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

EVEREST RE GROUP, LTD

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PART I

ITEM 1. FINANCIAL STATEMENTS

EVEREST RE GROUP, LTD.
CONSOLIDATED BALANCE SHEETS

(Dollars and share amounts in thousands, except par value per share)	June 30, 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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except share and dividends per share amounts)	2012	2011	2012	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:

(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
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,		For the Six Months Ended June 30,	
		2012	2011	2012	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			
(Dollars in thousands)	Asset-backed Securities	Foreign Corporate	Non-agency RMBS	Total	Asset-backed Securities	Foreign Corporate	Non-agency 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			
(Dollars in thousands)	Asset-backed Securities	Foreign Corporate	Non-agency RMBS	Total	Asset-backed Securities	Foreign Corporate	Non-agency 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	28,760	32,879	60,233	67,443
Other underwriting expenses	26,242	22,401	49,738	44,273
Underwriting gain (loss)	$ 7,422	$ 4,627	$ 5,328	$ 2,602

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

(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
Underwriting gain (loss)	$ 114,466	$ 20,775	$ 223,980	$ (498,968)
Net investment income	149,329	158,618	301,767	337,323
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
Corporate expenses	(6,075)	(3,790)	(10,736)	(7,718)
Interest, fee and bond issue cost amortization expense	(13,244)	(13,116)	(26,422)	(26,114)
Other income (expense)	27,812	(13,446)	21,618	(16,833)

Income (loss) before taxes	$ 239,402	$ 140,825	$ 582,223	$ (200,845)

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The Company produces business in the U.S., Bermuda and internationally. The net income deriving from and 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 period indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2012	2011	2012	2011
United Kingdom	$ 104,708	$ 90,259	$ 219,152	$ 209,827

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

16. SHARE-BASED COMPENSATION PLANS

For the three months ended June 30, 2012, share-based compensation awards were 9,342 of restricted shares, granted on May 9, 2012, with a fair value of $102.15 per share.

17. RETIREMENT BENEFITS

The Company maintains both qualified and non-qualified defined benefit pension plans and a retiree health plan for its U.S. employees employed prior to April 1, 2010.

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

Pension Benefits	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2012	2011	2012	2011
Service cost	$ 2,342	$ 2,048	$ 4,684	$ 4,095
Interest cost	1,979	1,922	3,958	3,843
Expected return on plan assets	(2,109)	(2,265)	(4,218)	(4,530)
Amortization of prior service cost	13	12	26	25
Amortization of net (income) loss	1,427	1,095	2,853	2,190
ASC 715 settlement charge	-	231	-	461
Net periodic benefit cost	$ 3,652	$ 3,043	$ 7,303	$ 6,084

Other Benefits	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2012	2011	2012	2011
Service cost	$ 370	$ 290	$ 740	$ 580
Interest cost	258	235	516	469
Amortization of net (income) loss	74	40	148	81
Net periodic benefit cost	$ 702	$ 565	$ 1,404	$ 1,130

The Company did not make any contributions to the qualified pension benefit plan for the three and six months ended June 30, 2012 and 2011.

18. RELATED-PARTY TRANSACTIONS

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

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19. INCOME TAXES

The Company is domiciled in Bermuda and has significant subsidiaries and/or branches in Canada, Ireland, Singapore, the United Kingdom, and the United States. The Company's Bermuda domiciled subsidiaries are exempt from income taxation under Bermuda law until 2035. The Company's non-Bermudian subsidiaries and branches are subject to income taxation at varying rates in their respective domiciles.

The Company generally will use the estimated annual effective tax rate approach for calculating its tax provision for interim periods as prescribed by ASC 740-270, Interim Reporting. Under the estimated annual effective tax rate approach, the estimated annual effective tax rate is applied to the interim year-to-date pre-tax income to determine the income tax expense or benefit for the year-to-date period. The tax expense or benefit for a quarter represents the difference between the year-to-date tax expense or benefit for the current year-to-date period less such amount for the immediately preceding year-to-date period. Management considers the impact of all known events in its estimation of the Company's annual pre-tax income and effective tax rate.

During the second quarter of 2012, the Company identified an understatement in its Deferred tax asset account of $9,257 thousand. The understatement resulted from differences between filed and recorded amounts that had accumulated over several prior periods. The Company corrected this understatement in its June 30, 2012 financial statements, resulting in an additional $9,257 thousand income tax benefit included in the income tax expense (benefit) caption in the Consolidated Statements of Operations and Comprehensive Income (Loss) and increased net income for the same amount for the quarter ended June 30, 2012. The Company also increased its Deferred tax asset in its Consolidated Balance Sheets by the same amount. The Company recorded a similar adjustment of $12,417 thousand during the first quarter of 2012, for a total six-month adjustment of $21,674 thousand. The Company believes that the out of period adjustments are immaterial to its June 30, 2012 financial statements and to all prior periods. As such, the Company has not restated any prior period amounts.

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

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

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

Industry Conditions.

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

We compete in the U.S., Bermuda and international reinsurance and insurance markets with numerous global competitors. Our competitors include independent reinsurance and insurance companies, subsidiaries or affiliates of established worldwide insurance companies, reinsurance departments of certain insurance companies and domestic and international underwriting operations, including underwriting syndicates at Lloyd's. Some of these competitors have greater financial resources than we do and have established long term and continuing business relationships, which can be a significant competitive advantage. In addition, the lack of strong barriers to entry into the reinsurance business and the potential for securitization of reinsurance and insurance risks through capital markets provide additional sources of potential reinsurance and insurance capacity and competition.

Worldwide insurance and reinsurance market conditions continued to be very competitive, particularly in the casualty lines of business. Generally, there was ample insurance and reinsurance capacity relative to demand. Competition and its effect on rates, terms and conditions vary widely by market and coverage yet continued to be most prevalent in the U.S. casualty insurance and reinsurance markets.

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

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

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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 shareholders' equity for the periods indicated.

(Dollars in millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Percentage Increase/ (Decrease)	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Percentage Increase/ (Decrease)
Gross written premiums	$ 909.0	$ 987.9	-8.0 %	$ 1,955.5	$ 2,052.8	-4.7 %
Net written premiums	856.7	955.1	-10.3 %	1,871.5	1,975.0	-5.2 %
REVENUES:						
Premiums earned	$ 1,037.8	$ 1,039.8	-0.2 %	$ 2,035.8	$ 2,051.3	-0.8 %
Net investment income	149.3	158.6	-5.9 %	301.8	337.3	-10.5 %
Net realized capital gains (losses)	(16.6)	(4.8)	242.2 %	82.1	7.3	NM
Net derivative gain (loss)	(16.3)	(3.4)	NM	(10.1)	4.2	NM
Other income (expense)	27.8	(13.4)	NM	21.6	(16.8)	-228.4 %
Total revenues	1,182.1	1,176.8	0.4 %	2,431.2	2,383.2	2.0 %
CLAIMS AND EXPENSES:						
Incurred losses and loss adjustment expenses	607.9	735.8	-17.4 %	1,210.3	1,985.6	-39.0 %
Commission, brokerage, taxes and fees	265.8	237.4	12.0 %	503.3	473.8	6.2 %
Other underwriting expenses	49.7	45.9	8.2 %	98.2	90.9	8.1 %
Corporate expenses	6.1	3.8	60.3 %	10.7	7.7	39.1 %
Interest, fees and bond issue cost amortization expense	13.2	13.1	1.0 %	26.4	26.1	1.2 %
Total claims and expenses	942.7	1,036.0	-9.0 %	1,849.0	2,584.1	-28.4 %
INCOME (LOSS) BEFORE TAXES	239.4	140.8	70.0 %	582.2	(200.8)	NM
Income tax expense (benefit)	24.9	9.5	161.2 %	63.0	(16.3)	NM
NET INCOME (LOSS)	$ 214.6	$ 131.3	63.4 %	$ 519.3	$ (184.6)	NM
RATIOS:			Point Change			Point Change
Loss ratio	58.6 %	70.8 %	(12.2)	59.5 %	96.8 %	(37.3)
Commission and brokerage ratio	25.6 %	22.8 %	2.8	24.7 %	23.1 %	1.6
Other underwriting expense ratio	4.8 %	4.4 %	0.4	4.8 %	4.4 %	0.4
Combined ratio	89.0 %	98.0 %	(9.0)	89.0 %	124.3 %	(35.3)

(Dollars in millions, except per share amounts)	At June 30, 2012	At December 31, 2011	Percentage Increase/ (Decrease)

Balance sheet data:				
Total investments and cash	$ 16,029.8	$ 15,797.4	1.5	%
Total assets	18,903.3	18,893.6	0.1	%
Loss and loss adjustment expense reserves	9,890.8	10,123.2	-2.3	%
Total debt	818.1	818.1	0.0	%
Total liabilities	12,485.9	12,822.2	-2.6	%
Shareholders' equity	6,417.4	6,071.4	5.7	%
Book value per share	123.75	112.99	9.5	%

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

Revenues.
Premiums. Gross written premiums decreased by $78.8 million, or 8.0%, for the three months ended June 30, 2012, compared to the three months ended June 30, 2011 reflecting a $91.6 million decrease in our reinsurance business, partially offset by a $12.7 million increase in our insurance business. Gross written premiums decreased by $97.3 million, or 4.7%, for the six months ended June 30, 2012, compared to the six months ended June 30, 2011 reflecting a $50.3 million decrease in our reinsurance business and a $47.0 million decrease in our insurance business. The decrease in reinsurance premiums was primarily due

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to the portfolio return of premium on the non-renewal of a large Florida quota share reinsurance contract, partially offset by increases in new business and rate increases on renewals, particularly for catastrophe exposed contracts. The decrease in insurance premiums was primarily due to the termination and runoff of several large casualty programs, partially offset by growth in crop and primary medical stop loss insurance.

Net written premiums decreased $98.4 million, or 10.3%, for the three months ended June 30, 2012 compared to the three months ended June 30, 2011 and decreased $103.5 million, or 5.2%, for the six months ended June 30, 2012 compared to the six months ended June 30, 2011. The decrease in net written premiums is in line with the decrease in gross written premiums. Premiums earned decreased $2.0 million, or 0.2%, for the three months ended June 30, 2012 compared to the three months ended June 30, 2011 and decreased $15.5 million, or 0.8%, for the six months ended June 30, 2012 compared to the six months ended June 30, 2011. The smaller declines in premiums earned in comparison to net written premiums were primarily attributable to the non-renewal of the large Florida quota share reinsurance contract and increases in new business and rate increases on renewals, particularly for catastrophe exposed contracts.

Net Investment Income. Net investment income decreased $9.3 million, or 5.9%, for the three months ended June 30, 2012 compared with net investment income of $158.6 million for the three months ended June 30, 2011 primarily due to the impact from lower reinvestment rates on fixed maturity securities over the past several years. Net investment income decreased $35.6 million, or 10.5%, for the six months ended June 30, 2012 compared with net investment income of $337.3 million for the six months ended June 30, 2011, primarily as a result of a $21.7 million decrease in investment income from our limited partnership investments and the impact from lower reinvestment rates. Net pre-tax investment income, as a percentage of average invested assets, was 3.9% for the three months ended June 30, 2012 compared to 4.2% for the three months ended June 30, 2011 and 4.0% for the six months ended June 30, 2012 compared to 4.5% for the six months ended June 30, 2011. The declines in these yields were primarily the result of fluctuations in our limited partnership income and lower reinvestment rates for the fixed income portfolio.

Net Realized Capital Gains (Losses). Net realized capital losses were $16.6 million and $4.8 million for the three months ended June 30, 2012 and 2011, respectively. The $16.6 million was comprised of $22.0 million of losses from fair value re-measurements and $0.5 million of other-than-temporary impairments, which were partially offset by $5.9 million of net realized capital gains from sales on our fixed maturity and equity securities. The net realized capital losses of $4.8 million for the three months ended June 30, 2011 were the result of a $5.2 million loss from net realized capital losses from sales on our fixed maturity and equity securities, partially offset by $0.4 million of gains in fair value re-measurements.

Net realized capital gains were $82.1 million and $7.3 million for the six months ended June 30, 2012 and 2011, respectively. The $82.1 million was comprised of $50.4 million of gains from fair value re-measurements and $38.1 million of net realized capital gains from sales on our fixed maturity and equity securities, which were partially offset by $6.4 million of other-than-temporary impairments. The net realized capital gains of $7.3 million for the six months ended June 30, 2011 were the result of $36.9 million of gains in fair value re-measurements, partially offset by $14.8 million of other-than-temporary impairments and $14.8 million from net realized capital losses from sales on our fixed maturity and equity securities.

Net Derivative Gain (Loss). In 2005 and prior, we sold seven equity index put option contracts, which are outstanding. These contracts meet the definition of a derivative in accordance with FASB guidance and as such, are fair valued each quarter with the change recorded as net derivative gain or loss in the consolidated statements of operations and comprehensive income (loss). As a result of these adjustments in value, we recognized net derivative losses of $16.3 million and $3.4 million for the three months ended June 30, 2012 and 2011, respectively, and a net derivative loss of $10.1 million and a net derivative gain of $4.2 million for the six months ended June 30, 2012 and 2011, respectively. The change in the fair value of these equity index put option contracts is indicative of the change in the equity markets and interest rates over the same periods.

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Other Income (Expense). We recorded other income of $27.8 million and $21.6 million for the three and six months ended June 30, 2012, respectively, and other expense of $13.4 million and $16.8 million for the three and six months ended June 30, 2011, respectively. The changes were primarily the result of fluctuations in foreign currency exchange rates for the corresponding periods.

Claims and Expenses.

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

	Three Months Ended June 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional (a)	$ 578.0	55.7 %	$ (0.1)	0.0 %	$ 577.9	55.7 %
Catastrophes	30.0	2.9 %	-	0.0 %	30.0	2.9 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total	$ 608.0	58.6 %	$ (0.1)	0.0 %	$ 607.9	58.6 %
2011						
Attritional (a)	$ 614.4	59.1 %	$ (2.4)	-0.2 %	$ 612.0	58.9 %
Catastrophes	123.0	11.8 %	-	0.0 %	123.0	11.8 %
A&E	-	0.0 %	0.8	0.1 %	0.8	0.1 %
Total	$ 737.4	70.9 %	$ (1.6)	-0.1 %	$ 735.8	70.8 %
Variance 2012/2011						
Attritional (a)	$ (36.4)	(3.4) pts	$ 2.3	0.2 pts	$ (34.1)	(3.2) pts
Catastrophes	(93.0)	(8.9) pts	-	- pts	(93.0)	(8.9) pts
A&E	-	- pts	(0.8)	(0.1) pts	(0.8)	(0.1) pts
Total	$ (129.4)	(12.3) pts	$ 1.5	0.1 pts	$ (127.9)	(12.2) pts

	Six Months Ended June 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional (a)	$ 1,150.6	56.6 %	$ (0.4)	0.0 %	$ 1,150.2	56.6 %
Catastrophes	60.0	2.9 %	-	0.0 %	60.0	2.9 %
A&E	-	0.0 %	0.1	0.0 %	0.1	0.0 %
Total	$ 1,210.6	59.5 %	$ (0.3)	0.0 %	$ 1,210.3	59.5 %
2011						
Attritional (a)	$ 1,200.5	58.6 %	$ (3.8)	-0.2 %	$ 1,196.7	58.4 %
Catastrophes	788.1	38.4 %	-	0.0 %	788.1	38.4 %
A&E	-	0.0 %	0.8	0.0 %	0.8	0.0 %
Total	$ 1,988.6	97.0 %	$ (3.0)	-0.2 %	$ 1,985.6	96.8 %

Variance 2012/2011																	
Attritional (a)	$	(49.9	)	(2.0	)	pts	$	3.4		0.2	pts	$	(46.5	)	(1.8	)	pts
Catastrophes		(728.1	)	(35.5	)	pts		-		-	pts		(728.1	)	(35.5	)	pts
A&E		-		-		pts		(0.7	)	-	pts		(0.7	)	-		pts
Total	$	(778.0	)	(37.5	)	pts	$	2.7		0.2	pts	$	(775.3	)	(37.3	)	pts

(a) Attritional losses exclude catastrophe and Asbestos and Environmental ("A&E") losses.
(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased by $127.9 million representing 12.2 loss ratio points, for the three months ended June 30, 2012 compared to the same period in 2011. Of the $127.9 million decrease, current year catastrophe losses were lower by $93.0 million, or 8.9 points, period over period. The $30.0 million of catastrophe losses for 2012 relate primarily to U.S. storm losses. The $123.0 million of catastrophe losses for 2011 relates primarily to U.S. storm losses ($50.0 million), the Canadian Slave Lake fire ($15.0 million) and increased loss estimates for the first quarter 2011 New Zealand earthquake ($42.0 million) and Japanese earthquake and tsunami ($14.7 million). Current year attritional losses decreased $36.4 million, or 3.4 loss ratio points, due to significant rate increases in catastrophe exposed areas and a

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shift in the mix of business towards property catastrophe and excess of loss business, which generally has lower attritional losses.

Incurred losses and LAE decreased by $775.3 million, representing 37.3 loss ratio points, for the six months ended June 30, 2012 compared to the same period in 2011. Of the $775.3 million decrease, current year catastrophe losses were lower by $728.1 million, or 35.5 points, period over period. The $60.0 million of catastrophe losses for 2012 relate primarily to U.S. storm losses. The $788.1 million of catastrophe losses for 2011 related primarily to the Japanese earthquake and tsunami ($414.7 million), the New Zealand earthquake ($242.0 million), the Australian floods ($52.6 million), U.S. storms ($50.0 million) and the Canadian Slave Lake fire ($15.0 million). Current year attritional losses decreased $49.9 million, representing 2.0 loss ratio points, due to significant rate increases in catastrophe exposed areas and a shift in mix of business towards property catastrophe and excess of loss business, which generally has lower attritional losses.

Commission, Brokerage, Taxes and Fees. Commission, brokerage, taxes and fees increased by $28.4 million, or 12.0%, for the three months ended June 30, 2012 compared to the same period in 2011, and by $29.5 million, or 6.2%, for the six months ended June 30, 2012 compared to the same period in 2011, due primarily to the one-time effect of the canceled Florida quota share contract and the adoption of new accounting standards concerning the accounting for acquisition costs, which is increasing expenses in 2012, partially offset by an increase in excess of loss business which carries a lower commission than pro rata business and better terms.

Other Underwriting Expenses. Other underwriting expenses increased to $49.7 million from $45.9 million for the three months ended June 30, 2012 and 2011, respectively. Other underwriting expenses increased to $98.2 million from $90.9 million for the six months ended June 30, 2012 and 2011, respectively. The increases in other underwriting expenses were mainly due to higher share-based compensation and employee benefit plan expenses.

Corporate Expenses. Corporate expenses, which are general operating expenses that are not allocated to segments, were $6.1 million and $3.8 million for the three months ended June 30, 2012 and 2011, respectively, and $10.7 million and $7.7 million for the six months ended June 30, 2012 and 2011, respectively. The increase in corporate expenses were mainly due to higher share-based compensation expense.

Interest, Fees and Bond Issue Cost Amortization Expense. Interest, fees and other bond amortization expense was $13.2 million and $13.1 million for the three months ended June 30, 2012 and 2011, respectively, and $26.4 million and $26.1 million for the six months ended June 30, 2012 and 2011, respectively.

Income Tax Expense (Benefit). We had an income tax expense of $24.9 million and $9.5 million for the three months ended June 30, 2012 and 2011, respectively, and an income tax expense of $63.0 million and an income tax benefit of $16.3 million for the six months ended June 30, 2012 and 2011, respectively. Our income tax is primarily a function of the statutory tax rates and corresponding pre-tax income in the jurisdictions where we operate, 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 among jurisdictions with different tax rates. The increases in tax expense were mainly due to the improvement in taxable income resulting from lower catastrophe losses in 2012, and also reflect tax benefits of $9.3 million and $21.7 million for the three and six months ended June 30, 2012, respectively due to corrections of understatements in the deferred tax asset account.

Net Income (Loss).
Our net income was $214.6 million and $131.3 million for the three months ended June 30, 2012 and 2011, respectively. Our net income was $519.3 million and our net loss was $184.6 million for the six months ended June 30, 2012 and 2011, respectively. The increases were primarily driven by the decline in catastrophe losses in 2012.

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Ratios.
Our combined ratio decreased by 9.0 points to 89.0% for the three months ended June 30, 2012 compared to 98.0% for the same period in 2011 and decreased by 35.3 points to 89.0% for the six months ended June 30, 2012 compared to 124.3% for the same period in 2011. The loss ratio component decreased 12.2 points and 37.3 points for the three and six months ended June 30, 2012, respectively, over the same periods last year. The other underwriting expense ratio component and the commission and brokerage ratio component both increased over the same periods last year due to the explanations provided above.

Shareholders' Equity.
Shareholders' equity increased by $346.0 million to $6,417.4 million at June 30, 2012 from $6,071.4 million at December 31, 2011, principally as a result of $519.3 million of net income, $78.3 million of unrealized appreciation on investments, net of tax, share-based compensation transactions of $31.3 million and $2.0 million of net benefit plan obligation adjustments, partially offset by repurchases of 2.4 million common shares for $225.0 million, $50.8 million of shareholder dividends and $9.1 million of net foreign currency translation adjustments.

Consolidated Investment Results

Net Investment Income.
Net investment income decreased by 5.9% to $149.3 million for the three months ended June 30, 2012 compared to $158.6 million for the three months ended June 30, 2011, and decreased by 10.5% to $301.8 million for the six months ended June 30, 2012 compared to $337.3 million for the six months ended June 30, 2011, primarily due to changes in income from our limited partnership investments and declines in income from our fixed maturities, reflective of declining reinvestment rates. These decreases were partially offset by increased dividend income from equities due to our expanded public equity portfolio and emerging market debt mutual funds.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	2012	2011	2012	2011
Fixed maturities	$ 120.6	$ 132.7	$ 244.9	$ 265.5
Equity securities	16.2	13.2	33.5	25.0
Short-term investments and cash	0.3	0.4	0.5	0.7
Other invested assets				
Limited partnerships	16.5	14.3	29.3	51.0
Other	(0.5)	4.1	1.0	4.7
Total gross investment income	153.1	164.7	309.3	346.9
Interest debited (credited) and other expense	(3.8)	(6.1)	(7.5)	(9.6)
Total net investment income	$ 149.3	$ 158.6	$ 301.8	$ 337.3

(Some amounts may not reconcile due to rounding.)

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

At June 30,	At December 31,

	2012	2011
Imbedded pre-tax yield of cash and invested assets	3.7%	3.9%
Imbedded after-tax yield of cash and invested assets	3.2%	3.4%

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Annualized pre-tax yield on average cash and invested assets	3.9%	4.2%	4.0%	4.5%
Annualized after-tax yield on average cash and invested assets	3.4%	3.6%	3.4%	3.9%

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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.

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollars in millions)	2012	2011	Variance	2012	2011	Variance
Gains (losses) from sales:						
Fixed maturity securities, market value:						
Gains	$ 6.5	$ 6.5	$ -	$ 15.0	$ 23.7	$ (8.7)
Losses	(4.5)	(12.1)	7.6	(8.9)	(39.3)	30.4
Total	2.0	(5.6)	7.6	6.1	(15.6)	21.7
Fixed maturity securities, fair value:						
Gains	0.1	0.6	(0.5)	5.5	0.8	4.7
Losses	(0.2)	-	(0.2)	(0.4)	(1.7)	1.3
Total	(0.2)	0.6	(0.7)	5.0	(0.9)	6.0
Equity securities, market value:						
Gains	6.7	-	6.7	7.2	0.2	7.0
Losses	(0.3)	-	(0.3)	(0.3)	(0.2)	(0.1)
Total	6.3	-	6.4	6.8	-	6.9
Equity securities, fair value:						
Gains	1.0	0.7	0.3	28.0	3.0	25.0
Losses	(3.3)	(0.9)	(2.4)	(7.9)	(1.3)	(6.6)
Total	(2.3)	(0.2)	(2.1)	20.1	1.7	18.4
Total net realized capital gains (losses) from sales:						
Gains	14.3	7.8	6.5	55.7	27.7	28.0
Losses	(8.4)	(13.0)	4.6	(17.6)	(42.5)	24.9
Total	5.9	(5.2)	11.1	38.1	(14.8)	52.9
Other-than-temporary impairments:	(0.5)	-	(0.5)	(6.4)	(14.8)	8.4
Gains (losses) from fair value adjustments:						
Fixed maturities, fair value	(1.7)	-	(1.7)	1.3	(3.5)	4.8
Equity securities, fair value	(20.3)	0.4	(20.7)	49.1	40.4	8.7
Total	(22.0)	0.4	(22.4)	50.4	36.9	13.5
Total net realized capital gains (losses)	$ (16.6)	$ (4.8)	$ (11.8)	$ 82.1	$ 7.3	$ 74.8

(Some amounts may not reconcile due to rounding.)

Net realized capital losses were $16.6 million and $4.8 million for the three months ended June 30, 2012 and 2011, respectively. For the three months ended June 30, 2012, we recorded $22.0 million of net realized capital losses due to fair value re-measurements on fixed maturity and equity securities and $0.5 million of other-than-temporary impairments, partially offset by $5.9 million of net realized capital gains from sales of fixed maturity and equity securities. For the three months ended June 30, 2011, we recorded $5.2 million of net realized capital losses from sales of fixed maturity and equity securities, partially offset by $0.4 million of net realized capital gains due to fair value re-measurements on fixed maturity and equity securities. The gains and losses on the sales of fixed maturity securities in 2011 included the impact of selling part of our municipal bond portfolio as credit concerns arose in this market sector.

Net realized capital gains were $82.1 million and $7.3 million for the six months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012, we recorded $50.4 million of net realized capital gains due to fair value re-measurements on fixed maturity and equity securities and $38.1 million of net realized capital gains from sales of fixed maturity and equity securities, partially offset by $6.4 million of other-than-temporary impairments. For the six months ended June 30, 2011, we recorded $36.9 million of gains due to fair value re-measurements on fixed maturity and equity securities, partially offset by $14.8 million of other-than-temporary impairments and $14.8 million of net realized capital losses from sales of fixed maturity and equity securities. The gains and losses on the sales of fixed maturity securities in 2011 included the impact of selling part of our municipal bond portfolio as credit concerns arose in this market sector.

Segment Results.

During the quarter ended September 30, 2011, we realigned our reporting segments to reflect recent changes in the type and volume of business written. We previously reported the results of Marine & Aviation, Surety, A&H Reinsurance and A&H Primary operations as a separate segment—Specialty Underwriting. The A&H primary business, which is a relatively new line of business for us, has increased significantly, representing approximately 2% of premiums earned and is projected to continue to grow. The A&H primary business is better aligned with the Insurance reporting segment based on the similarities of this business with those businesses already reflected in the Insurance segment. The other operating units included in the Specialty Underwriting segment would have encompassed less than 5% of our premiums earned and their volume is projected to remain 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. 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 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. 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. We utilize 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.

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 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.

	Three Months Ended June 30,				Six Months Ended June 30,			
(Dollars in millions)	2012	2011	Variance	% Change	2012	2011	Variance	% Change
Gross written premiums	$ 135.5	$ 280.2	$ (144.8)	-51.7 %	$ 505.0	$ 586.3	$ (81.4)	-13.9 %
Net written premiums	135.3	279.4	(144.1)	-51.6 %	503.6	584.9	(81.4)	-13.9 %
Premiums earned	$ 321.4	$ 307.6	$ 13.8	4.5 %	$ 679.3	$ 626.6	$ 52.7	8.4 %
Incurred losses and LAE	196.2	236.2	(40.0)	-17.0 %	418.2	518.2	(100.0)	-19.3 %
Commission and brokerage	109.9	77.5	32.4	41.9 %	201.5	160.4	41.1	25.6 %
Other underwriting expenses	10.0	9.9	0.2	1.5 %	20.8	19.8	1.0	5.0 %
Underwriting gain (loss)	$ 5.3	$ (16.0)	$ 21.3	-132.9 %	$ 38.9	$ (71.7)	$ 110.6	-154.3 %
				Point Chg				Point Chg
Loss ratio	61.0 %	76.8 %		(15.8)	61.6 %	82.7 %		(21.1)
Commission and brokerage ratio	34.2 %	25.2 %		9.0	29.7 %	25.6 %		4.1
Other underwriting expense ratio	3.2 %	3.2 %		-	3.0 %	3.1 %		(0.1)
Combined ratio	98.4 %	105.2 %		(6.8)	94.3 %	111.4 %		(17.1)

(Some amounts may not reconcile due to rounding.)

Premiums. Gross written premiums decreased by 51.7% to $135.5 million for the three months ended June 30, 2012 from $280.2 million for the three months ended June 30, 2011, primarily due to the non-renewal of a large Florida quota share reinsurance contract, partially offset by increased new business and higher premium rates on renewals, particularly for contracts with catastrophe exposed risks. Net written premiums decreased 51.6% to $135.3 million for the three months ended June 30, 2012 compared to $279.4 million for the same period in 2011, which is in line with the decrease in gross written premiums for the quarter. Premiums earned increased 4.5% to $321.4 million for the three months ended June 30, 2012 compared to $307.6 million for the three months ended June 30, 2011. The variance difference between premiums earned and net written premiums was primarily attributable to the non-renewal of the large Florida quota share reinsurance contract and increases in new business and rate increases on renewals, particularly for catastrophe exposed contracts.

Gross written premiums decreased by 13.9% to $505.0 million for the six months ended June 30, 2012 from $586.3 million for the six months ended June 30, 2011, primarily due to the non-renewal of a large Florida quota share reinsurance contract, partially offset by increased new business and higher premium rates on renewals, particularly for contracts with catastrophe exposed risks. Net written premiums decreased 13.9% to $503.6 million for the six months ended June 30, 2012 compared to $584.9 million for the same period in 2011, which is in line with the decrease in gross written premiums. Premiums earned increased 8.4% to $679.3 million for the six months ended June 30, 2012 compared to $626.6 million for the six months ended June 30, 2011. As with the quarter, 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 and increases in new business and rate increases on renewals, particularly for catastrophe exposed contracts.

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

	Three Months Ended June 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional	$ 165.9	51.6 %	$ 4.2	1.3 %	$ 170.1	52.9 %
Catastrophes	30.0	9.3 %	(3.9)	-1.2 %	26.1	8.1 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	$ 195.9	60.9 %	$ 0.3	0.1 %	$ 196.2	61.0 %
2011						
Attritional	$ 171.6	55.8 %	$ 1.3	0.4 %	$ 172.9	56.2 %
Catastrophes	54.3	17.7 %	8.9	2.9 %	63.2	20.6 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	$ 225.9	73.5 %	$ 10.2	3.3 %	$ 236.2	76.8 %
Variance 2012/2011						
Attritional	$ (5.7)	(4.2) pts	$ 2.9	0.9 pts	$ (2.8)	(3.3) pts
Catastrophes	(24.3)	(8.4) pts	(12.8)	(4.1) pts	(37.1)	(12.5) pts
A&E	-	- pts	-	- pts	-	- pts
Total segment	$ (30.0)	(12.6) pts	$ (9.9)	(3.2) pts	$ (40.0)	(15.8) pts

	Six Months Ended June 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional	$ 360.5	53.2 %	$ 6.3	0.9 %	$ 366.8	54.1 %
Catastrophes	60.0	8.8 %	(8.8)	-1.3 %	51.2	7.5 %
A&E	-	0.0 %	0.1	0.0 %	0.1	0.0 %
Total segment	$ 420.5	62.0 %	$ (2.4)	-0.4 %	$ 418.2	61.6 %
2011						
Attritional	$ 338.9	54.0 %	$ 1.1	0.2 %	$ 340.0	54.2 %
Catastrophes	168.3	26.9 %	9.9	1.6 %	178.2	28.5 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	$ 507.2	80.9 %	$ 11.0	1.8 %	$ 518.2	82.7 %
Variance 2012/2011						
Attritional	$ 21.6	(0.8) pts	$ 5.2	0.7 pts	$ 26.8	(0.1) pts
Catastrophes	(108.3)	(18.1) pts	(18.7)	(2.9) pts	(127.0)	(21.0) pts
A&E	-	- pts	0.1	- pts	0.1	- pts
Total segment	$ (86.7)	(18.9) pts	$ (13.4)	(2.2) pts	$ (100.0)	(21.1) pts

(Some amounts may not reconcile
due to rounding.)

Incurred losses were $40.0 million (15.8 points) lower at $196.2 million for the three months ended June 30, 2012 compared to $236.2 million for the three months ended June 30, 2011, primarily as a result of the $37.1 million (12.5 points) decrease in catastrophe losses. The current year attritional losses decreased $5.7 million, or 4.2 points for the quarter primarily due to a shift in the mix of business towards catastrophe excess of loss business, which generally has lower attritional losses.

Incurred losses were $100.0 million (21.1 points) lower at $418.2 million for the six months ended June 30, 2012 compared to $518.2 million for the six months ended June 30, 2011, primarily as a result of the $127.0 million (21.0 points) decrease in catastrophe losses. The $60.0 million of current year catastrophe losses for 2012 related primarily to U.S. storm losses. The $168.3 million of current year catastrophe losses for 2011 related primarily to the Japanese earthquake and tsunami ($67.0 million), U.S. storms ($48.0 million), the New Zealand earthquake ($45.0 million) and the Australian floods ($4.3 million). The current year attritional losses increased $21.6 million, primarily due to the increase in earned premiums and a large marine loss.

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Segment Expenses. Commission and brokerage expenses increased by 41.9% to $109.9 million for the three months ended June 30, 2012 compared to $77.5 million for the three months ended June 30, 2011. Commission and brokerage expenses increased by 25.6% to $201.5 million for the six months ended June 30, 2012 compared to $160.4 million for the six months ended June 30, 2011. These variances were primarily due to the one-time effect on commissions resulting from the canceled Florida quota share contract.

Segment other underwriting expenses for the three months ended June 30, 2012 increased slightly to $10.0 million from $9.9 million for the three months ended June 30, 2011. Segment other underwriting expenses for the six months ended June 30, 2012 increased slightly to $20.8 million from $19.8 million for the six months ended June 30, 2011.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
(Dollars in millions)	2012	2011	Variance	% Change	2012	2011	Variance	% Change
Gross written premiums	$ 344.2	$ 288.7	$ 55.5	19.2 %	$ 621.5	$ 597.6	$ 23.9	4.0 %
Net written premiums	344.2	286.0	58.2	20.3 %	621.5	590.5	31.0	5.2 %
Premiums earned	$ 334.4	$ 317.2	$ 17.2	5.4 %	$ 630.5	$ 633.5	$ (3.0)	-0.5 %
Incurred losses and LAE	160.2	221.6	(61.4)	-27.7 %	308.4	826.3	(517.9)	-62.7 %
Commission and brokerage	81.8	73.8	8.0	10.8 %	153.0	152.2	0.8	0.5 %
Other underwriting expenses	6.5	7.0	(0.4)	-5.9 %	13.3	13.4	(0.1)	-0.8 %
Underwriting gain (loss)	$ 85.8	$ 14.8	$ 71.0	NM	$ 155.9	$ (358.5)	$ 514.3	-143.5 %
				Point Chg				Point Chg
Loss ratio	47.9 %	69.9 %		(22.0)	48.9 %	130.4 %		(81.5)
Commission and brokerage ratio	24.5 %	23.3 %		1.2	24.3 %	24.0 %		0.3
Other underwriting expense ratio	1.9 %	2.1 %		(0.2)	2.1 %	2.2 %		(0.1)
Combined ratio	74.3 %	95.3 %		(21.0)	75.3 %	156.6 %		(81.3)
(NM, not meaningful.)								
(Some amounts may not reconcile due to rounding.)								

Premiums. Gross written premiums increased by 19.2% to $344.2 million for the three months ended June 30, 2012 compared to $288.7 million for the three months ended June 30, 2011, primarily due to increased premium from the Latin American and Asian regions, with the latter experiencing significant rate increases following the 2011 catastrophe loss events, which is offsetting the lower premium impact of the shift in this business away from pro rata to excess of loss. Net written premiums increased by 20.3% to $344.2 million for the three months ended June 30, 2012 compared to $286.0 million for the same period in 2011, principally as a result of the increase in gross written premiums. Premiums earned increased 5.4% to $334.4 million for the three months ended June 30, 2012 compared to $317.2 million for the same period in 2011. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

Gross written premiums increased by 4.0% to $621.5 million for the six months ended June 30, 2012 compared to $597.6 million for the six months ended June 30, 2011, primarily due to increased premium from the Latin American and Asian regions, with the latter experiencing significant rate increases following the 2011 catastrophe loss events, which is offsetting the lower premium impact of the shift in this business away from pro rata to excess of loss. Net written premiums increased by 5.2% to $621.5 million for the six months ended June 30, 2012 compared to $590.5 million for the same period in 2011, principally as a result of the increase in gross written premiums. Premiums earned decreased 0.5% to $630.5 million for the six months ended June 30, 2012 compared to $633.5 million for the same period in 2011.

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

	Three Months Ended June 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional	$ 159.5	47.7 %	$ (0.5)	-0.2 %	$ 158.9	47.5 %
Catastrophes	-	0.0 %	1.3	0.4 %	1.3	0.4 %
Total segment	$ 159.5	47.7 %	$ 0.8	0.2 %	$ 160.2	47.9 %
2011						
Attritional	$ 168.8	53.3 %	$ (5.0)	-1.6 %	$ 163.8	51.7 %
Catastrophes	64.2	20.2 %	(6.3)	-2.0 %	57.8	18.2 %
Total segment	$ 233.0	73.5 %	$ (11.3)	-3.6 %	$ 221.6	69.9 %
Variance 2012/2011						
Attritional	$ (9.3)	(5.6) pts	$ 4.5	1.4 pts	$ (4.9)	(4.2) pts
Catastrophes	(64.2)	(20.2) pts	7.6	2.4 pts	(56.5)	(17.8) pts
Total segment	$ (73.5)	(25.8) pts	$ 12.1	3.8 pts	$ (61.4)	(22.0) pts

	Six Months Ended June 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional	$ 308.1	48.8 %	$ (3.3)	-0.5 %	$ 304.8	48.3 %
Catastrophes	-	0.0 %	3.6	0.6 %	3.6	0.6 %
Total segment	$ 308.1	48.8 %	$ 0.3	0.1 %	$ 308.4	48.9 %
2011						
Attritional	$ 334.0	52.8 %	$ (10.0)	-1.6 %	$ 324.0	51.2 %
Catastrophes	505.2	79.7 %	(2.9)	-0.5 %	502.3	79.2 %
Total segment	$ 839.2	132.5 %	$ (12.9)	-2.1 %	$ 826.3	130.4 %
Variance 2012/2011						
Attritional	$ (25.9)	(4.0) pts	$ 6.7	1.1 pts	$ (19.2)	(2.9) pts
Catastrophes	(505.2)	(79.7) pts	6.5	1.1 pts	(498.7)	(78.6) pts
Total segment	$ (531.1)	(83.7) pts	$ 13.2	2.2 pts	$ (517.9)	(81.5) pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased 27.7% to $160.2 million for the three months ended June 30, 2012 compared to $221.6 million for the three months ended June 30, 2011, representing 22.0 loss ratio points. The decrease was principally due to a $64.2 million (20.2 points) decrease in current year catastrophe losses. The 2011 current year catastrophes included the New Zealand earthquake ($38.2 million), the Canadian Slave Lake fire ($15.0 million) and the Japanese earthquake and tsunami ($8.7 million). The current year attritional losses decreased by $9.3 million, or 5.6 points, due to significant rate increases in the Asian markets, particularly for catastrophe-exposed risks, and a shift in the mix of business towards property catastrophe and excess of loss business, which generally have lower loss ratios.

Incurred losses and LAE decreased 62.7% to $308.4 million for the six months ended June 30, 2012 compared to $826.3 million for the six months ended June 30, 2011, representing 81.5 loss ratio points. The decrease was principally due to a $505.2 million (79.7 points) decrease in current year catastrophe losses. The 2011 current year catastrophes included the Japanese earthquake and tsunami ($273.7 million), the New Zealand earthquake ($158.2 million), the Australian flood ($45.1 million) and the Canadian Slave Lake fire ($15.0 million). Current years' attritional losses decreased by $25.9 million (4.0 points) due to significant rate increases in the Asian markets, particularly for catastrophe-exposed risks and a shift in the mix of business towards property catastrophe and excess of loss business, which generally have lower loss ratios.

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Segment Expenses. Commission and brokerage increased 10.8% to $81.8 million for the three months ended June 30, 2012 compared to $73.8 million for the same period in 2011. This change is mainly due to the increase in earned premiums during the quarter. Commission and brokerage increased slightly to $153.0 million for the six months ended June 30, 2012 compared to $152.2 million for the same period in 2011.

Segment other underwriting expenses decreased to $6.5 million for the three months ended June 30, 2012 compared to $7.0 million for the same period in 2011. Segment other underwriting expenses decreased slightly to $13.3 million for the six months ended June 30, 2012 compared to $13.4 million for the same period in 2011.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
(Dollars in millions)	2012	2011	Variance	% Change	2012	2011	Variance	% Change
Gross written premiums	$ 174.1	$ 176.4	$ (2.3)	-1.3 %	$ 362.0	$ 354.9	$ 7.1	2.0 %
Net written premiums	174.1	176.4	(2.3)	-1.3 %	361.3	355.0	6.4	1.8 %
Premiums earned	$ 169.8	$ 203.1	$ (33.2)	-16.4 %	$ 333.7	$ 365.5	$ (31.7)	-8.7 %
Incurred losses and LAE	101.7	125.8	(24.1)	-19.2 %	206.9	329.7	(122.8)	-37.3 %
Commission and brokerage	45.3	53.2	(7.9)	-14.8 %	88.6	93.8	(5.2)	-5.6 %
Other underwriting expenses	6.9	6.7	0.2	2.9 %	14.4	13.4	1.0	7.2 %
Underwriting gain (loss)	$ 15.9	$ 17.3	$ (1.4)	-8.0 %	$ 23.9	$ (71.5)	$ 95.3	-133.4 %
				Point Chg				Point Chg
Loss ratio	59.9 %	62.0 %		(2.1)	62.0 %	90.2 %		(28.2)
Commission and brokerage ratio	26.7 %	26.2 %		0.5	26.6 %	25.7 %		0.9
Other underwriting expense ratio	4.0 %	3.3 %		0.7	4.2 %	3.7 %		0.5
Combined ratio	90.6 %	91.5 %		(0.9)	92.8 %	119.6 %		(26.8)

(Some amounts may not reconcile due to rounding.)

Premiums. Gross written premiums decreased 1.3% to $174.1 million for the three months ended June 30, 2012 compared to $176.4 million for the three months ended June 30, 2011, primarily due to strong competition in the European market partially offset by new business and increased premium on existing business written in our Bermuda office. Net written premiums decreased 1.3% to $174.1 million for the three months ended June 30, 2012 compared to $176.4 million for the three months ended June 30, 2011, in line with the decrease in gross written premiums. Premiums earned decreased 16.4% to $169.8 million for the three months ended June 30, 2012 compared to $203.1 million for the three months ended June 30, 2011. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

Gross written premiums increased 2.0% to $362.0 million for the six months ended June 30, 2012 compared to $354.9 million for the six months ended June 30, 2011, primarily due to new business and increased premium on existing business written in our Bermuda office partially offset by strong competition in the European market. Net written premiums increased 1.8% to $361.3 million for the six months ended June 30, 2012 compared to $355.0 million for the six months ended June 30, 2011, in line with the increase in gross written premiums. Premiums earned decreased 8.7% to $333.7 million for the six months ended June 30, 2012 compared to $365.5 million for the six months ended June 30, 2011. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

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

	Three Months Ended June 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional	$ 102.3	60.3 %	$ (3.2)	-1.9 %	$ 99.1	58.4 %
Catastrophes	-	0.0 %	2.6	1.5 %	2.6	1.5 %
A&E	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	$ 102.3	60.3 %	$ (0.6)	-0.4 %	$ 101.7	59.9 %
2011						
Attritional	$ 122.1	60.2 %	$ 1.3	0.6 %	$ 123.4	60.8 %
Catastrophes	4.5	2.2 %	(2.9)	-1.4 %	1.6	0.8 %
A&E	-	0.0 %	0.8	0.4 %	0.8	0.4 %
Total segment	$ 126.6	62.4 %	$ (0.8)	-0.4 %	$ 125.8	62.0 %
Variance 2012/2011						
Attritional	$ (19.8)	0.1 pts	$ (4.5)	(2.5) pts	$ (24.3)	(2.4) pts
Catastrophes	(4.5)	(2.2) pts	5.5	2.9 pts	1.0	0.7 pts
A&E	-	- pts	(0.8)	(0.4) pts	(0.8)	(0.4) pts
Total segment	$ (24.3)	(2.1) pts	$ 0.2	- pts	$ (24.1)	(2.1) pts

	Six Months Ended June 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional	$ 204.5	61.3 %	$ (2.8)	-0.8 %	$ 201.8	60.5 %
Catastrophes	-	0.0 %	5.1	1.5 %	5.1	1.5 %
A&E	-	0.0 %	-	0.0 %	0.0	0.0 %
Total segment	$ 204.5	61.3 %	$ 2.4	0.7 %	$ 206.9	62.0 %
2011						
Attritional	$ 216.6	59.3 %	$ 5.2	1.4 %	$ 221.8	60.7 %
Catastrophes	114.5	31.3 %	(7.4)	-2.0 %	107.1	29.3 %
A&E	-	0.0 %	0.8	0.2 %	0.8	0.2 %
Total segment	$ 331.1	90.6 %	$ (1.4)	-0.4 %	$ 329.7	90.2 %
Variance 2012/2011						
Attritional	$ (12.1)	2.0 pts	$ (8.0)	(2.2) pts	$ (20.0)	(0.2) pts
Catastrophes	(114.5)	(31.3) pts	12.5	3.5 pts	(102.0)	(27.8) pts
A&E	-	- pts	(0.8)	(0.2) pts	(0.8)	(0.2) pts
Total segment	$ (126.6)	(29.3) pts	$ 3.8	1.1 pts	$ (122.8)	(28.2) pts

(Some amounts may not reconcile
due to rounding.)

Incurred losses and LAE decreased 19.2% to $101.7 million for the three months ended June 30, 2012 compared to $125.8 million for the three months ended June 30, 2011. The decrease was principally due to a $19.8 million decrease in current year attritional losses, which is in line with the reduction in premiums earned.

Incurred losses and LAE decreased 37.3% to $206.9 million for the six months ended June 30, 2012 compared to $329.7 million for the six months ended June 30, 2011. The decrease was principally due to a $114.5 million (31.3 points) decrease in current year catastrophe losses. The 2011 current year catastrophe losses included the Japanese earthquake and tsunami ($71.5 million) and the New Zealand earthquake ($38.8 million).

Segment Expenses. Commission and brokerage decreased 14.8% to $45.3 million for the three months ended June 30, 2012 compared to $53.2 million for the three months ended June 30, 2011. Commission and brokerage decreased 5.6% to $88.6 million for the six months ended June 30, 2012 compared to $93.8 million for the six months ended June 30, 2011. These declines were mainly due to the decreases in earned premiums.

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Segment other underwriting expenses increased slightly to $6.9 million for the three months ended June 30, 2012 compared to $6.7 million for the same period in 2011. Segment other underwriting expenses increased slightly to $14.4 million for the six months ended June 30, 2012 compared to $13.4 million for the same period in 2011.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
(Dollars in millions)	2012	2011	Variance	% Change	2012	2011	Variance	% Change
Gross written premiums	$ 255.3	$ 242.5	$ 12.7	5.2 %	$ 467.0	$ 514.0	$ (47.0)	-9.1 %
Net written premiums	203.1	213.3	(10.2)	-4.8 %	385.1	444.6	(59.4)	-13.4 %
Premiums earned	$ 212.2	$ 212.0	$ 0.1	0.1 %	$ 392.2	$ 425.7	$ (33.5)	-7.9 %
Incurred losses and LAE	149.7	152.1	(2.4)	-1.6 %	276.9	311.3	(34.5)	-11.1 %
Commission and brokerage	28.8	32.9	(4.1)	-12.5 %	60.2	67.4	(7.2)	-10.7 %
Other underwriting expenses	26.2	22.4	3.8	17.1 %	49.7	44.3	5.5	12.3 %
Underwriting gain (loss)	$ 7.4	$ 4.6	$ 2.8	60.4 %	$ 5.3	$ 2.6	$ 2.7	104.8 %
				Point Chg				Point Chg
Loss ratio	70.6 %	71.7 %		(1.1)	70.6 %	73.1 %		(2.5)
Commission and brokerage ratio	13.6 %	15.5 %		(1.9)	15.4 %	15.8 %		(0.4)
Other underwriting expense ratio	12.3 %	10.6 %		1.7	12.6 %	10.5 %		2.1
Combined ratio	96.5 %	97.8 %		(1.3)	98.6 %	99.4 %		(0.8)

(Some amounts may not reconcile due to rounding.)

Premiums. Gross written premiums increased by 5.2% to $255.3 million for the three months ended June 30, 2012 compared to $242.5 million for the three months ended June 30, 2011. This increase was primarily due to the increase in crop premiums partially offset by the run-off of terminated business. Net written premiums decreased 4.8% to $203.1 million for the three months ended June 30, 2012 compared to $213.3 million for the same period in 2011 due to an increase in the use of reinsurance on our crop business. Premiums earned slightly increased 0.1% to $212.2 million for the three months ended June 30, 2012 compared to $212.0 million for the three months ended June 30, 2011. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over coverage period whereas written premiums are recorded at the initiation of the coverage period.

Gross written premiums decreased by 9.1% to $467.0 million for the six months ended June 30, 2012 compared to $514.0 million for the six months ended June 30, 2011. This decrease was primarily driven by the termination and runoff of several large casualty programs, partially offset by an increase in crop and A&H primary business. Net written premiums decreased 13.4% to $385.1 million for the six months ended June 30, 2012 compared to $444.6 million for the same period in 2011 due to lower gross premiums. Premiums earned decreased 7.9% to $392.2 million for the six months ended June 30, 2012 compared to $425.7 million for the six months ended June 30, 2011. The change in premiums earned is relatively consistent with the decrease in net written premiums.

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

	Three Months Ended June 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional	$ 150.3	70.9 %	$ (0.6)	-0.3 %	$ 149.7	70.6 %
Catastrophes	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	$ 150.3	70.9 %	$ (0.6)	-0.3 %	$ 149.7	70.6 %
2011						
Attritional	$ 151.8	71.5 %	$ -	0.0 %	$ 151.8	71.5 %
Catastrophes	-	0.0 %	0.3	0.2 %	0.3	0.2 %
Total segment	$ 151.8	71.5 %	$ 0.3	0.2 %	$ 152.1	71.7 %
Variance 2012/2011						
Attritional	$ (1.5)	(0.6) pts	$ (0.6)	(0.3) pts	$ (2.1)	(0.9) pts
Catastrophes	-	- pts	(0.3)	(0.2) pts	(0.3)	(0.2) pts
Total segment	$ (1.5)	(0.6) pts	$ (0.9)	(0.5) pts	$ (2.4)	(1.1) pts

	Six Months Ended June 30,					
(Dollars in millions)	Current Year	Ratio %/ Pt Change	Prior Years	Ratio %/ Pt Change	Total Incurred	Ratio %/ Pt Change
2012						
Attritional	$ 277.4	70.7 %	$ (0.6)	-0.1 %	$ 276.9	70.6 %
Catastrophes	-	0.0 %	-	0.0 %	-	0.0 %
Total segment	$ 277.4	70.7 %	$ (0.6)	-0.1 %	$ 276.9	70.6 %
2011						
Attritional	$ 311.0	73.0 %	$ -	0.0 %	$ 311.0	73.0 %
Catastrophes	-	0.0 %	0.3	0.1 %	0.3	0.1 %
Total segment	$ 311.0	73.0 %	$ 0.3	0.1 %	$ 311.3	73.1 %
Variance 2012/2011						
Attritional	$ (33.6)	(2.3) pts	$ (0.6)	(0.1) pts	$ (34.1)	(2.4) pts
Catastrophes	-	- pts	(0.3)	(0.1) pts	(0.3)	(0.1) pts
Total segment	$ (33.6)	(2.3) pts	$ (0.9)	(0.2) pts	$ (34.5)	(2.5) pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased by $2.4 million, or 1.6%, to $149.7 million for the three months ended June 30, 2012 compared to $152.1 million for the three months ended June 30, 2011. This was due to a decrease of $1.5 million in current year attritional losses primarily driven by a shift in the mix of business towards short-tail business with lower loss ratios.

Incurred losses and LAE decreased by $34.5 million, or 11.1%, to $276.9 million for the six months ended June 30, 2012 compared to $311.3 million for the six months ended June 30, 2011. This was primarily due to a decrease of $33.6 million in current year attritional losses driven by the decline in premiums earned and a shift in the mix of business towards short-tail business with lower loss ratios.

Segment Expenses. Commission and brokerage decreased by 12.5% to $28.8 million for the three months ended June 30, 2012 compared to $32.9 million for the three months ended June 30, 2011. Commission and brokerage decreased by 10.7% to $60.2 million for the six months ended June 30, 2012 compared to $67.4 million for the six months ended June 30, 2011. These declines were mainly due to a change in the mix of business from program business to direct business, which carries a lower commission ratio.

Segment other underwriting expenses increased to $26.2 million for the three months ended June 30, 2012 compared to $22.4 million for the same period in 2011. Segment other underwriting expenses increased to $49.7 million for the six months ended June 30, 2012 compared to $44.3 million for the same period in 2011.

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FINANCIAL CONDITION

Cash and Invested Assets. Aggregate invested assets, including cash and short-term investments, were $16,029.8 million at June 30, 2012, an increase of $232.4 million compared to $15,797.4 million at December 31, 2011. This increase was primarily the result of $304.5 million of cash flows from operations, $83.0 million of unrealized appreciation, $50.4 million in fair value re-measurements, $28.5 million in equity adjustments of our limited partnership investments, $18.6 million due to fluctuations in foreign currencies and $6.0 million of unsettled securities, partially offset by $225.0 million paid for share repurchases and $50.8 million paid out in dividends to shareholders.

Our principal investment objectives are to ensure funds are available to meet our insurance and reinsurance obligations and to maximize after-tax investment income while maintaining a high quality diversified investment portfolio. Considering these objectives, we view our investment portfolio as having two components: 1) the investments needed to satisfy outstanding liabilities (our core fixed maturities portfolio) and 2) investments funded by our shareholders' equity.

For the portion needed to satisfy global outstanding liabilities, we generally invest in taxable and tax-preferenced fixed income securities with an average credit quality of Aa3. For the U.S. portion of this portfolio, our mix of taxable and tax-preferenced investments is adjusted periodically, consistent with our current and projected U.S. operating results, market conditions and our tax position. This global fixed maturity securities portfolio is externally managed by an independent, professional investment manager using portfolio guidelines approved by internal management.

Our global portfolio included $1,756.8 million of foreign government securities at June 30, 2012, of which $788.7 million were 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. We held no sovereign securities of Portugal, Italy, Ireland, Greece or Spain at June 30, 2012.

Over the past few years and particularly in 2010 and 2011, we have expanded the allocation of our investments funded by shareholders' equity to include: 1) a greater percentage of publicly traded equity securities, 2) emerging market fixed maturities through mutual fund structures, 3) high yield fixed maturities, 4) bank loan securities and 5) private equity limited partnership investments. The objective of this portfolio diversification is to enhance the risk-adjusted total return of the investment portfolio by allocating a prudent portion of the portfolio to higher return asset classes, which are also less subject to changes in value with movements in interest rates. We limit our allocation to these asset classes because of 1) the potential for volatility in their values and 2) the impact of these investments on regulatory and rating agency capital adequacy models. We use investment managers experienced in these markets and adjust our allocation to these investments based upon market conditions. At June 30, 2012, the market value of investments in these investment market sectors, carried at both market and fair value, approximated 58.7% of shareholders' equity.

The Company's limited partnership investments are comprised of limited partnerships that invest in private equities. Generally, the limited partnerships are reported on a quarter lag. All of the limited partnerships are required to report using fair value accounting in accordance with FASB guidance. We receive annual audited financial statements for all of the limited partnerships. For the quarterly reports, the Company's staff performs reviews of the financial reports for any unusual changes in carrying value. If the Company becomes aware of a significant decline in value during the lag reporting period, the loss will be recorded in the period in which the Company identifies the decline.

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The tables below summarize the composition and characteristics of our investment portfolio as of the dates indicated.

(Dollars in millions)	At June 30, 2012		At December 31, 2011	
Fixed maturities, market value	$ 12,480.4	77.9 %	$ 12,293.5	77.8 %
Fixed maturities, fair value	62.8	0.4 %	113.6	0.7 %
Equity securities, market value	331.2	2.1 %	448.9	2.9 %
Equity securities, fair value	1,215.5	7.5 %	1,249.1	7.9 %
Short-term investments	947.6	5.9 %	685.3	4.4 %
Other invested assets	593.5	3.7 %	558.2	3.5 %
Cash	398.9	2.5 %	448.7	2.8 %
Total investments and cash	$ 16,029.8	100.0 %	$ 15,797.4	100.0 %

(Some amounts may not reconcile due to rounding.)

	At June 30, 2012	At December 31, 2011
Fixed income portfolio duration (years)	2.9	3.0
Fixed income composite credit quality	Aa3	Aa3
Imbedded end of period yield, pre-tax	3.7%	3.9%
Imbedded end of period yield, after-tax	3.2%	3.4%

The following table provides a comparison of our total return by asset class relative to broadly accepted industry benchmarks for the periods indicated.

	Six Months Ended June 30, 2012	Twelve Months Ended December 31, 2011
Fixed income portfolio total return	2.3%	4.7%
Barclay's Capital - U.S. aggregate index	2.4%	7.8%
Common equity portfolio total return	6.3%	2.7%
S&P 500 index	9.5%	2.1%
Other invested asset portfolio total return	7.0%	13.5%

The pre-tax equivalent total return for the bond portfolio was approximately 2.4% and 5.1% at June 30, 2012 and December 31, 2011, respectively. The pre-tax equivalent return adjusts the yield on tax-exempt bonds to the fully taxable equivalent.

As indicated above, there is a relatively large variation between the total return on our fixed income portfolio for the year ended December 31, 2011 versus the Barclay's -U.S. aggregate index for the same period. One of the reasons is that the duration of our portfolio is much shorter than the duration of the index. Historically, our duration has been shorter than the index because we align our investment portfolio with our liabilities. In addition, we have recently shortened our duration in anticipation of a reversing trend in interest rate movements. With interest rates continuing to decline in 2011, the index benefited from its longer duration; however, in the longer term, there will be a benefit from a reduced exposure to unrealized market valuation losses on our fixed income portfolio if interest rates rise. The composition of the index is also different from our portfolio as we hold foreign securities to match our foreign liabilities, while the index is comprised of only U.S. securities.

Reinsurance Receivables. Reinsurance receivables for both paid and recoverable on unpaid losses totaled $598.4 million at June 30, 2012 and $580.3 million at December 31, 2011. At June 30, 2012, $200.3 million, or 33.5%, was receivable from C.V. Starr (Bermuda); $62.8 million, or 10.5%, was receivable from Transatlantic Reinsurance Company; $56.5 million, or 9.4%, was receivable from Berkley Insurance Company and $39.2 million, or 6.5%, was receivable from Munich Reinsurance Company. The receivable from C.V. Starr is fully collateralized by a trust agreement. No other retrocessionaire accounted for more than 5% of our receivables.

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Loss and LAE Reserves. Gross loss and LAE reserves totaled $9,890.8 million at June 30, 2012 and $10,123.2 million at December 31, 2011.

The following tables summarize gross outstanding loss and LAE reserves by segment, classified by case reserves and IBNR reserves, for the periods indicated.

	At June 30, 2012			
(Dollars in millions)	Case Reserves	IBNR Reserves	Total Reserves	% of Total
U.S. Reinsurance	$ 1,581.2	$ 1,855.9	$ 3,437.2	34.7 %
International	1,222.1	724.0	1,946.1	19.7 %
Bermuda	855.1	1,059.9	1,915.0	19.4 %
Insurance	927.6	1,196.0	2,123.7	21.5 %
Total excluding A&E	4,586.1	4,835.9	9,422.0	95.3 %
A&E	284.0	184.9	468.8	4.7 %
Total including A&E	$ 4,870.1	$ 5,020.7	$ 9,890.8	100.0 %

(Some amounts may not reconcile due to rounding.)

	At December 31, 2011			
(Dollars in millions)	Case Reserves	IBNR Reserves	Total Reserves	% of Total
U.S. Reinsurance	$ 1,556.3	$ 1,889.3	$ 3,445.6	34.1 %
International	1,279.7	857.7	2,137.4	21.1 %
Bermuda	805.4	1,067.2	1,872.6	18.5 %
Insurance	949.2	1,218.5	2,167.7	21.4 %
Total excluding A&E	4,590.5	5,032.8	9,623.3	95.1 %
A&E	289.1	210.9	499.9	4.9 %
Total including A&E	$ 4,879.6	$ 5,243.6	$ 10,123.2	100.0 %

(Some amounts may not reconcile due to rounding.)

Changes in premiums earned and business mix, reserve re-estimations, catastrophe losses and changes in catastrophe loss reserves and claim settlement activity all impact loss and LAE reserves by segment and in total.

Our loss and LAE reserves represent our best estimate of our ultimate liability for unpaid claims. We continuously re-evaluate our reserves, including re-estimates of prior period reserves, taking into consideration all available information and, in particular, newly reported loss and claim experience. Changes in reserves resulting from such re-evaluations are reflected in incurred losses in the period when the re-evaluation is made. Our analytical methods and processes operate at multiple levels including individual contracts, groupings of like contracts, classes and lines of business, internal business units, segments, legal entities, and in the aggregate. In order to set appropriate reserves, we make qualitative and quantitative analyses and judgments at these various levels. Additionally, the attribution of reserves, changes in reserves and incurred losses among accident years requires qualitative and quantitative adjustments and allocations at these various levels. We utilize actuarial science, business expertise and management judgment in a manner intended to ensure the accuracy and consistency of our reserving practices. Nevertheless, our reserves are estimates, which are subject to variation, which may be significant.

There can be no assurance that reserves for, and losses from, claim obligations will not increase in the future, possibly by a material amount. However, we believe that our existing reserves and reserving methodologies lessen the probability that any such increase would have a material adverse effect on our financial condition, results of operations or cash flows. In this context, we note that over the past 10 years, our calendar year operations have been affected by effects from prior period reserve re-estimates, ranging from a favorable $30.9 million in 2010, representing 0.4% of the net prior period reserves for the year in which the adjustment was made, to an unfavorable $249.4 million in 2004, representing 4.8% of the net prior period reserves for the year in which the adjustment was made.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	2012	2011	2012	2011
Gross Basis:				
Beginning of period reserves	$ 486.5	$ 535.8	$ 499.9	$ 554.8
Incurred losses	-	0.8	0.1	0.8
Paid losses	(17.7)	(9.8)	(31.2)	(28.8)
End of period reserves	$ 468.8	$ 526.7	$ 468.8	$ 526.7
Net Basis:				
Beginning of period reserves	$ 467.6	$ 514.7	$ 480.2	$ 532.9
Incurred losses	-	0.8	0.1	0.8
Paid losses	(16.8)	(9.5)	(29.5)	(27.8)
End of period reserves	$ 450.8	$ 505.9	$ 450.8	$ 505.9

(Some amounts may not reconcile due to rounding.)

At June 30, 2012, the gross reserves for A&E losses were comprised of $146.9 million representing case reserves reported by ceding companies, $92.8 million representing additional case reserves established by us on assumed reinsurance claims, $44.3 million representing case reserves established by us on direct excess insurance claims, including Mt. McKinley, and $184.8 million representing IBNR reserves.

With respect to asbestos only, at June 30, 2012, we had gross asbestos loss reserves of $449.8 million, or 95.9%, of total A&E reserves, of which $359.2 million was for assumed business and $90.6 million was for direct business.

Industry analysts use the “survival ratio” to compare the A&E reserves among companies with such liabilities. The survival ratio is typically calculated by dividing a company’s current net reserves by the three year average of annual paid losses. Hence, the survival ratio equals the number of years that it would take to exhaust the current reserves if future loss payments were to continue at historical levels. Using this measurement, our net three year asbestos survival ratio was 6.4 years at June 30, 2012. These metrics can be skewed by individual large settlements occurring in the prior three years and therefore, may not be indicative of the timing of future payments.

Because the survival ratio was developed as a comparative measure of reserve strength and does not indicate absolute reserve adequacy, we consider, but do not rely on, the survival ratio when evaluating our reserves. In particular, we note that year to year loss payment variability can be material. This is due, in part, to our orientation to negotiated settlements, particularly on our Mt. McKinley exposures, which significantly reduces the credibility and utility of this measure as an analytical tool. In the first half of 2012, we made asbestos net claim payments of $2.4 million to Mt McKinley high profile claimants where the claim was either closed or a settlement had been reached. Such payments, which are non-repetitive, distort downward our three year survival ratio. Adjusting for such settlements, recognizing that total settlements are generally considered fully reserved to an agreed settlement, we consider that our adjusted asbestos survival ratio for net unsettled claims is 8.6 years, which is better than prevailing industry norms.

Shareholders’ Equity. Our shareholders’ equity increased to $6,417.4 million as of June 30, 2012 from $6,071.4 million as of December 31, 2011. This increase was the result of $519.3 million of net income, $78.3 million of unrealized appreciation on investments, net of tax, share-based compensation transactions of $31.3 million and $2.0 million of net benefit plan obligation adjustments, partially offset by repurchases of 2.4 million common shares for $225.0 million, $50.8 million of shareholder dividends and $9.1 million of net foreign currency translation adjustments.

LIQUIDITY AND CAPITAL RESOURCES

Capital. Our business operations are in part dependent on our financial strength and financial strength ratings, and the market's perception of our financial strength, as measured by shareholders' equity, which was $6,417.4 million at June 30, 2012 and $6,071.4 million at December 31, 2011. On March 13, 2009, Everest Re and Everest National, wholly-owned indirect subsidiaries of the Company, received notification of a one level ratings downgrade by Standard & Poor's. On April 7, 2010, Standard & Poor's upgraded the Company's debt ratings one level. On January 24, 2012, Moody's affirmed the ratings of the Company's operating subsidiaries 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). 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 one notch downgrade would have a material adverse affect on the Company's business. We continue to possess significant financial flexibility and access to the debt and equity markets as a result of our perceived financial strength, as evidenced by the financial strength ratings as assigned by independent rating agencies.

From time to time, we have used open market share repurchases to adjust our capital position and enhance long term expected returns to our shareholders. On July 21, 2008, our existing authorization to purchase up to 5 million of our shares was amended to authorize the purchase of up to 10 million shares. On February 24, 2010, our existing authorization to purchase up to 10 million of our shares was amended to authorize the purchase of up to 15 million shares. On February 22, 2012, our existing authorization to purchase up to 15 million of our shares was amended to authorize the purchase of up to 20 million shares. As of June 30, 2012, we had repurchased 15.1 million shares under this authorization.

On October 14, 2011, we renewed our shelf registration statement on Form S-3ASR with the Securities and Exchange Commission ("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.

Liquidity. Our principal investment objectives are to ensure funds are available to meet our insurance and reinsurance obligations and to maximize after-tax investment income while maintaining a high quality diversified investment portfolio. Considering these objectives, we view our investment portfolio as having two components: 1) the investments needed to satisfy outstanding liabilities (our core fixed maturities portfolio) and 2) investments funded by our shareholders' equity.

For the portion needed to satisfy global outstanding liabilities, we generally invest in taxable and tax-preferenced fixed income securities with an average credit quality of Aa3. For the U.S. portion of this portfolio, our mix of taxable and tax-preferenced investments is adjusted periodically, consistent with our current and projected U.S. operating results, market conditions and our tax position. This global fixed maturity securities portfolio is externally managed by an independent, professional investment manager using portfolio guidelines approved by internal management.

Over the past few years and particularly in 2010 and 2011, we have expanded the allocation of our investments funded by shareholders' equity to include: 1) a greater percentage of publicly traded equity securities, 2) emerging market fixed maturities through mutual fund structures, 3) high yield fixed maturities, 4) bank loan securities and 5) private equity limited partnership investments. The objective of this portfolio diversification is to enhance the risk-adjusted total return of the investment portfolio by allocating a prudent portion of the portfolio to higher return asset classes, which are also less subject to changes in value with movements in interest rates. We limit our allocation to these asset classes because of 1) the potential for volatility in their values and 2) the impact of these investments on regulatory and rating agency capital adequacy models. We use investment managers experienced in these markets and adjust our allocation to these investments based upon market conditions. At June 30, 2012, the market value of investments in these investment market sectors, carried at both market and fair value, approximated 58.7% of shareholders' equity.

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Our liquidity requirements are generally met from positive cash flow from operations. Positive cash flow results from reinsurance and insurance premiums being collected prior to disbursements for claims, which disbursements generally take place over an extended period after the collection of premiums, sometimes a period of many years. Collected premiums are generally invested, prior to their use in such disbursements, and investment income provides additional funding for loss payments. Our net cash flows from operating activities were $304.5 million and $338.7 million for the six months ended June 30, 2012 and 2011, respectively. Additionally, these cash flows reflected a net tax payment of $23.8 million and a net tax refund of $12.5 million for the six months ended June 30, 2012 and 2011, respectively; net catastrophe loss payments of $285.9 million and $186.7 million for the six months ended June 30, 2012 and 2011, respectively; and net A&E payments of $29.5 million and $27.8 million for the six months ended June 30, 2012 and 2011, respectively.

If disbursements for claims and benefits, policy acquisition costs and other operating expenses were to exceed premium inflows, cash flow from reinsurance and insurance operations would be negative. The effect on cash flow from insurance operations would be partially offset by cash flow from investment income. Additionally, cash inflows from investment maturities and dispositions, both short-term investments and longer term maturities are available to supplement other operating cash flows.

As the timing of payments for claims and benefits cannot be predicted with certainty, we maintain portfolios of long term invested assets with varying maturities, along with short-term investments that provide additional liquidity for payment of claims. At June 30, 2012 and December 31, 2011, we held cash and short-term investments of $1,346.5 million and $1,134.0 million, respectively. All of our short-term investments are readily marketable and can be converted to cash. In addition to these cash and short-term investments, at June 30, 2012, we had $808.5 million of available for sale fixed maturity securities maturing within one year or less, $5,464.0 million maturing within one to five years and $3,544.7 million maturing after five years. Our $1,546.7 million of equity securities are comprised primarily of publicly traded securities that can be easily liquidated. We believe that these fixed maturity and equity securities, in conjunction with the short-term investments and positive cash flow from operations, provide ample sources of liquidity for the expected payment of losses in the near future. We do not anticipate selling securities or using available credit facilities to pay losses and LAE but have the ability to do so. Sales of securities might result in realized capital gains or losses. At June 30, 2012 we had $630.7 million of net pre-tax unrealized appreciation, comprised of $685.6 million of pre-tax unrealized appreciation and $54.9 million of pre-tax unrealized depreciation.

Management expects annual positive cash flow from operations, which in general reflects the strength of overall pricing, to persist over the near term, absent any unusual catastrophe activity. Due to the significant catastrophe losses in 2011, cash flow from operations may be impacted in the near term as these losses are paid. In the intermediate and long term, our cash flow from operations will be impacted to the extent by which competitive pressures affect overall pricing in our markets and by which our premium receipts are impacted from our strategy of emphasizing underwriting profitability over premium volume.

Effective June 22, 2012, Group, Bermuda Re and Everest International entered into a four year, $800.0 million senior credit facility with a syndicate of lenders, which amended and restated in its entirety the July 27, 2007, five year, $850.0 million 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 $200.0 million 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 $600.0 million 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 $4,250.0 million 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 $4,387.6 million. As of June 30, 2012, the Company was in compliance with all Group Credit Facility covenants.

At June 30, 2012, the Group Credit Facility had no outstanding letters of credit under tranche one and $436.8 million outstanding letters of credit under tranche two. At December 31, 2011, the Group Credit Facility had no outstanding letters of credit under tranche one and $446.5 million outstanding letters of credit under tranche two.

Effective August 15, 2011, Holdings entered into a new three year, $150.0 million 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 $150.0 million 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 $1,875.0 million plus 25% of future aggregate net income and 25% of future aggregate capital contributions after December 31, 2010, which at June 30, 2012, was $1,965.4 million. As of June 30, 2012, Holdings was in compliance with all Holdings Credit Facility covenants.

At June 30, 2012 and December 31, 2011, the Company had no outstanding short-term borrowings from the Holdings Credit Facility revolving credit line. Short-term borrowings can be paid either through renewal with a one, two, three or six month term; or out of available liquidity. In addition, at June 30, 2012 and December 31, 2011, the Holdings Credit Facility had outstanding letters of credit of $5.0 million, respectively.

Costs incurred in connection with the Group Credit Facility and the Holdings Credit Facility were $0.7 million and $0.4 million for the three months ended June 30, 2012 and 2011, respectively. Costs incurred in connection with the Group Credit Facility and the Holdings Credit Facility were $1.3 million and $0.8 million for the six months ended June 30, 2012 and 2011, respectively.

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. We have also written a small number of equity index put option contracts.

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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 $16.0 billion investment portfolio, at June 30, 2012, is principally comprised of fixed maturity securities, which are generally subject to interest rate risk and some foreign currency exchange rate risk, and some equity securities, which are subject to price fluctuations and some foreign exchange rate risk. The overall economic impact of the foreign exchange risks on the investment portfolio is partially mitigated by changes in the dollar value of foreign currency denominated liabilities and their associated income statement impact.

Interest rate risk is the potential change in value of the fixed maturity securities portfolio, including short-term investments, from a change in market interest rates. In a declining interest rate environment, it includes prepayment risk on the $2,469.8 million of mortgage-backed securities in the $12,543.2 million fixed maturity portfolio. Prepayment risk results from potential accelerated principal payments that shorten the average life and thus the expected yield of the security.

The table below displays the potential impact of market value fluctuations and after-tax unrealized appreciation on our fixed maturity portfolio (including $947.6 million of short-term investments) for the period 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 on mortgage-backed securities, changes in prepayment expectations under different interest rate environments were taken into account. For legal entities with a non-U.S. dollar functional currency, the effective duration of the involved portfolio of securities was used as a proxy for the market value change under the various interest rate change scenarios.

	Impact of Interest Rate Shift in Basis Points At June 30, 2012				
	-200	-100	0	100	200
(Dollars in millions)					
Total Market/Fair Value	$14,149.1	$13,825.6	$13,490.8	$13,121.2	$12,729.1
Market/Fair Value Change from Base (%)	4.9 %	2.5 %	0.0 %	-2.7 %	-5.6 %
Change in Unrealized Appreciation					
After-tax from Base ($)	$552.9	$281.5	$-	$(311.7)	$(643.0)

We had $9,890.8 million and $10,123.2 million of gross reserves for losses and LAE as of June 30, 2012 and December 31, 2011, respectively. These amounts are recorded at their nominal value, as opposed to present value, which would reflect a discount adjustment to reflect the time value of money. Since losses are paid out over a period of time, the present value of the reserves is less than the nominal value. As interest rates rise, the present value of the reserves decreases and, conversely, as interest rates decline, the present value increases. These movements are the opposite of the interest rate impacts on the fair value of investments. While the difference between present value and nominal value is not reflected in our financial statements, our financial results will include investment income over time from the investment portfolio until the claims are paid. Our loss and loss reserve obligations have an expected duration of approximately 3.6 years, which is reasonably consistent with our fixed income portfolio. If we were to discount our loss and LAE reserves, net of $0.6 billion of reinsurance receivables on unpaid losses, the discount would be approximately $1.3 billion resulting in a discounted reserve balance of approximately $8.0 billion, representing approximately 59.0% of the market value of the fixed maturity investment portfolio funds.

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

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

	Impact of Percentage Change in Equity Fair/Market Values At June 30, 2012				
(Dollars in millions)	-20%	-10%	0%	10%	20%
Fair/Market Value of the Equity Portfolio	$1,237.3	$1,392.0	$1,546.7	$1,701.3	$1,856.0
After-tax Change in Fair/Market Value	$(223.5)	$(111.8)	$-	$111.8	$223.5

Foreign Currency 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./Bermuda (“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 Canadian Dollar, the Singapore Dollar, the British Pound Sterling and the Euro. We mitigate foreign exchange exposure by generally matching the currency and duration of our assets to our corresponding operating liabilities. In accordance with FASB guidance, we translate the assets, liabilities and income of non-U.S. dollar functional currency legal entities to the U.S. dollar. This translation amount is reported as a component of other comprehensive income. As of June 30, 2012, there has been no material change in exposure to foreign exchange rates as compared to December 31, 2011.

Equity Index Put Option Contracts. Although not considered material in the context of our aggregate exposure to market sensitive instruments, we have issued six equity index put option contracts based on the Standard & Poor’s 500 (“S&P 500”) index and one equity index put option contract based on the FTSE 100 index, that are market sensitive and sufficiently unique to warrant supplemental disclosure.

We sold six equity index put option contracts, based on the S&P 500 index, for total consideration, net of commissions, of $22.5 million. At June 30, 2012, fair value for these equity index put option contracts was $70.4 million. 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. The S&P 500 index value at June 30, 2012 was $1,362.16. 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, we estimate 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 $293.8 million.

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We sold one equity index put option contract based on the FTSE 100 index for total consideration, net of commissions, of $6.7 million. At June 30, 2012, fair value for this equity index put option contract was $9.4 million. This equity index put option contract has an exercise date of July 2020 and a strike price of 5,989.75. The FTSE 100 index value at June 30, 2012 was 5,571.10. 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, we estimate 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 $32.3 million.

Because the equity index put option contracts meet the definition of a derivative, we report the fair value of these instruments in our consolidated balance sheets as a liability and record any changes to fair value in our consolidated statements of operations and comprehensive income (loss) as a net derivative gain (loss). Our financial statements reflect fair values for our obligations on these equity index put option contracts at June 30, 2012, of $79.9 million; even though it may not be likely that the ultimate settlement of these transactions would require a payment that would exceed the initial consideration received, or any payment at all.

As there is no active market for these instruments, the determination of their fair value is based on an industry accepted option pricing model, which requires estimates and assumptions, including those regarding volatility and expected rates of return.

The table below displays the impact of potential movements in interest rates and the equity indices, which are the principal factors affecting fair value of these instruments, looking forward from the fair value for the period indicated. As these are estimates, there can be no assurance regarding future market performance. The asymmetrical results of the interest rate and S&P 500 and FTSE 100 indices shift reflect that the liability cannot fall below zero whereas it can increase to its theoretical maximum.

Equity Indices Put Options Obligation – Sensitivity Analysis

(Dollars in millions)	At June 30, 2012				
Interest Rate Shift in Basis Points:	-200	-100	0	100	200
Total Fair Value	$ 130.0	$ 102.1	$ 79.9	$ 62.8	$ 48.3
Fair Value Change from Base (%)	-62.9 %	-27.8 %	0.0 %	21.4 %	39.5 %
Equity Indices Shift in Points (S&P 500/FTSE 100):	-500/-2000	-250/-1000	0	250/1000	500/2000
Total Fair Value	$ 150.2	$ 109.0	$ 79.9	$ 59.3	$ 44.7
Fair Value Change from Base (%)	-88.1 %	-36.5 %	0.0 %	25.8 %	44.1 %
Combined Interest Rate / Equity Indices Shift (S&P 500/FTSE 100):	-200/ -500/-2000	-100/ -250/-1000	0/0	100/ 250/1000	200/ 500/2000
Total Fair Value	$ 220.4	$ 135.8	$ 79.9	$ 45.1	$ 24.6
Fair Value Change from Base (%)	-176.0 %	-70.0 %	0.0 %	43.5 %	69.2 %

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, the ability of Everest Re, Holdings, Holdings Ireland and Bermuda Re to pay dividends and the settlement costs of our specialized equity index put option contracts. 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Instruments. See “Liquidity and Capital Resources - Market Sensitive Instruments” in PART I – ITEM 2.

ITEM 4. CONTROLS AND PROCEDURES

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

PART II

ITEM 1. LEGAL PROCEEDINGS

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

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

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ITEM 1A. RISK FACTORS

No material changes.

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

Issuer Purchases of Equity Securities.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
April 1 - 30, 2012	0	$ -	0	5,897,518
May 1 - 31, 2012	477,098	$ 100.0171	476,000	5,421,518
June 1 - 30, 2012	514,957	$ 101.7417	514,957	4,906,561
Total	992,055	$ -	990,957	4,906,561

(1) On September 21, 2004, the Company's board of directors approved an amended share repurchase program authorizing the Company and/or its subsidiary Holdings to purchase up to an aggregate of 5,000,000 of the Company's common shares through open market transactions, privately negotiated transactions or both. On July 21, 2008, the Company's executive committee of the board of directors approved an amendment to the September 21, 2004 share repurchase program authorizing the Company and/or its subsidiary Holdings to purchase up to an aggregate of 10,000,000 of the Company's common shares (recognizing that the number of shares authorized for repurchase has been reduced by those shares that have already been purchased) in open market transactions, privately negotiated transactions or both. On February 24, 2010, the Company's executive committee of the board of directors approved an amendment to the September 21, 2004, share repurchase program and the July 21, 2008, amendment authorizing the Company and/or its subsidiary Holdings, to purchase up to 15,000,000 of the Company's common shares (recognizing that the number of shares authorized for repurchase has been reduced by those shares that have already been purchased) in open market transactions, privately negotiated transactions or both. On February 22, 2012, the Company's executive committee of the Board of Directors approved an amendment to the September 21, 2004 share repurchase program, the July 21, 2008 amendment and the February 24, 2010 amendment authorizing the Company and/or its subsidiary Holdings, to purchase up to 20,000,000 of the Company's common shares (recognizing that the number of shares authorized for repurchase has been reduced by those shares that have already been purchased) in open market transactions, privately negotiated transactions or both.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit
Index:

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

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Everest Re Group, Ltd.

Signatures

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

Everest Re Group, Ltd.
(Registrant)

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

(Duly Authorized Officer and Principal Financial Officer)

Dated: August 9, 2012