EVEREST RE GROUP LTD
Form 10-Q
August 09, 2012

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

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

FOR THE QUARTERLY PERIOD ENDED: June 30, 2012	Commission file number: 1-15731

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

Bermuda (State or other jurisdiction of incorporation or organization)	98-0365432 (I.R.S. Employer Identification No.)

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

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

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

YES X NO

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

YES X NO

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

Large accelerated filer	X	Accelerated filer	

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

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

YES NO X

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

Class	Number of Shares Outstanding At August 1, 2012
Common Shares, $0.01 par value	51,822,388

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PART I

ITEM 1. FINANCIAL STATEMENTS

EVEREST RE GROUP, LTD.
CONSOLIDATED BALANCE SHEETS

(Dollars and share amounts in thousands, except par value per share)	June 30, 2012 (unaudited)	December 31, 2011
ASSETS:		
Fixed maturities - available for sale, at market value	$ 12,480,411	$ 12,293,524
(amortized cost: 2012, $11,845,861; 2011, $11,731,173)		
Fixed maturities - available for sale, at fair value	62,831	113,606
Equity securities - available for sale, at market value (cost: 2012, $335,081; 2011, $463,620)	331,212	448,930
Equity securities - available for sale, at fair value	1,215,455	1,249,106
Short-term investments	947,600	685,332
Other invested assets (cost: 2012, $593,459; 2011, $558,232)	593,459	558,232
Cash	398,851	448,651
Total investments and cash	16,029,819	15,797,381
Accrued investment income	129,309	130,193
Premiums receivable	971,599	1,077,548
Reinsurance receivables	598,399	580,339
Funds held by reinsureds	259,375	267,295
Deferred acquisition costs	285,034	378,026
Prepaid reinsurance premiums	76,583	85,409
Deferred tax asset	294,683	332,783
Income taxes recoverable	40,004	41,623
Other assets	218,446	202,958
TOTAL ASSETS	$ 18,903,251	$ 18,893,555
LIABILITIES:		
Reserve for losses and loss adjustment expenses	$ 9,890,827	$ 10,123,215
Future policy benefit reserve	66,269	67,187
Unearned premium reserve	1,241,592	1,412,778
Funds held under reinsurance treaties	2,646	2,528
Commission reserves	44,646	55,103
Other net payable to reinsurers	78,366	51,564
5.4% Senior notes due 10/15/2014	249,882	249,858
6.6% Long term notes due 5/1/2067	238,355	238,354
Junior subordinated debt securities payable	329,897	329,897
Accrued interest on debt and borrowings	4,781	4,781
Equity index put option liability	79,851	69,729
Other liabilities	258,788	217,186
Total liabilities	12,485,900	12,822,180

Commitments and contingencies (Note 8)				
SHAREHOLDERS' EQUITY:				
Preferred shares, par value: $0.01; 50,000 shares authorized;				
no shares issued and outstanding		-		-
Common shares, par value: $0.01; 200,000 shares authorized; (2012) 66,944				
and (2011) 66,455 outstanding before treasury shares		669		665
Additional paid-in capital		1,924,313		1,892,988
Accumulated other comprehensive income (loss), net of deferred income tax expense				
(benefit) of $117,348 at 2012 and $112,969 at 2011		438,139		366,978
Treasury shares, at cost; 15,087 shares (2012) and 12,719 shares (2011)		(1,298,969)		(1,073,970)
Retained earnings		5,353,199		4,884,714
Total shareholders' equity		6,417,351		6,071,375
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	18,903,251	$	18,893,555

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share amounts)	2012	2011	2012	2011
	(unaudited)		(unaudited)	
REVENUES:				
Premiums earned	$ 1,037,800	$ 1,039,835	$ 2,035,778	$ 2,051,281
Net investment income	149,329	158,618	301,767	337,323
Net realized capital gains (losses):				
Other-than-temporary impairments on fixed maturity securities	(466)	-	(6,354)	(14,767)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	-	-	-	-
Other net realized capital gains (losses)	(16,114)	(4,845)	88,493	22,078
Total net realized capital gains (losses)	(16,580)	(4,845)	82,139	7,311
Net derivative gain (loss)	(16,306)	(3,371)	(10,123)	4,154
Other income (expense)	27,812	(13,446)	21,618	(16,833)
Total revenues	1,182,055	1,176,791	2,431,179	2,383,236
CLAIMS AND EXPENSES:				
Incurred losses and loss adjustment expenses	607,870	735,789	1,210,336	1,985,565
Commission, brokerage, taxes and fees	265,789	237,374	503,292	473,831
Other underwriting expenses	49,675	45,897	98,170	90,853
Corporate expenses	6,075	3,790	10,736	7,718
Interest, fees and bond issue cost amortization expense	13,244	13,116	26,422	26,114
Total claims and expenses	942,653	1,035,966	1,848,956	2,584,081
INCOME (LOSS) BEFORE TAXES	239,402	140,825	582,223	(200,845)
Income tax expense (benefit)	24,851	9,513	62,968	(16,263)
NET INCOME (LOSS)	$ 214,551	$ 131,312	$ 519,255	$ (184,582)
Other comprehensive income (loss), net of tax :				
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period	5,408	108,484	85,535	67,677
Less: reclassification adjustment for realized losses (gains) included in net income (loss)	(7,456)	3,153	(7,214)	19,471
Total URA(D) on securities arising during the period	(2,048)	111,637	78,321	87,148
Foreign currency translation adjustments	(24,997)	10,683	(9,127)	39,505
Pension adjustments	983	746	1,967	1,492
	(26,062)	123,066	71,161	128,145

Total other comprehensive income (loss), net of tax				
COMPREHENSIVE INCOME (LOSS)	$ 188,489	$ 254,378	$ 590,416	$ (56,437)
EARNINGS PER COMMON SHARE:				
Basic	$ 4.10	$ 2.42	$ 9.81	$ (3.40)
Diluted	4.08	2.41	9.79	(3.40)
Dividends declared	0.48	0.48	0.96	0.96

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

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

(Dollars in thousands, except share and dividends per share amounts)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(unaudited)		(unaudited)	
COMMON SHARES (shares outstanding):				
Balance, beginning of period	52,624,820	54,224,433	53,735,551	54,428,168
Issued during the period, net	223,184	121,783	489,882	346,086
Treasury shares acquired	(990,957)	-	(2,368,386)	(428,038)
Balance, end of period	51,857,047	54,346,216	51,857,047	54,346,216
COMMON SHARES (par value):				
Balance, beginning of period	$667	$662	$665	$660
Issued during the period, net	2	2	4	4
Balance, end of period	669	664	669	664
ADDITIONAL PAID-IN CAPITAL:				
Balance, beginning of period	1,901,322	1,868,153	1,892,988	1,863,031
Share-based compensation plans	22,991	10,089	31,325	15,211
Balance, end of period	1,924,313	1,878,242	1,924,313	1,878,242
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES:				
Balance, beginning of period	464,201	337,337	366,978	332,258
Net increase (decrease) during the period	(26,062)	123,066	71,161	128,145
Balance, end of period	438,139	460,403	438,139	460,403
RETAINED EARNINGS:				
Balance, beginning of period	5,163,777	4,727,109	4,884,714	5,069,048
Net income (loss)	214,551	131,312	519,255	(184,582)
Dividends declared ($0.48 per quarter and $0.96 year-to-date per share in 2012 and 2011)	(25,129)	(26,081)	(50,770)	(52,126)
Balance, end of period	5,353,199	4,832,340	5,353,199	4,832,340
TREASURY SHARES AT COST:				
Balance, beginning of period	(1,198,969)	(1,019,091)	(1,073,970)	(981,480)
Purchase of treasury shares	(100,000)	-	(224,999)	(37,611)
Balance, end of period	(1,298,969)	(1,019,091)	(1,298,969)	(1,019,091)
TOTAL SHAREHOLDERS' EQUITY, END OF PERIOD	$6,417,351	$6,152,558	$6,417,351	$6,152,558

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

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EVEREST RE GROUP, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(unaudited)		(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ 214,551	$ 131,312	$ 519,255	$ (184,582)
Adjustments to reconcile net income to net cash provided by operating activities:				
Decrease (increase) in premiums receivable	70,139	(35,074)	107,410	(153,497)
Decrease (increase) in funds held by reinsureds, net	10,673	22,645	8,407	39,488
Decrease (increase) in reinsurance receivables	(33,809)	537	(13,027)	17,755
Decrease (increase) in income taxes recoverable	4,768	49,873	1,459	(7,433)
Decrease (increase) in deferred tax asset	3,956	(17,582)	33,961	1,658
Decrease (increase) in prepaid reinsurance premiums	3,130	22,319	9,123	39,346
Increase (decrease) in reserve for losses and loss adjustment expenses	(95,066)	146,938	(267,230)	693,385
Increase (decrease) in future policy benefit reserve	(574)	(176)	(919)	(394)
Increase (decrease) in unearned premiums	(186,162)	(106,556)	(173,569)	(113,687)
Increase (decrease) in other net payable to reinsurers	30,025	(6,899)	26,903	(29,583)
Change in equity adjustments in limited partnerships	(15,972)	(14,309)	(28,492)	(50,614)
Change in other assets and liabilities, net	92,669	(64,275)	119,003	60,963
Non-cash compensation expense	7,652	4,212	13,374	7,658
Amortization of bond premium (accrual of bond discount)	16,200	12,818	30,966	25,570
Amortization of underwriting discount on senior notes	12	12	25	24
Net realized capital (gains) losses	16,580	4,845	(82,139)	(7,311)
Net cash provided by (used in) operating activities	138,772	150,640	304,510	338,746
CASH FLOWS FROM INVESTING ACTIVITIES:				

Proceeds from fixed maturities matured/called - available for sale, at market value		381,216	372,401	791,593	810,665
Proceeds from fixed maturities matured/called - available for sale, at fair value		-	5,875	-	12,775
Proceeds from fixed maturities sold - available for sale, at market value		203,240	336,770	421,318	867,680
Proceeds from fixed maturities sold - available for sale, at fair value		1,862	17,168	61,143	50,120
Proceeds from equity securities sold - available for sale, at market value		34,549	110	54,792	27,206
Proceeds from equity securities sold - available for sale, at fair value		53,950	37,000	297,606	93,667
Distributions from other invested assets		12,798	40,535	21,017	127,094
Cost of fixed maturities acquired - available for sale, at market value		(641,902)	(582,696)	(1,254,576)	(1,537,328)
Cost of fixed maturities acquired - available for sale, at fair value		(2,382)	(7,148)	(5,506)	(15,224)
Cost of equity securities acquired - available for sale, at market value		(6,202)	(28,683)	(12,654)	(115,811)
Cost of equity securities acquired - available for sale, at fair value		(79,934)	(213,658)	(193,279)	(342,300)
Cost of other invested assets acquired		(16,680)	(27,544)	(28,592)	(52,102)
Cost of businesses acquired		-	-	-	(63,100)
Net change in short-term investments		(5,025)	(130,222)	(262,730)	2,717
Net change in unsettled securities transactions		(32,856)	175,061	5,966	47,201
Net cash provided by (used in) investing activities		(97,366)	(5,031)	(103,902)	(86,740)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Common shares issued during the period, net		15,344	5,879	17,955	7,557
Purchase of treasury shares		(100,000)	-	(224,999)	(37,611)
Revolving credit borrowings		-	-	-	(10,000)
Dividends paid to shareholders		(25,129)	(26,081)	(50,770)	(52,126)
Net cash provided by (used in) financing activities		(109,785)	(20,202)	(257,814)	(92,180)
EFFECT OF EXCHANGE RATE CHANGES ON CASH		(4,817)	1,969	7,406	(6,711)
Net increase (decrease) in cash		(73,196)	127,376	(49,800)	153,115
Cash, beginning of period		472,047	284,147	448,651	258,408
Cash, end of period	$	398,851	$ 411,523	$ 398,851	$ 411,523
SUPPLEMENTAL CASH FLOW INFORMATION:					

Income taxes paid (recovered)	$ 12,617	$ (24,471)	$ 23,801	$ (12,546)
Interest paid	20,387	20,259	26,085	25,778
Non-cash transaction:				
Net assets acquired and liabilities assumed from business acquisitions	-	-	-	19,130
Conversion of equity securities - available for sale, at market value, to fixed maturity securities - available for sale, at market value, including accrued interest at time of conversion	92,981	-	92,981	-

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

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NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the Three and Six Months Ended June 30, 2012 and 2011

1. GENERAL

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

2. BASIS OF PRESENTATION

The unaudited consolidated financial statements of the Company for the three and six months ended June 30, 2012 and 2011 include all adjustments, consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair statement of the results on an interim basis. Certain financial information, which is normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), has been omitted since it is not required for interim reporting purposes. The December 31, 2011 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The results for the three and six months ended June 30, 2012 and 2011 are not necessarily indicative of the results for a full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2011, 2010 and 2009 included in the Company's most recent Form 10-K filing.

All intercompany accounts and transactions have been eliminated.

Certain reclassifications and format changes have been made to prior period amounts to conform to the current period presentation.

Application of Recently Issued Accounting Standard Changes.

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

Presentation of Comprehensive Income. In June 2011, FASB issued amendments to existing guidance to provide two alternatives for the presentation of comprehensive income. Components of net income and comprehensive income can either be presented within a single, continuous financial statement or be presented in two separate but consecutive financial statements. The Company has chosen to present the components of net income and comprehensive income in a single, continuous financial statement. The guidance is effective for reporting periods beginning after December 15, 2011. The Company implemented this guidance as of January 1, 2012.

Common Fair Value Measurement. In May 2011, FASB issued amendments to existing guidance to achieve common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards. The amendments change wording used to describe many GAAP fair value measurement requirements and disclosures. FASB does not intend for the amendments to cause a change in application of fair value accounting guidance. The guidance is effective for reporting periods beginning after December 15, 2011. The Company implemented this guidance prospectively as of January 1, 2012.

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Treatment of Insurance Contract Acquisition Costs. In October 2010, the FASB issued authoritative guidance for the accounting for costs associated with acquiring or renewing insurance contracts. The guidance identifies the incremental direct costs of contract acquisition and costs directly related to acquisition activities that should be capitalized. This guidance is effective for reporting periods beginning after December 15, 2011. The Company implemented this guidance as of January 1, 2012 and determined that $13,492 thousand of previously deferrable acquisition costs will be expensed during 2012 and the first quarter of 2013, including $3,595 thousand and $6,241 thousand of previously deferrable acquisition costs expensed in the three and six months ended June 30, 2012, respectively. If the guidance had been applicable for the prior periods, the Company would have expensed $3,401 thousand and $6,447 thousand of deferrable acquisition costs during the three and six months ended June 30, 2011, respectively.

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

3. INVESTMENTS

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

	At June 30, 2012			
(Dollars in thousands)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value
Fixed maturity securities				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$ 294,101	$ 15,445	$ (465)	$ 309,081
Obligations of U.S. states and political subdivisions	1,353,400	93,071	(245)	1,446,226
Corporate securities	3,611,149	226,104	(12,733)	3,824,520
Asset-backed securities	186,595	7,139	(411)	193,323
Mortgage-backed securities				
Commercial	311,176	24,077	(6,966)	328,287
Agency residential	2,056,703	73,608	(2,657)	2,127,654
Non-agency residential	13,378	735	(236)	13,877
Foreign government securities	1,639,567	122,945	(5,683)	1,756,829
Foreign corporate securities	2,379,792	118,789	(17,967)	2,480,614
Total fixed maturity securities	$ 11,845,861	$ 681,913	$ (47,363)	$ 12,480,411
Equity securities	$ 335,081	$ 3,634	$ (7,503)	$ 331,212

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	At December 31, 2011			
(Dollars in thousands)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value
Fixed maturity securities				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$ 284,514	$ 16,407	$ (287)	$ 300,634
Obligations of U.S. states and political subdivisions	1,558,615	102,815	(525)	1,660,905
Corporate securities	3,495,761	197,914	(27,054)	3,666,621
Asset-backed securities	186,936	7,020	(550)	193,406
Mortgage-backed securities				
Commercial	310,387	20,942	(9,902)	321,427
Agency residential	2,198,937	86,722	(3,066)	2,282,593
Non-agency residential	53,365	499	(775)	53,089
Foreign government securities	1,555,707	120,900	(8,389)	1,668,218
Foreign corporate securities	2,086,951	91,869	(32,189)	2,146,631
Total fixed maturity securities	$ 11,731,173	$ 645,088	$ (82,737)	$ 12,293,524
Equity securities	$ 463,620	$ 4,060	$ (18,750)	$ 448,930

The $1,756,829 thousand of foreign government securities at June 30, 2012 included $788,695 thousand of European sovereign securities. Approximately 56.3%, 19.2% and 7.2% of European sovereign securities represented securities held in the governments of the United Kingdom, France 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 June 30, 2012.

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

(Dollars in thousands)	At June 30, 2012	At December 31, 2011
Pre-tax cumulative unrealized appreciation (depreciation)	$ 4,028	$ 2,567

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

	At June 30, 2012		At December 31, 2011	
(Dollars in thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value
Fixed maturity securities – available for sale:				
Due in one year or less	$ 800,697	$ 808,527	$ 494,098	$ 494,911
Due after one year through five years	5,219,213	5,464,033	5,052,484	5,268,748
Due after five years through ten years	2,098,202	2,264,549	2,188,080	2,325,142
Due after ten years	1,159,897	1,280,161	1,246,886	1,354,208
Asset-backed securities	186,595	193,323	186,936	193,406
Mortgage-backed securities:				

Commercial	311,176	328,287	310,387	321,427
Agency residential	2,056,703	2,127,654	2,198,937	2,282,593
Non-agency residential	13,378	13,877	53,365	53,089
Total fixed maturity securities	$ 11,845,861	$ 12,480,411	$ 11,731,173	$ 12,293,524

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2012	2011	2012	2011
Increase (decrease) during the period between the market value and cost of investments carried at market value, and deferred taxes thereon:				
Fixed maturity securities	$ 9,352	$ 128,231	$ 70,739	$ 91,685
Fixed maturity securities, other-than-temporary impairment	559	723	1,461	1,887
Equity securities	(12,029)	8,728	10,821	8,108
Other invested assets	-	(3,165)	-	(1,730)
Change in unrealized appreciation (depreciation), pre-tax	(2,118)	134,517	83,021	99,950
Deferred tax benefit (expense)	53	(22,885)	(4,724)	(12,800)
Deferred tax benefit (expense), other-than-temporary impairment	17	5	24	(2)
Change in unrealized appreciation (depreciation), net of deferred taxes, included in shareholders' equity	$ (2,048)	$ 111,637	$ 78,321	$ 87,148

The Company frequently reviews all of its fixed maturity, available for sale securities for declines in market value and focuses its attention on securities whose fair value has fallen below 80% of their amortized cost at the time of review. The Company then assesses whether the decline in value is temporary or other-than-temporary. In making its assessment, the Company evaluates the current market and interest rate environment as well as specific issuer information. Generally, a change in a security's value caused by a change in the market, interest rate or foreign exchange environment does not constitute an other-than-temporary impairment, but rather a temporary decline in market value. Temporary declines in market value are recorded as unrealized losses in accumulated other comprehensive income (loss). If the Company determines that the decline is other-than-temporary and the Company does not have the intent to sell the security; and it is more likely than not that the Company will not have to sell the security before recovery of its cost basis, the carrying value of the investment is written down to fair value. The fair value adjustment that is credit or foreign exchange related is recorded in net realized capital gains (losses) in the Company's consolidated statements of operations and comprehensive income (loss). The fair value adjustment that is non-credit related is recorded as a component of other comprehensive income (loss), net of tax, and is included in accumulated other comprehensive income (loss) in the Company's consolidated balance sheets. The Company's assessments are based on the issuers current and expected future financial position, timeliness with respect to interest and/or principal payments, speed of repayments and any applicable credit enhancements or breakeven constant default rates on mortgage-backed and asset-backed securities, as well as relevant information provided by rating agencies, investment advisors and analysts.

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

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

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

	Duration of Unrealized Loss at June 30, 2012 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of						
U.S. government agencies and corporations	$ -	$ -	$ 6,145	$ (465)	$ 6,145	$ (465)
Obligations of U.S. states and political subdivisions	712	(9)	5,793	(236)	6,505	(245)
Corporate securities	249,060	(3,865)	169,654	(8,868)	418,714	(12,733)
Asset-backed securities	15,514	(182)	1,208	(229)	16,722	(411)
Mortgage-backed securities						
Commercial	-	-	46,708	(6,966)	46,708	(6,966)
Agency residential	346,230	(2,328)	3,222	(329)	349,452	(2,657)
Non-agency residential	-	-	3,211	(236)	3,211	(236)
Foreign government securities	75,726	(1,049)	65,899	(4,634)	141,625	(5,683)
Foreign corporate securities	216,307	(3,512)	157,896	(14,455)	374,203	(17,967)
Total fixed maturity securities	$ 903,549	$ (10,945)	$ 459,736	$ (36,418)	$ 1,363,285	$ (47,363)
Equity securities	315,882	(7,501)	13	(2)	315,895	(7,503)
Total	$ 1,219,431	$ (18,446)	$ 459,749	$ (36,420)	$ 1,679,180	$ (54,866)

	Duration of Unrealized Loss at June 30, 2012 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities						
Due in one year or less	$ 34,588	$ (589)	$ 55,410	$ (7,886)	$ 89,998	$ (8,475)
Due in one year through five years	316,457	(4,112)	217,912	(12,762)	534,369	(16,874)
Due in five years through ten years	166,048	(3,029)	106,435	(4,365)	272,483	(7,394)
Due after ten years	24,712	(705)	25,630	(3,645)	50,342	(4,350)
Asset-backed securities	15,514	(182)	1,208	(229)	16,722	(411)
Mortgage-backed securities	346,230	(2,328)	53,141	(7,531)	399,371	(9,859)
Total fixed maturity securities	$ 903,549	$ (10,945)	$ 459,736	$ (36,418)	$ 1,363,285	$ (47,363)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at June 30, 2012 were $1,679,180 thousand and $54,866 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 June 30, 2012. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The $10,945 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, agency residential mortgage-backed securities and foreign government securities. Of these unrealized losses, $6,854 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The $36,418 thousand of unrealized losses related to fixed maturity securities in an unrealized loss position for more than one year related primarily to domestic and foreign corporate securities, foreign government securities and commercial mortgage-backed securities. Of these unrealized losses, $25,801 thousand 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 and commercial mortgage-backed securities. The gross unrealized depreciation for mortgage-backed securities included $282 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

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obligations. The mortgage-backed securities still have excess credit coverage and are current on interest and principal payments.

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

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

	Duration of Unrealized Loss at December 31, 2011 By Security Type					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of						
U.S. government agencies and corporations	$ -	$ -	$ 3,452	$ (287)	$ 3,452	$ (287)
Obligations of U.S. states and political subdivisions	-	-	7,518	(525)	7,518	(525)
Corporate securities	512,255	(14,962)	120,064	(12,092)	632,319	(27,054)
Asset-backed securities	20,839	(339)	3,655	(211)	24,494	(550)
Mortgage-backed securities						
Commercial	9,292	(1,267)	54,535	(8,635)	63,827	(9,902)
Agency residential	253,171	(2,524)	43,894	(542)	297,065	(3,066)
Non-agency residential	1,542	(19)	35,679	(756)	37,221	(775)
Foreign government securities	39,534	(1,035)	132,977	(7,354)	172,511	(8,389)
Foreign corporate securities	278,949	(12,287)	259,641	(19,902)	538,590	(32,189)
Total fixed maturity securities	$ 1,115,582	$ (32,433)	$ 661,415	$ (50,304)	$ 1,776,997	$ (82,737)
Equity securities	108,939	(8,499)	204,466	(10,251)	313,405	(18,750)
Total	$ 1,224,521	$ (40,932)	$ 865,881	$ (60,555)	$ 2,090,402	$ (101,487)

	Duration of Unrealized Loss at December 31, 2011 By Maturity					
	Less than 12 months		Greater than 12 months		Total	
(Dollars in thousands)	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation	Market Value	Gross Unrealized Depreciation
Fixed maturity securities						
Due in one year or less	$ 26,581	$ (326)	$ 72,083	$ (8,953)	$ 98,664	$ (9,279)
Due in one year through five years	421,995	(12,001)	256,698	(15,635)	678,693	(27,636)
Due in five years through ten years	337,232	(13,019)	159,476	(8,264)	496,708	(21,283)

Due after ten years	44,930	(2,938)	35,395	(7,308)	80,325	(10,246)
Asset-backed securities	20,839	(339)	3,655	(211)	24,494	(550)
Mortgage-backed securities	264,005	(3,810)	134,108	(9,933)	398,113	(13,743)
Total fixed maturity securities	$1,115,582	$ (32,433)	$661,415	$ (50,304)	$1,776,997	$ (82,737)

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position at December 31, 2011 were $2,090,402 thousand and $101,487 thousand, respectively. There were no unrealized losses on a single issuer that exceeded 0.04% of the market value of the fixed maturity securities at 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 $32,433 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. Of these unrealized losses, $17,207 thousand were related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. The $50,304 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

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securities, foreign government securities and commercial mortgage-backed securities. Of these unrealized losses, $34,840 thousand related to securities that were rated investment grade by at least one nationally recognized statistical rating organization. All of the unrealized losses related to foreign corporate and foreign government securities are due to temporary currency exchange rate movements as opposed to market value movements. The non-investment grade securities with unrealized losses were mainly comprised of corporate and commercial mortgage-backed securities. The gross unrealized depreciation for mortgage-backed securities included $322 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 unrealized losses related to equity securities represent temporary declines in value of mutual fund investments where the underlying investments are comprised of emerging market debt fixed maturities.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2012	2011	2012	2011
Fixed maturity securities	$ 120,602	$ 132,668	$ 244,946	$ 265,524
Equity securities	16,228	13,156	33,504	25,019
Short-term investments and cash	358	439	527	676
Other invested assets				
Limited partnerships	16,439	14,344	29,286	50,975
Other	(492)	4,126	1,026	4,723
Total gross investment income	153,135	164,733	309,289	346,917
Interest debited (credited) and other investment expense	(3,806)	(6,115)	(7,522)	(9,594)
Total net investment income	$ 149,329	$ 158,618	$ 301,767	$ 337,323

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 indentifies the decline.

The Company had contractual commitments to invest up to an additional $125,261 thousand in limited partnerships at June 30, 2012. These commitments will be funded when called in accordance with the partnership agreements, which have investment periods that expire, unless extended, through 2016.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2012	2011	2012	2011
Fixed maturity securities, market value:				
Other-than-temporary impairments	$ (466)	$ -	$ (6,354)	$ (14,767)
Gains (losses) from sales	2,068	(5,603)	6,135	(15,618)
Fixed maturity securities, fair value:				
Gains (losses) from sales	(180)	565	5,027	(950)
Gains (losses) from fair value adjustments	(1,707)	(41)	1,325	(3,524)
Equity securities, market value:				
Gains (losses) from sales	6,308	1	6,820	38
Equity securities, fair value:				
Gains (losses) from sales	(2,318)	(206)	20,099	1,698
Gains (losses) from fair value adjustments	(20,285)	440	49,088	40,434
Short-term investments gain (loss)	-	(1)	(1)	-
Total net realized capital gains (losses)	$ (16,580)	$ (4,845)	$ 82,139	$ 7,311

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2012	2011	2012	2011
Proceeds from sales of fixed maturity securities	$ 205,102	$ 353,938	$ 482,461	$ 917,800
Gross gains from sales	6,593	7,165	20,482	24,515
Gross losses from sales	(4,705)	(12,203)	(9,320)	(41,083)
Proceeds from sales of equity securities	$ 88,499	$ 37,110	$ 352,398	$ 120,873
Gross gains from sales	7,662	725	35,175	3,207
Gross losses from sales	(3,672)	(930)	(8,256)	(1,471)

During the second quarter of 2012, the Company redeemed one of its mutual fund investments reflected on the balance sheet as an equity security – available for sale, at market value. As part of the redemption settlement, the Company received its proportionate share of the fund's fixed maturities and related accrued interest in the amount of $92,981 thousand. The Company has categorized the fixed maturities as available for sale, at market value.

4. DERIVATIVES

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

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The Company sold six equity index put option contracts, based on the Standard & Poor's 500 ("S&P 500") index, for total consideration, net of commissions, of $22,530 thousand. At June 30, 2012, fair value for these equity index put option contracts was $70,436 thousand. These equity index put option contracts each have a single exercise date, with maturities ranging from 12 to 30 years and strike prices ranging from $1,141.21 to $1,540.63. No amounts will be payable under these equity index put option contracts if the S&P 500 index is at, or above, the strike prices on the exercise dates, which fall between June 2017 and March 2031. If the S&P 500 index is lower than the strike price on the applicable exercise date, the amount due would vary proportionately with the percentage by which the index is below the strike price. Based on historical index volatilities and trends and the June 30, 2012 S&P 500 index value, the Company estimates the probability that each equity index put option contract of the S&P 500 index falling below the strike price on the exercise date to be less than 45%. The theoretical maximum payouts under the equity index put option contracts would occur if on each of the exercise dates the S&P 500 index value were zero. At June 30, 2012, the present value of these theoretical maximum payouts using a 6% discount factor was $293,803 thousand.

The Company sold one equity index put option contract based on the FTSE 100 index for total consideration, net of commissions, of $6,706 thousand. At June 30, 2012, fair value for this equity index put option contract was $9,415 thousand. This equity index put option contract has an exercise date of July 2020 and a strike price of 5,989.75. No amount will be payable under this equity index put option contract if the FTSE 100 index is at, or above, the strike price on the exercise date. If the FTSE 100 index is lower than the strike price on the exercise date, the amount due will vary proportionately with the percentage by which the index is below the strike price. Based on historical index volatilities and trends and the June 30, 2012 FTSE 100 index value, the Company estimates the probability that the equity index put option contract of the FTSE 100 index will fall below the strike price on the exercise date to be less than 49%. The theoretical maximum payout under the equity index put option contract would occur if on the exercise date the FTSE 100 index value was zero. At June 30, 2012, the present value of the theoretical maximum payout using a 6% discount factor and current exchange rate was $32,295 thousand.

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

(Dollars in thousands) Derivatives not designated as hedging instruments	Location of fair value in balance sheets	At June 30, 2012	At December 31, 2011
Equity index put option contracts	Equity index put option liability	$ 79,851	$ 69,729
Total		$ 79,851	$ 69,729

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

(Dollars in thousands) Derivatives not designated as hedging instruments	Location of gain (loss) in statements of operations and comprehensive income (loss)	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
Equity index put option contracts	Net derivative gain (loss)	$ (16,306)	$ (3,371)	$ (10,123)	$ 4,154
Total		$ (16,306)	$ (3,371)	$ (10,123)	$ 4,154

The Company's equity index put option contracts contain provisions that require collateralization of the fair value, as calculated by the counterparty, above a specified threshold, which is based on the Company's financial strength ratings (Moody's Investors Service, Inc.) and/or debt ratings (Standard & Poor's Ratings Services). The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on June 30, 2012, was $79,851 thousand for which the Company had posted collateral with a market value of $48,817 thousand. If on June 30, 2012, the Company's ratings were such that the collateral threshold was zero, the Company's collateral requirement would increase by $55,000 thousand.

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5. FAIR VALUE

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

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

The Company internally manages a small public equity portfolio which had a fair value at June 30, 2012 of $94,636 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 and the Company's equity index put option contracts.

As of June 30, 2012 and December 31, 2011, all Level 3 fixed maturity securities, were priced using single non-binding broker quotes since prices for these securities were not provided by normal pricing service companies. The single broker quotes are provided by market makers or broker-dealers who are recognized as market participants in the markets in which they are providing the quotes. The prices received from brokers are reviewed for reasonableness by our asset managers and management.

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

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

	At June 30, 2012	
	Contracts based on S & P 500 Index	Contract based on FTSE 100 Index
Equity index	1,362.2	5,571.1
Interest rate	1.78% to 3.53%	2.58%
Time to maturity	4.9 to 18.8 yrs	8.1 yrs
Volatility	22.0% to 25.2%	24.5%

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

		Fair Value Measurement Using:		
(Dollars in thousands)	June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$ 309,081	$ -	$ 309,081	$ -
Obligations of U.S. States and political subdivisions	1,446,226	-	1,446,226	-
Corporate securities	3,824,520	-	3,824,520	-
Asset-backed securities	193,323	-	183,341	9,982
Mortgage-backed securities				
Commercial	328,287	-	328,287	-
Agency residential	2,127,654	-	2,127,654	-
Non-agency residential	13,877	-	13,872	5
Foreign government securities	1,756,829	-	1,756,829	-
Foreign corporate securities	2,480,614	-	2,472,710	7,904
Total fixed maturities, market value	12,480,411	-	12,462,520	17,891
Fixed maturities, fair value	62,831	-	62,831	-
Equity securities, market value	331,212	315,895	15,317	-
Equity securities, fair value	1,215,455	1,090,914	124,541	-

Liabilities:				
Equity index put option contracts	$ 79,851	$ -	$ -	$ 79,851

There were no transfers between Level 1 and Level 2 for the six months ended June 30, 2012.

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

		Fair Value Measurement Using:		
(Dollars in thousands)	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fixed maturities, market value				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$ 300,634	$ -	$ 300,634	$ -
Obligations of U.S. States and political subdivisions	1,660,905	-	1,660,905	-
Corporate securities	3,666,621	-	3,666,621	-
Asset-backed securities	193,406	-	176,469	16,937
Mortgage-backed securities				
Commercial	321,427	-	321,427	-
Agency residential	2,282,593	-	2,282,593	-
Non-agency residential	53,089	-	52,603	486
Foreign government securities	1,668,218	-	1,668,218	-
Foreign corporate securities	2,146,631	-	2,143,587	3,044
Total fixed maturities, market value	12,293,524	-	12,273,057	20,467
Fixed maturities, fair value	113,606	-	113,606	-
Equity securities, market value	448,930	433,278	15,652	-
Equity securities, fair value	1,249,106	1,133,011	116,095	-
Liabilities:				
Equity index put option contracts	$ 69,729	$ -	$ -	$ 69,729

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

	Three Months Ended June 30, 2012				Six Months Ended June 30, 2012			
	Asset-backed	Foreign	Non-agency		Asset-backed	Foreign	Non-agency	
(Dollars in thousands)	Securities	Corporate	RMBS	Total	Securities	Corporate	RMBS	Total
Beginning balance	$ 14,680	$ 5,650	$ 469	$ 20,799	$ 16,937	$ 3,044	$ 486	$ 20,467
Total gains or (losses) (realized/unrealized)								
Included in earnings (or changes in net assets)	(1)	(16)	-	(17)	55	(20)	36	71
Included in other comprehensive income (loss)	(7)	(23)	-	(30)	359	126	(2)	483
Purchases, issuances and settlements	1,788	4,755	(1)	6,542	5,461	7,216	(52)	12,625
Transfers in and/or (out) of Level 3	(6,478)	(2,462)	(463)	(9,403)	(12,830)	(2,462)	(463)	(15,755)
Ending balance	$ 9,982	$ 7,904	$ 5	$ 17,891	$ 9,982	$ 7,904	$ 5	$ 17,891
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(Some amounts may not reconcile due to rounding.)

	Three Months Ended June 30, 2011				Six Months Ended June 30, 2011			
	Asset-backed	Foreign	Non-agency		Asset-backed	Foreign	Non-agency	
(Dollars in thousands)	Securities	Corporate	RMBS	Total	Securities	Corporate	RMBS	Total
Beginning balance	$ 9,345	$ 519	$ 1,570	$ 11,434	$ 995	$ 4,416	$ 1,500	$ 6,911
Total gains or (losses) (realized/unrealized)								
Included in earnings (or changes in net assets)	64	-	95	159	64	-	240	304
Included in other comprehensive income (loss)	(123)	-	(168)	(291)	(147)	-	(33)	(180)
Purchases, issuances and settlements	(81)	-	(144)	(225)	56	-	(354)	(298)
Transfers in and/or (out) of Level 3	(6,713)	(519)	-	(7,232)	1,524	(4,416)	-	(2,892)
Ending balance	$ 2,492	$ -	$ 1,353	$ 3,845	$ 2,492	$ -	$ 1,353	$ 3,845
The amount of total gains or losses for the period included								

in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(Some amounts may not reconcile due to rounding.)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2012	2011	2012	2011
Liabilities:				
Balance, beginning of period	$ 63,546	$ 50,943	$ 69,729	$ 58,467
Total (gains) or losses (realized/unrealized)				
Included in earnings (or changes in net assets)	16,306	3,371	10,123	(4,154)
Included in other comprehensive income (loss)	-	-	-	-
Purchases, issuances and settlements	-	-	-	-
Transfers in and/or (out) of Level 3	-	-	-	-
Balance, end of period	$ 79,851	$ 54,313	$ 79,851	$ 54,313
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to liabilities still held at the reporting date	$ -	$ -	$ -	$ -

(Some amounts may not reconcile due to rounding.)

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6. CAPITAL TRANSACTIONS

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

7. EARNINGS PER COMMON SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars and shares in thousands, except per share amounts)	2012	2011	2012	2011
Net income (loss) per share:				
Numerator				
Net income (loss)	$ 214,551	$ 131,312	$ 519,255	$ (184,582)
Less: dividends declared-common shares and nonvested common shares	(25,129)	(26,081)	(50,770)	(52,126)
Undistributed earnings	189,422	105,231	468,485	(236,708)
Percentage allocated to common shareholders (1)	99.0 %	99.3 %	99.1 %	99.4 %
	187,610	104,514	464,367	(235,249)
Add: dividends declared-common shareholders	24,893	25,910	50,297	51,770
Numerator for basic and diluted earnings per common share	$ 212,503	$ 130,424	$ 514,664	$ (183,479)
Denominator				
Denominator for basic earnings per weighted-average common shares	51,855	53,949	52,451	54,002
Effect of dilutive securities:				
Options	171	159	145	175
Denominator for diluted earnings per adjusted weighted-average common shares	52,026	54,108	52,596	54,177
Per common share net income (loss)				
Basic	$ 4.10	$ 2.42	$ 9.81	$ (3.40)
Diluted	$ 4.08	$ 2.41	$ 9.79	$ (3.40)

(1)	Basic weighted-average common shares outstanding	51,855	53,949	52,451	54,002
	Basic weighted-average common shares outstanding and nonvested common shares expected to vest	52,355	54,319	52,916	54,337
	Percentage allocated to common shareholders	99.0 %	99.3 %	99.1 %	99.4 %

(Some amounts may not reconcile due to rounding.)

The table below presents the options to purchase common shares that were outstanding, but were not included in the computation of earnings per diluted share as they were anti-dilutive, for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Anti-dilutive options	957,400	1,537,790	1,707,150	1,542,790

All outstanding options expire on or between September 26, 2012 and February 22, 2022.

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8. CONTINGENCIES

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

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

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

(Dollars in thousands)	At June 30, 2012	At December 31, 2011
	$ 143,735	$ 143,447

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

(Dollars in thousands)	At June 30, 2012	At December 31, 2011
	$ 28,002	$ 27,634

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9. OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2012	2011	2012	2011
Unrealized appreciation (depreciation) ("URA(D)") on securities arising during the period				
URA(D) of investments - temporary	$ (2,677)	$ 133,794	$ 81,560	$ 98,063
URA(D) of investments - non-credit OTTI	559	723	1,461	1,887
Tax benefit (expense) from URA(D) arising during the period	70	(22,880)	(4,700)	(12,802)
Total URA(D) on securities arising during the period, net of tax	(2,048)	111,637	78,321	87,148
Foreign currency translation adjustments	(29,229)	10,101	(10,507)	44,488
Tax benefit (expense) from foreign currency translation	4,232	582	1,380	(4,983)
Net foreign currency translation adjustments	(24,997)	10,683	(9,127)	39,505
Pension adjustments	1,513	1,147	3,026	2,295
Tax benefit (expense) on pension	(530)	(401)	(1,059)	(803)
Net pension adjustments	983	746	1,967	1,492
Other comprehensive income (loss), net of tax	$ (26,062)	$ 123,066	$ 71,161	$ 128,145

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

(Dollars in thousands)	At June 30, 2012	At December 31, 2011
URA(D) on securities, net of deferred taxes		
Temporary	$ 524,070	$ 447,234
Non-credit, OTTI	3,830	2,345
Total unrealized appreciation (depreciation) on investments, net of deferred taxes	527,900	449,579
Foreign currency translation adjustments, net of deferred taxes	(36,193)	(27,066)
Pension adjustments, net of deferred taxes	(53,568)	(55,535)
Accumulated other comprehensive income (loss)	$ 438,139	$ 366,978

10. CREDIT FACILITIES

The Company has three credit facilities for a total commitment of up to $1,250,000 thousand, providing for the issuance of letters of credit and/or unsecured revolving credit lines. The following table presents the costs incurred in connection with the three credit facilities for the periods indicated:

	Three Months Ended June 30,	Six Months Ended June 30,

(Dollars in thousands)	2012	2011	2012	2011
Credit facility fees incurred	$ 699	$ 522	$ 1,348	$ 990

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

Group Credit Facility

Effective June 22, 2012, Group, Bermuda Re and Everest International entered into a four year, $800,000 thousand senior credit facility with a syndicate of lenders, which amended and restated in its entirety the July 27, 2007, five year, $850,000 thousand senior credit facility. Both the June 22, 2012 and July 27, 2007 senior credit facilities, which have similar terms, are referred to as the "Group Credit Facility". Wells Fargo Corporation ("Wells Fargo Bank") is the administrative agent for the Group Credit Facility, which consists of two tranches. Tranche one provides up to $200,000 thousand of unsecured revolving credit for liquidity and general corporate purposes, and for the issuance of unsecured standby letters of credit. The interest on the revolving loans shall, at the Company's option, be either (1) the Base Rate (as defined below) or (2) an adjusted London Interbank Offered Rate ("LIBOR") plus a margin. The Base Rate is the higher of (a) the prime commercial lending rate established by Wells Fargo Bank, (b) the Federal Funds Rate plus 0.5% per annum or (c) the one month LIBOR Rate plus 1.0% per annum. The amount of margin and the fees payable for the Group Credit Facility depends on Group's senior unsecured debt rating. Tranche two exclusively provides up to $600,000 thousand for the issuance of standby letters of credit on a collateralized basis.

The Group Credit Facility requires Group to maintain a debt to capital ratio of not greater than 0.35 to 1 and to maintain a minimum net worth. Minimum net worth is an amount equal to the sum of $4,249,963 thousand plus 25% of consolidated net income for each of Group's fiscal quarters, for which statements are available ending on or after January 1, 2012 and for which consolidated net income is positive, plus 25% of any increase in consolidated net worth during such period attributable to the issuance of ordinary and preferred shares, which at June 30, 2012, was $4,387,609 thousand. As of June 30, 2012, the Company was in compliance with all Group Credit Facility covenants.

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

(Dollars in thousands)		At June 30, 2012			At December 31, 2011		
Bank		Commitment	In Use	Date of Expiry	Commitment	In Use	Date of Expiry
Wells Fargo Bank Group Credit Facility	Tranche One	$ 200,000	$ -		$ 350,000	$ -	
	Tranche Two	600,000	436,702	12/31/2012	500,000	446,327	12/31/2012
			63	9/30/2012		127	9/30/2012
Total Wells Fargo Bank Group Credit Facility		$ 800,000	$ 436,765		$ 850,000	$ 446,454	

Holdings Credit Facility

Effective August 15, 2011, Holdings 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 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 June 30, 2012, was $1,965,407 thousand. As of June 30, 2012, Holdings was in compliance with all Holdings Credit Facility covenants.

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

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

Bermuda Re Letter of Credit Facility

Bermuda Re has a $300,000 thousand letter of credit issuance facility with Citibank N.A. referred to as the "Bermuda Re Letter of Credit Facility", which commitment is reconfirmed annually. The Bermuda Re Letter of Credit Facility provides for the issuance of up to $300,000 thousand of secured letters of credit to collateralize reinsurance obligations as a non-admitted reinsurer. The interest on drawn letters of credit shall be (A) 0.20% per annum of the principal amount of issued standard letters of credit (expiry of 15 months or less) and (B) 0.25% per annum of the principal amount of issued extended tenor letters of credit (expiry maximum of up to 60 months). The commitment fee on undrawn credit shall be 0.10% per annum.

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

(Dollars in thousands)	At June 30, 2012			At December 31, 2011		
Bank	Commitment	In Use	Date of Expiry	Commitment	In Use	Date of Expiry
Citibank Bilateral Letter of Credit Agreement	$ 300,000	$ 3,352	11/24/2012	$ 300,000	$ 3,352	11/24/2012
		78,562	12/31/2012		80,770	12/31/2012
		85	7/15/2013		85	7/15/2013
		1,073	8/15/2014		889	2/15/2014
		20,252	12/31/2014		4,773	12/31/2014
		27,840	6/30/2016		25,510	6/30/2015
		8,802	9/30/2016		8,642	9/30/2015
		10,088	11/22/2016		10,088	11/22/2015
		98,135	12/31/2016		60,752	12/31/2015
Total Citibank Bilateral Agreement	$ 300,000	$ 248,189		$ 300,000	$ 194,861	

11 TRUST AGREEMENTS

Certain subsidiaries of Group, principally Bermuda Re, a Bermuda insurance company and direct subsidiary of Group, have established trust agreements, which effectively use the Company's investments as collateral, as security for assumed losses payable to certain non-affiliated ceding companies. At June 30, 2012, the total amount on deposit in trust accounts was $216,960 thousand.

12. 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.

				June 30, 2012		December 31, 2011	
(Dollars in thousands)	Date Issued	Date Due	Principal Amounts	Consolidated Balance Sheet Amount	Market Value	Consolidated Balance Sheet Amount	Market Value
5.40% Senior notes	10/12/2004	10/15/2014	$ 250,000	$ 249,882	$ 261,950	$ 249,858	$ 251,370

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2012	2011	2012	2011
Interest expense incurred	$ 3,387	$ 3,387	$ 6,774	$ 6,773

13. LONG TERM SUBORDINATED NOTES

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

			Maturity Date		June 30, 2012		December 31, 2011	
(Dollars in thousands)	Date Issued	Original Principal Amount	Scheduled	Final	Consolidated Balance Sheet Amount	Market Value	Consolidated Balance Sheet Amount	Market Value
6.6% Long term subordinated notes	04/26/2007	$ 400,000	05/15/2037	05/01/2067	$ 238,355	$ 236,174	$ 238,354	$ 210,195

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

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

On March 19, 2009, Group announced the commencement of a cash tender offer for any and all of the 6.60% fixed to floating rate long term subordinated notes. Upon expiration of the tender offer, the Company had reduced its outstanding debt by $161,441 thousand.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2012	2011	2012	2011
Interest expense incurred	$ 3,937	$ 3,937	$ 7,874	$ 7,874

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14. 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.

				June 30, 2012		December 31, 2011	
(Dollars in thousands)	Date Issued	Date Due	Amount Issued	Consolidated Balance Sheet Amount	Fair Value	Consolidated Balance Sheet Amount	Fair Value
6.20% Junior subordinated debt securities	03/29/2004	03/29/2034	$ 329,897	$ 329,897	$ 335,145	$ 329,897	$ 326,313

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2012	2011	2012	2011
Interest expense incurred	$ 5,114	$ 5,114	$ 10,227	$ 10,227

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 10) require Everest Re, Holdings' principal insurance subsidiary, to maintain a certain statutory surplus level as measured at the end of each fiscal year. At December 31, 2011, $2,108,692 thousand of the $2,763,171 thousand in net assets of Holdings' consolidated subsidiaries were subject to the foregoing regulatory restrictions.

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15. SEGMENT REPORTING

During the quarter ended September 30, 2011, the Company realigned its reporting segments to reflect recent changes in the type and volume of business written. The Company previously reported the results of Marine & Aviation, Surety, Accident and Health ("A&H") Reinsurance and A&H Primary operations as a separate segment—Specialty Underwriting. The A&H primary business, which is a relatively new line of business for the Company, has increased significantly, representing approximately 2% of premiums earned and is projected to continue to grow. The A&H primary business is better aligned with the Insurance reporting segment based on the similarities of this business with those businesses already reflected in the Insurance segment. The other operating units included in the Specialty Underwriting segment would have encompassed less than 5% of the Company's premiums earned and their volume is projected to remain less than 5%. 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 and Bermuda reporting segments. 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 and Singapore and through offices in Brazil, Miami and New Jersey. The Bermuda operation provides reinsurance and insurance to worldwide property and casualty markets and reinsurance to life insurers through brokers and directly with ceding companies from its Bermuda office and reinsurance to the United Kingdom and European markets through its UK branch and Ireland Re. The Insurance operation writes property and casualty insurance, including medical stop loss insurance, directly and through general agents, brokers and surplus lines brokers within the U.S. and Canada.

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

Underwriting results include earned premium less losses and LAE incurred, commission and brokerage expenses and other underwriting expenses. Underwriting results are measured using ratios, in particular loss, commission and brokerage and other underwriting expense ratios, which, respectively, divide incurred losses, commissions and brokerage and other underwriting expenses by premiums earned. The Company utilizes inter-affiliate reinsurance, although such reinsurance does not materially impact segment results, as business is generally reported within the segment in which the business was first produced.

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.

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

U.S. Reinsurance	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2012	2011	2012	2011
Gross written premiums	$ 135,468	$ 280,231	$ 504,950	$ 586,322
Net written premiums	135,321	279,388	503,552	584,942
Premiums earned	$ 321,382	$ 307,584	$ 679,343	$ 626,635

Incurred losses and LAE	196,174	236,220	418,154	518,158
Commission and brokerage	109,927	77,488	201,482	160,355
Other underwriting expenses	10,022	9,872	20,774	19,778
Underwriting gain (loss)	$ 5,259	$ (15,996)	$ 38,933	$ (71,656)

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International (Dollars in thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Gross written premiums	$ 344,241	$ 288,749	$ 621,535	$ 597,596
Net written premiums	344,232	286,043	621,525	590,544
Premiums earned	$ 334,407	$ 317,160	$ 630,524	$ 633,495
Incurred losses and LAE	160,249	221,618	308,421	826,346
Commission and brokerage	81,776	73,786	152,967	152,216
Other underwriting expenses	6,543	6,950	13,283	13,389
Underwriting gain (loss)	$ 85,839	$ 14,806	$ 155,853	$ (358,456)

Bermuda (Dollars in thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Gross written premiums	$ 174,051	$ 176,357	$ 362,003	$ 354,887
Net written premiums	174,060	176,386	361,333	354,950
Premiums earned	$ 169,843	$ 203,054	$ 333,744	$ 365,490
Incurred losses and LAE	101,703	125,821	206,893	329,718
Commission and brokerage	45,326	53,221	88,610	93,817
Other underwriting expenses	6,868	6,674	14,375	13,413
Underwriting gain (loss)	$ 15,946	$ 17,338	$ 23,866	$ (71,458)

Insurance (Dollars in thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Gross written premiums	$ 255,258	$ 242,528	$ 466,996	$ 513,989
Net written premiums	203,068	213,304	385,133	444,569
Premiums earned	$ 212,168	$ 212,037	$ 392,167	$ 425,661
Incurred losses and LAE	149,744	152,130	276,868	311,343
Commission and brokerage				