	79,235	84,266	84,266
All other corporate bonds	1,447,997	1,499,221	1,499,221
Mortgage - backed securities			
Commercial	45,157	52,624	52,624
Agency residential	672,724	683,722	683,722
Non-agency residential	1,933	2,329	2,329
Redeemable preferred stock	27,024	27,852	27,852
Total fixed maturities-available for sale	5,289,619	5,531,410	5,531,410
Fixed maturities - available for sale, at fair value(1)	41,068	41,470	41,470
Equity securities - available for sale, at market value	15	13	13
Equity securities - available for sale, at fair value(1)	1,035,179	1,199,848	1,199,848
Short-term investments	465,550	465,550	465,550
Other invested assets	420,744	420,744	420,744
Other invested assets, at fair value (1)	835,371	1,068,711	1,068,711
Cash	347,720	347,720	347,720
Total investments and cash	\$8,435,266	\$9,075,466	\$9,075,466

(1) Original cost does not reflect adjustments, which have been realized through the statements of operations and comprehensive income.

IndexSCHEDULE II – CONDENSED FINANCIAL INFORMATION OF THE REGISTRANT
CONDENSED BALANCE SHEETS

(Dollars and share amounts in thousands, except par value per share)	At December 31,	
	2012	2011
ASSETS:		
Fixed maturities - available for sale, at market value (amortized cost: 2012, \$13,051; 2011, \$15,103)	\$13,327	\$15,065
Equity securities - available for sale, at fair value	61,893	43,896
Other invested assets, at market value	12,943	12,943
Other invested assets, at fair value	1,068,711	817,352
Short-term investments	45,983	44,489
Cash	289	327
Total investments and cash	1,203,146	934,072
Investment in subsidiaries, at equity in the underlying net assets	3,068,916	2,763,172
Accrued investment income	165	244
Advances to affiliates	37,700	12,000
Income taxes recoverable	99,614	43,381
Other assets	25,908	28,617
TOTAL ASSETS	\$4,435,449	\$3,781,486
LIABILITIES:		
5.4% Senior notes due 10/15/2014	\$249,907	\$249,858
6.6% Long term notes due 5/1/2067	238,357	238,354
Junior subordinated debt securities payable	329,897	329,897
Accrued interest on debt and borrowings	4,781	4,781
Deferred tax liability	121,127	13,855
Due to subsidiaries	1,084	914
Other liabilities	11,690	2,434
Total liabilities	956,843	840,093
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	340,223	333,416
Accumulated other comprehensive income (loss), net of deferred income tax expense (benefit) of \$99,544 at 2012 and \$94,118 at 2011	184,867	174,790
Retained earnings	2,953,516	2,433,187
Total stockholder's equity	3,478,606	2,941,393
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$4,435,449	\$3,781,486

See notes to consolidated financial statements.

IndexSCHEDULE II – CONDENSED FINANCIAL INFORMATION OF THE REGISTRANT
CONDENSED STATEMENTS OF OPERATIONS

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
REVENUES:			
Net investment income	\$21,526	\$21,619	\$15,436
Net realized capital gains (losses)	254,680	(1,789)	25,070
Other income (expense)	(371)	(191)	(227)
Net income (loss) of subsidiaries	377,963	(181,912)	245,753
Total revenues	653,798	(162,273)	286,032
EXPENSES:			
Interest expense	50,685	50,736	54,496
Corporate expense	7,108	3,353	3,462
Total expenses	57,793	54,089	57,958
INCOME (LOSS) BEFORE TAXES	596,005	(216,362)	228,074
Income tax expense (benefit)	75,676	(13,541)	(37,323)
NET INCOME (LOSS)	\$520,329	\$(202,821)	\$265,397
Other comprehensive income (loss), net of tax :			
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	9,390	22,049	(51,265)
Less: reclassification adjustment for realized losses (gains) included in net income (loss)	633	20,240	23,029
Total URA(D) on securities arising during the period	10,023	42,289	(28,236)
Foreign currency translation adjustments	7,030	(2,805)	27,039
Pension adjustments	(6,976)	(29,452)	(1,815)
Total other comprehensive income (loss), net of tax	10,077	10,032	(3,012)
COMPREHENSIVE INCOME (LOSS)	\$530,406	\$(192,789)	\$262,385

See notes to consolidated financial statements.

IndexSCHEDULE II – CONDENSED FINANCIAL INFORMATION OF THE REGISTRANT
CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Years Ended December 31,		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$520,329	\$(202,821)	\$265,397
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in (earnings) deficit of subsidiaries	(377,963)	181,912	(245,753)
Dividends received from subsidiaries	100,000	75,000	590,000
Increase (decrease) in accrued interest on debt and borrowings	-	(13)	(5,091)
Decrease (increase) in federal income tax recoverable	(56,234)	46,765	(26,913)
Decrease (increase) in deferred tax asset	107,163	(10,306)	4,889
Change in other assets and liabilities, net	(13,486)	(27,391)	5,232
Amortization of bond premium (accrual of bond discount)	303	80	571
Amortization of underwriting discount on senior notes	52	49	76
Net realized capital losses (gains)	(254,680)	1,789	(25,070)
Net cash provided by (used in) operating activities	25,484	65,064	563,338
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additional investment in subsidiaries	(11,102)	(19,051)	-
Proceeds from fixed maturities matured/called - available for sale, at market value	1,749	394	7,581
Proceeds from fixed maturities sold - available for sale, at market value	-	-	124,957
Proceeds from equity maturities sold - available for sale, at fair value	13,659	32,323	20,842
Cost of fixed maturities acquired - available for sale, at market value	-	(14,777)	(800)
Cost of equity securities acquired - available for sale, at fair value	(28,334)	-	(71,161)
Cost of other invested assets acquired, at fair value	-	(37,611)	(379,591)
Cost of business acquired	-	(55,000)	-
Net change in short-term investments	(1,494)	77,616	(115,056)
Net cash provided by (used in) investing activities	(25,522)	(16,106)	(413,228)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net cost of senior notes maturing	-	-	(200,000)
Revolving credit borrowings	-	(50,000)	50,000
Net cash provided by (used in) financing activities	-	(50,000)	(150,000)
Net increase (decrease) in cash	(38)	(1,042)	110
Cash, beginning of period	327	1,369	1,259
Cash, end of period	\$289	\$327	\$1,369
Non-cash financing transaction:			
Non-cash contribution from parent	\$6,807	\$5,650	\$6,582
Non-cash contribution to subsidiaries	(6,807)	(5,650)	(6,582)

See notes to consolidated financial statements.

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SCHEDULE III – SUPPLEMENTARY INSURANCE INFORMATION

Column A	Column B	Column C Reserve	Column D	Column E	Column F	Column G Incurred	Column H	Column I	Column J
Geographic Area	Deferred Acquisition Costs	and Loss Adjustment Expenses	Unearned Premium Reserves	Premiums Earned	Net Investment Income	Loss Adjustment Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses	Net Written Premium
(Dollars in thousands) December 31, 2012									
Domestic	\$35,272	\$6,263,961	\$854,151	\$1,201,432	\$258,469	\$988,271	\$186,147	\$141,310	\$1,140,869
International	62,250	1,879,094	239,671	572,466	47,676	261,473	124,552	29,294	550,732
Total	\$97,522	\$8,143,055	\$1,093,822	\$1,773,898	\$306,145	\$1,249,744	\$310,699	\$170,604	\$1,691,601
December 31, 2011									
Domestic	\$93,950	\$6,099,606	\$976,332	\$1,157,174	\$260,923	\$1,021,472	\$196,382	\$127,024	\$1,138,947
International	72,856	2,191,013	263,373	636,681	52,010	856,131	142,273	27,307	615,064
Total	\$166,806	\$8,290,619	\$1,239,705	\$1,793,855	\$312,933	\$1,877,603	\$338,655	\$154,331	\$1,754,011
December 31, 2010									
Domestic	\$104,862	\$5,944,708	\$998,755	\$1,187,528	\$306,256	\$915,578	\$198,895	\$112,186	\$1,147,352
International	79,385	1,707,595	288,721	626,295	44,088	561,872	136,166	27,646	641,359
Total	\$184,247	\$7,652,303	\$1,287,476	\$1,813,823	\$350,344	\$1,477,450	\$335,061	\$139,832	\$1,788,711

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SCHEDULE IV – REINSURANCE

Column A	Column B	Column C	Column D	Column E	Column F
(Dollars in thousands)	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Assumed to Net
December 31, 2012					
Total property and liability insurance premiums earned	\$1,032,576	\$1,946,199	\$2,687,521	\$1,773,898	151.5 %
December 31, 2011					
Total property and liability insurance premiums earned	\$867,340	\$1,808,250	\$2,734,765	\$1,793,855	152.5 %
December 31, 2010					
Total property and liability insurance premiums earned	\$823,734	\$1,612,615	\$2,602,704	\$1,813,823	143.5 %

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