

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:  
**SEPTEMBER 30, 2009**

Commission file number:  
**1-14527**

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

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or shorter period that the registrant was required to submit and post such files).

YES  NO

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

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

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

YES  NO

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

<u>Class</u>	<u>Number of Shares Outstanding</u> <u>At November 1, 2009</u>
<b>Common Shares, \$0.01 par value</b>	<b>1,000</b>

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

EVEREST REINSURANCE HOLDINGS, INC.

Table of Contents  
Form 10-Q

	<u>Page</u>
<b>PART I</b>	
<b><u>FINANCIAL INFORMATION</u></b>	
<b>Item 1.</b>	<b>Financial Statements</b>
	<a href="#"><u>Consolidated Balance Sheets at September 30, 2009 (unaudited) and December 31, 2008</u></a>
	1
	<a href="#"><u>Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2009 and 2008 (unaudited)</u></a>
	2
	<a href="#"><u>Consolidated Statements of Changes in Stockholder's Equity for the three and nine months ended September 30, 2009 and 2008 (unaudited)</u></a>
	3
	<a href="#"><u>Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2009 and 2008 (unaudited)</u></a>
	4
	<a href="#"><u>Notes to Consolidated Interim Financial Statements (unaudited)</u></a>
	5
<b>Item 2.</b>	<a href="#"><b><u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u></b></a>
	25
<b>Item 3.</b>	<a href="#"><b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b></a>
	44
<b>Item 4.</b>	<a href="#"><b><u>Controls and Procedures</u></b></a>
	44
<b>PART II</b>	
<b><u>OTHER INFORMATION</u></b>	
<b>Item 1.</b>	<a href="#"><b><u>Legal Proceedings</u></b></a>
	44
<b>Item 1A.</b>	<a href="#"><b><u>Risk Factors</u></b></a>
	44
<b>Item 2.</b>	<a href="#"><b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b></a>
	44
<b>Item 3.</b>	<a href="#"><b><u>Defaults Upon Senior Securities</u></b></a>
	44
<b>Item 4.</b>	<a href="#"><b><u>Submission of Matters to a Vote of Security Holders</u></b></a>
	44
<b>Item 5.</b>	<a href="#"><b><u>Other Information</u></b></a>
	45
<b>Item 6.</b>	<a href="#"><b><u>Exhibits</u></b></a>
	45

**Part I**

**ITEM 1. FINANCIAL STATEMENTS**

**EVEREST REINSURANCE HOLDINGS, INC.  
CONSOLIDATED BALANCE SHEETS**

	September 30, 2009 (unaudited)	December 31, 2008
(Dollars in thousands, except par value per share)		
<b>ASSETS:</b>		
Fixed maturities - available for sale, at market value (amortized cost: 2009, \$6,090,136; 2008, \$5,610,483)	\$ 6,363,908	\$ 5,511,856
Fixed maturities - available for sale, at fair value	52,815	43,090
Equity securities - available for sale, at market value (cost: 2009, \$15; 2008, \$15)	12	16
Equity securities - available for sale, at fair value	158,456	119,815
Short-term investments	645,096	918,712
Other invested assets (cost: 2009, \$365,500; 2008, \$400,498)	363,205	392,589
Other invested assets, at fair value	364,841	316,750
Cash	125,128	92,264
Total investments and cash	8,073,461	7,395,092
Accrued investment income	79,124	82,860
Premiums receivable	768,273	714,035
Reinsurance receivables - unaffiliated	606,226	637,890
Reinsurance receivables - affiliated	2,526,007	2,480,016
Funds held by reinsureds	158,366	147,287
Deferred acquisition costs	186,828	192,096
Prepaid reinsurance premiums	557,751	456,180
Deferred tax asset	290,211	518,042
Federal income tax recoverable	13,992	70,299
Other assets	121,548	172,825
<b>TOTAL ASSETS</b>	<b>\$ 13,381,787</b>	<b>\$ 12,866,622</b>
<b>LIABILITIES:</b>		
Reserve for losses and loss adjustment expenses	\$ 7,246,981	\$ 7,419,993
Unearned premium reserve	1,274,240	1,176,834
Funds held under reinsurance treaties	155,096	134,698
Losses in the course of payment	49,051	35,805
Commission reserves	37,927	45,531
Other net payable to reinsurers	479,454	378,800
8.75% Senior notes due 3/15/2010	199,931	199,821
5.4% Senior notes due 10/15/2014	249,759	249,728
6.6% Long term notes due 05/01/2067	238,347	399,643
Junior subordinated debt securities payable	329,897	329,897
Accrued interest on debt and borrowings	12,821	11,217
Unsettled securities payable	45,915	1,476
Other liabilities	231,856	280,211
Total liabilities	10,551,275	10,663,654
Commitments and Contingencies (Note 6)		
<b>STOCKHOLDER'S EQUITY:</b>		
Common stock, par value: \$0.01; 3,000 shares authorized; 1,000 shares issued and outstanding (2009 and 2008)	-	-
Additional paid-in capital	319,887	315,771
Accumulated other comprehensive income (loss), net of deferred income tax expense of \$105.7 million at 2009 and tax benefit of \$38.8 million at 2008	197,560	(72,063)
Retained earnings	2,313,065	1,959,260
Total stockholder's equity	2,830,512	2,202,968
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b>\$ 13,381,787</b>	<b>\$ 12,866,622</b>

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

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
	(unaudited)		(unaudited)	
<b>REVENUES:</b>				
Premiums earned	\$ 438,320	\$ 449,892	\$ 1,337,539	\$ 1,421,336
Net investment income	65,492	97,305	179,667	292,263
Net realized capital gains (losses):				
Other-than-temporary impairments on fixed maturity securities	-	(63,793)	(5,510)	(67,854)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income	-	-	-	-
Other net realized capital gains (losses)	101,394	(44,859)	61,661	(193,493)
Total net realized capital gains (losses)	101,394	(108,652)	56,151	(261,347)
Realized gain on debt repurchase	-	-	78,271	-
Other income (expense)	15,081	7,951	7,801	(16,039)
Total revenues	620,287	446,496	1,659,429	1,436,213
<b>CLAIMS AND EXPENSES:</b>				
Incurred losses and loss adjustment expenses	241,992	446,996	777,295	1,115,813
Commission, brokerage, taxes and fees	77,259	73,816	252,401	295,270
Other underwriting expenses	39,864	32,769	109,226	95,794
Interest, fee and bond issue cost amortization expense	17,073	19,745	53,779	59,233
Total claims and expenses	376,188	573,326	1,192,701	1,566,110
INCOME (LOSS) BEFORE TAXES	244,099	(126,830)	466,728	(129,897)
Income tax expense (benefit)	79,958	(47,931)	128,423	(69,290)
NET INCOME (LOSS)	\$ 164,141	\$ (78,899)	\$ 338,305	\$ (60,607)
Other comprehensive income (loss), net of tax	162,343	(145,996)	285,123	(223,813)
COMPREHENSIVE INCOME (LOSS)	\$ 326,484	\$ (224,895)	\$ 623,428	\$ (284,420)

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
(Dollars in thousands, except share amounts)	(unaudited)		(unaudited)	
<b>COMMON STOCK (shares outstanding):</b>				
Balance, beginning of period	1,000	1,000	1,000	1,000
Balance, end of period	1,000	1,000	1,000	1,000
<b>ADDITIONAL PAID-IN CAPITAL:</b>				
Balance, beginning of period	\$ 318,492	\$ 312,924	\$ 315,771	\$ 310,206
Share-based compensation plans	1,395	1,671	4,116	4,389
Balance, end of period	319,887	314,595	319,887	314,595
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES:</b>				
Balance, beginning of period	35,217	85,459	(72,063)	163,276
Cumulative adjustment of initial adoption <sup>(1)</sup> , net of tax	-	-	(15,500)	-
Net increase (decrease) during the period	162,343	(145,996)	285,123	(223,813)
Balance, end of period	197,560	(60,537)	197,560	(60,537)
<b>RETAINED EARNINGS:</b>				
Balance, beginning of period	2,148,924	2,112,309	1,959,260	2,094,017
Cumulative adjustment of initial adoption <sup>(1)</sup> , net of tax	-	-	15,500	-
Net income (loss)	164,141	(78,899)	338,305	(60,607)
Balance, end of period	2,313,065	2,033,410	2,313,065	2,033,410
<b>TOTAL STOCKHOLDER'S EQUITY, END OF PERIOD</b>	<b>\$ 2,830,512</b>	<b>\$ 2,287,468</b>	<b>\$ 2,830,512</b>	<b>\$ 2,287,468</b>

<sup>(1)</sup> The cumulative adjustment to accumulated other comprehensive income (loss), net of deferred income taxes and retained earnings represents the effect of initially adopting ASC 320-10-65-1 (FASB Staff Position No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments").

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

EVEREST REINSURANCE HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
	(unaudited)		(unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income (loss)	\$ 164,141	\$ (78,899)	\$ 338,305	\$ (60,607)
Adjustments to reconcile net income to net cash provided by operating activities:				
(Increase) decrease in premiums receivable	(1,371)	(3,405)	(51,192)	45,932
Decrease (increase) in funds held by reinsureds, net	9,624	(221)	9,459	(1,237)
Decrease (increase) in reinsurance receivables	146,809	(48,135)	(6,656)	(118,746)
Decrease (increase) in deferred tax asset	41,994	61,482	74,970	(30,155)
(Decrease) increase in reserve for losses and loss adjustment expenses	(35,920)	194,584	(218,365)	154,284
Increase (decrease) in unearned premiums	95,297	7,476	91,611	(134,529)
Change in equity adjustments in limited partnerships	4,423	6,167	36,548	(9,095)
Change in other assets and liabilities, net	(161,038)	(79,464)	83,477	(12,364)
Non-cash compensation expense	1,384	1,201	4,091	3,834
Amortization of bond premium	3,824	3,141	8,802	5,809
Amortization of underwriting discount on senior notes	48	45	142	133
Realized gain on debt repurchase	-	-	(78,271)	-
Net realized capital (gains) losses	(101,394)	108,652	(56,151)	261,347
Net cash provided by operating activities	<u>167,821</u>	<u>172,624</u>	<u>236,770</u>	<u>104,606</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Proceeds from fixed maturities matured/called - available for sale, at market value	130,349	106,558	324,432	370,220
Proceeds from fixed maturities matured/called - available for sale, at fair value	-	-	5,570	-
Proceeds from fixed maturities sold - available for sale, at market value	34,602	52,180	87,696	138,326
Proceeds from fixed maturities sold - available for sale, at fair value	4,010	-	12,012	-
Proceeds from equity securities sold - available for sale, at market value	23,028	-	23,028	-
Proceeds from equity securities sold - available for sale, at fair value	11,310	151,801	23,535	380,856
Distributions from other invested assets	4,448	30,035	24,573	41,246
Cost of fixed maturities acquired - available for sale, at market value	(256,130)	(64,455)	(865,910)	(1,343,983)
Cost of fixed maturities acquired - available for sale, at fair value	(2,548)	(11,444)	(19,101)	(11,444)
Cost of equity securities acquired - available for sale, at fair value	(12,948)	(115,399)	(32,244)	(156,363)
Cost of other invested assets acquired	(9,780)	(35,804)	(26,122)	(55,908)
Cost of other invested assets acquired, at fair value	-	(25,007)	-	(150,745)
Net change in short-term securities	(86,179)	(197,914)	284,738	687,541
Net change in unsettled securities transactions	18,522	(58,944)	42,856	(64,654)
Net cash used in investing activities	<u>(141,316)</u>	<u>(168,393)</u>	<u>(114,937)</u>	<u>(164,908)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Tax benefit from share-based compensation	11	469	25	554
Net cost of debt repurchase	-	-	(83,026)	-
Net cash provided by (used in) financing activities	<u>11</u>	<u>469</u>	<u>(83,001)</u>	<u>554</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<u>3,411</u>	<u>(8,130)</u>	<u>(5,968)</u>	<u>13,772</u>
Net increase (decrease) in cash	29,927	(3,430)	32,864	(45,976)
Cash, beginning of period	95,201	103,901	92,264	146,447
Cash, end of period	<u>\$ 125,128</u>	<u>\$ 100,471</u>	<u>\$ 125,128</u>	<u>\$ 100,471</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>				
Cash transactions:				
Income taxes recovered	\$ (18,847)	\$ (107,359)	\$ (2,488)	\$ (49,014)
Interest paid	\$ 13,892	\$ 13,887	\$ 51,464	\$ 52,861

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

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the Three and Nine Months Ended September 30, 2009 and 2008

### 1. General

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

### 2. Basis of Presentation

The unaudited consolidated financial statements of the Company for the three and nine months ended September 30, 2009 and 2008 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, 2008 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The results for the three and nine months ended September 30, 2009 and 2008 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, 2008, 2007 and 2006 included in the Company's most recent Form 10-K filing.

#### Financial Accounting Standards Board Launched Accounting Codification

The Financial Accounting Standards Board ("FASB") issued FASB Statement No. 168, "The *FASB Accounting Standards Codification*<sup>™</sup> and the Hierarchy of Generally Accepted Accounting Principles". This guidance establishes the FASB Accounting Standards Codification<sup>™</sup> ("Codification" or "ASC") as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative.

Following the Codification, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification.

GAAP is not intended to be changed as a result of the FASB's Codification, but it will change the way the guidance is organized and presented. As a result, these changes will have a significant impact on how companies reference GAAP in their financial statements and in the accounting policies for financial statements issued for interim and annual periods ending after September 15, 2009.

#### Application of Recently Issued Accounting Standard Changes

*Measurement of Fair Value in Inactive Markets.* ASC 820-10-65-4 (FSP No. FAS 157-4 "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly") reaffirms that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. It also reaffirms the need to use judgment in determining if a formerly active market has become inactive and in determining fair values when the market has become inactive. There was no impact to the Company's financial statements upon adoption.

*Other-Than-Temporary Impairments on Investment Securities.* ASC 320-10-65-1 (FSP No. FAS 115-2 and FAS 124-2 “Recognition and Presentation of Other-Than-Temporary Impairments”) amends the recognition guidance for other-than-temporary impairments of debt securities and expands the financial statement disclosures for other-than-temporary impairments on debt and equity securities. For available for sale debt securities that the Company has no intent to sell and more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment would be recognized in earnings, while the rest of the fair value loss would be recognized in accumulated other comprehensive income. The Company adopted ASC 320-10-65-1 guidance effective April 1, 2009. Upon adoption the Company recognized a \$15.5 million cumulative-effect adjustment from retained earnings, net of \$8.3 million of tax.

*Interim Disclosures about Fair Value of Financial Instruments.* ASC 825-10-65-1 (FSP FAS 107-1 and FSP APB 28-1 “Interim Disclosures about Fair Value of Financial Instruments”) requires quarterly disclosures on the qualitative and quantitative information about the fair value of all financial instruments including methods and significant assumptions used to estimate fair value during the period. These disclosures were previously only done annually. The Company included these disclosures in the second quarter 2009 Notes to Consolidated Interim Financial Statements.

*Subsequent Events Disclosures.* ASC 855-10-50 (FAS 165 “Subsequent Events”) requires a disclosure as to the date through which subsequent events have been evaluated as well as whether that date is the date the financial statements were issued. The Company included this disclosure in its second quarter 2009 Notes to Consolidated Interim Financial Statements.

#### Future Accounting Standard Changes

*Fair Value Disclosures about Pension Plan Assets.* ASC 715-20-65-2 (FSP FAS 132(R)-1 “Employers’ Disclosures about Postretirement Benefit Plan Assets”) requires that information about plan assets be disclosed, on an annual basis, based on the fair value disclosure requirements of ASC 820-10. The Company will be required to separate plan assets into the three fair value hierarchy levels and provide a roll forward of the changes in fair value of plan assets classified as Level 3 in the 2009 annual consolidated financial statements. These disclosures have no effect on the Company’s accounting for plan benefits and obligations.



### 3. Investments

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

At September 30, 2009				
(Dollars in thousands)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value
Fixed maturity securities - available for sale				
U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	\$ 128,645	\$ 6,000	\$ (195)	\$ 134,450
Obligations of U.S. states and political subdivisions	3,747,780	231,278	(12,632)	3,966,426
Corporate securities	605,130	30,468	(19,554)	616,044
Asset-backed securities	17,646	545	(2,710)	15,481
Mortgage-backed securities				
Commercial	23,019	4,737	(114)	27,642
Agency residential	418,666	12,495	(6)	431,155
Non-agency residential	61,545	773	(11,465)	50,853
Foreign government securities	595,855	32,203	(3,809)	624,249
Foreign corporate securities	491,850	18,263	(12,505)	497,608
Total fixed maturity securities	<u>\$ 6,090,136</u>	<u>\$ 336,762</u>	<u>\$ (62,990)</u>	<u>\$ 6,363,908</u>
Equity securities	<u>\$ 15</u>	<u>\$ -</u>	<u>\$ (3)</u>	<u>\$ 12</u>

At December 31, 2008				
(Dollars in thousands)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value
Fixed maturity securities - available for sale				
U.S. Treasury securities and obligations of				
U.S. government agencies and corporations	\$ 139,776	\$ 15,456	\$ -	\$ 155,232
Obligations of U.S. states and political subdivisions	3,846,754	113,885	(164,921)	3,795,718
Corporate securities	482,533	18,404	(64,620)	436,317
Asset-backed securities	13,795	7	(4,441)	9,361
Mortgage-backed securities				
Commercial	6,516	-	(1,067)	5,449
Agency residential	170,299	4,838	(33)	175,104
Non-agency residential	54,816	-	(18,252)	36,564
Foreign government securities	467,935	32,538	(7,776)	492,697
Foreign corporate securities	428,059	6,602	(29,247)	405,414
Total fixed maturity securities	<u>\$ 5,610,483</u>	<u>\$ 191,730</u>	<u>\$ (290,357)</u>	<u>\$ 5,511,856</u>
Equity securities	<u>\$ 15</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 16</u>

In accordance with ASC 320-10-65-1, the Company reclassified previously other-than-temporary impairments from retained earnings into accumulated other comprehensive income. The pre-tax amount of this reclassification was \$23.8 million, all of which were corporate securities. At September 30, 2009, the cumulative unrealized depreciation on these securities had improved and the remaining unrealized depreciation for the corporate securities was \$3.3 million.

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

	At September 30, 2009	
	Amortized	Market
	Cost	Value
(Dollars in thousands)		
Fixed maturity securities – available for sale		
Due in one year or less	\$ 326,465	\$ 326,275
Due after one year through five years	1,155,583	1,200,003
Due after five years through ten years	1,268,070	1,347,261
Due after ten years	2,819,142	2,965,238
Asset-backed securities	17,646	15,481
Mortgage-backed securities		
Commercial	23,019	27,642
Agency residential	418,666	431,155
Non-agency residential	61,545	50,853
Total fixed maturity securities	<u>\$ 6,090,136</u>	<u>\$ 6,363,908</u>

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
(Dollars in thousands)				
Increase (decrease) during the period between the market value and cost of investments carried at market value, and deferred taxes thereon:				
Fixed maturity securities	\$ 229,219	\$ (207,213)	\$ 396,245	\$ (326,254)
Fixed maturity securities ASC 320-10-65-1 adjustment	-	-	(23,846)	-
Equity securities	-	-	(4)	-
Other invested assets	3,387	(2,232)	5,614	(3,122)
Change in unrealized appreciation (depreciation), pre-tax	232,606	(209,445)	378,009	(329,376)
Deferred tax (expense) benefit	(81,412)	73,306	(140,649)	115,281
Deferred tax benefit ASC 320-10-65-1 adjustment	-	-	8,346	-
Change in unrealized appreciation (depreciation), net of deferred taxes, included in stockholder's equity	<u>\$ 151,194</u>	<u>\$ (136,139)</u>	<u>\$ 245,706</u>	<u>\$ (214,095)</u>

The Company frequently reviews its investment portfolio for declines in market value and focuses its attention on securities whose fair value has fallen below 80% of their amortized value 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 or interest rate 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. 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 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 related is recorded in net realized capital gains (losses) in the Company's consolidated statements of operations and comprehensive income. The fair value adjustment that is non-credit related is recorded as a component of other comprehensive income, net of tax, and is included in accumulated other comprehensive income in the Company's consolidated balance sheets. The Company's assessments are based on the issuers current and expected future financial position, timeliness with respect to interest and/or principal payments, speed of repayments and any applicable credit

enhancements or breakeven constant default rates on mortgage-backed and asset-backed securities, as well as relevant information provided by rating agencies, investment advisors and analysts.

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

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

Duration by security type of unrealized loss at September 30, 2009						
Less than 12 months		Greater than 12 months		Total		
Gross Unrealized		Gross Unrealized		Gross Unrealized		
Market Value	Depreciation	Market Value	Depreciation	Market Value	Depreciation	
(Dollars in thousands)						
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of						
U.S. government agencies and corporations	\$ 4,695	\$ (195)	\$ -	\$ -	\$ 4,695	\$ (195)
Obligations of U.S. states and political subdivisions	15,698	(736)	254,791	(11,896)	270,489	(12,632)
Corporate securities	59,952	(4,180)	127,849	(15,374)	187,801	(19,554)
Asset-backed securities	2,558	(200)	5,235	(2,510)	7,793	(2,710)
Mortgage-backed securities						
Commercial	-	-	3,274	(114)	3,274	(114)
Agency residential	3,680	(6)	308	-	3,988	(6)
Non-agency residential	1,381	(26)	42,732	(11,439)	44,113	(11,465)
Foreign government securities	55,494	(3,406)	32,621	(403)	88,115	(3,809)
Foreign corporate securities	135,975	(9,059)	33,373	(3,446)	169,348	(12,505)
<b>Total fixed maturity securities</b>	<b>\$ 279,433</b>	<b>\$ (17,808)</b>	<b>\$ 500,183</b>	<b>\$ (45,182)</b>	<b>\$ 779,616</b>	<b>\$ (62,990)</b>

Duration by maturity of unrealized loss at September 30, 2009						
Less than 12 months		Greater than 12 months		Total		
Gross Unrealized		Gross Unrealized		Gross Unrealized		
Market Value	Depreciation	Market Value	Depreciation	Market Value	Depreciation	
(Dollars in thousands)						
Fixed maturity securities						
Due in one year or less	\$ 73,180	\$ (7,110)	\$ 3,690	\$ (57)	\$ 76,870	\$ (7,167)
Due in one year through five years	116,675	(7,361)	59,867	(2,139)	176,542	(9,500)
Due in five years through ten years	49,142	(1,249)	52,462	(2,551)	101,604	(3,800)
Due after ten years	32,817	(1,856)	332,615	(26,372)	365,432	(28,228)
Asset-backed securities	2,558	(200)	5,235	(2,510)	7,793	(2,710)
Mortgage-backed securities	5,061	(32)	46,314	(11,553)	51,375	(11,585)
<b>Total fixed maturity securities</b>	<b>\$ 279,433</b>	<b>\$ (17,808)</b>	<b>\$ 500,183</b>	<b>\$ (45,182)</b>	<b>\$ 779,616</b>	<b>\$ (62,990)</b>

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position as of September 30, 2009 were \$779.6 million and \$63.0 million, respectively. There were no unrealized losses on a single security that exceeded 0.18% of the market value of the fixed maturity securities at September 30, 2009. In addition, as indicated on the above table, there was no significant concentration of unrealized losses in any one market sector. The \$17.8 million 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 highly rated government, municipal, corporate and mortgage-backed securities. Of these unrealized losses, \$13.9 million were related to securities that were rated investment grade or better by at least one nationally recognized statistical rating organization. The \$45.2 million of unrealized losses

related to securities in an unrealized loss position for more than one year also related primarily to highly rated municipal, corporate and mortgage-backed securities. Of these unrealized losses, \$34.3 million related to securities that were rated investment grade or better by at least one nationally recognized statistical rating organization. The non-investment grade securities with unrealized losses are mainly comprised of non-credit other-than-temporary impaired securities and non-agency residential mortgage-backed securities. 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. Unrealized losses have decreased since year end as a result of improved conditions in the overall financial market resulting from increased liquidity and lower interest rates.

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 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 securities, by security type and maturity type in each case subdivided according to the length of time that individual securities had been in a continuous unrealized loss position for the period indicated:

Duration by security type of unrealized loss at December 31, 2008						
Less than 12 months		Greater than 12 months		Total		
Gross Unrealized		Gross Unrealized		Gross Unrealized		
Market Value	Depreciation	Market Value	Depreciation	Market Value	Depreciation	
(Dollars in thousands)						
Fixed maturity securities - available for sale						
U.S. Treasury securities and obligations of						
U.S. government agencies and corporations						
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Obligations of U.S. states and political subdivisions						
1,471,807	(146,292)	176,555	(18,629)	1,648,362	(164,921)	
Corporate securities						
189,385	(42,278)	97,407	(22,342)	286,792	(64,620)	
Asset-backed securities						
4,230	(62)	3,983	(4,379)	8,213	(4,441)	
Mortgage-backed securities						
Commercial						
2,474	(450)	2,974	(617)	5,448	(1,067)	
Agency residential						
3,291	(29)	466	(4)	3,757	(33)	
Non-agency residential						
-	-	36,171	(18,252)	36,171	(18,252)	
Foreign government securities						
79,063	(7,715)	2,759	(61)	81,822	(7,776)	
Foreign corporate securities						
167,132	(13,702)	67,537	(15,545)	234,669	(29,247)	
<u>\$ 1,917,382</u>	<u>\$ (210,528)</u>	<u>\$ 387,852</u>	<u>\$ (79,829)</u>	<u>\$ 2,305,234</u>	<u>\$ (290,357)</u>	

Duration by maturity of unrealized loss at December 31, 2008						
Less than 12 months		Greater than 12 months		Total		
Gross Unrealized		Gross Unrealized		Gross Unrealized		
Market Value	Depreciation	Market Value	Depreciation	Market Value	Depreciation	
(Dollars in thousands)						
Fixed maturity securities						
Due in one year or less						
\$ 87,124	\$ (8,412)	\$ 22,024	\$ (1,516)	\$ 109,148	\$ (9,928)	
Due in one year through five years						
198,004	(10,813)	52,705	(5,676)	250,709	(16,489)	
Due in five years through ten years						
145,943	(10,767)	85,396	(17,662)	231,339	(28,429)	
Due after ten years						
1,476,316	(179,995)	184,133	(31,723)	1,660,449	(211,718)	
Asset-backed securities						
4,230	(62)	3,983	(4,379)	8,213	(4,441)	
Mortgage-backed securities						
5,765	(479)	39,611	(18,873)	45,376	(19,352)	
<u>\$ 1,917,382</u>	<u>\$ (210,528)</u>	<u>\$ 387,852</u>	<u>\$ (79,829)</u>	<u>\$ 2,305,234</u>	<u>\$ (290,357)</u>	

The aggregate market value and gross unrealized losses related to investments in an unrealized loss position as of December 31, 2008 were \$2,305.2 million and \$290.4 million, respectively. There were no unrealized losses on a single security that exceeded 0.35% of the market value of the fixed maturity securities at December 31, 2008. In addition, there was no significant concentration of unrealized losses in

any one market sector. The \$210.5 million 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 highly rated municipal, corporate and mortgage-backed securities with the losses primarily the result of widening credit spreads from the financial markets crisis during the latter part of the year. Of these unrealized losses, \$206.9 million were related to securities that were rated investment grade or better by at least one nationally recognized statistical rating organization. The \$79.8 million of unrealized losses related to securities in an unrealized loss position for more than one year also related primarily to highly rated municipal, corporate and mortgage-backed securities and were also the result of widening credit spreads during the latter part of the year. Of these unrealized losses, \$65.2 million related to securities that were rated investment grade or better by at least one nationally recognized statistical rating organization. The gross unrealized depreciation greater than 12 months for mortgage-backed securities includes only \$0.1 million related to sub-prime and alt-A loans.

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Fixed maturity securities	\$ 70,965	\$ 81,112	\$ 212,903	\$ 233,098
Equity securities	758	1,793	2,182	4,905
Short-term investments and cash	277	4,309	3,331	23,773
Other invested assets				
Limited partnerships	(4,423)	10,148	(36,548)	29,856
Other	664	2,272	5,693	7,242
Total gross investment income	68,241	99,634	187,561	298,874
Interest credited and other expense	(2,749)	(2,329)	(7,894)	(6,611)
Total net investment income	\$ 65,492	\$ 97,305	\$ 179,667	\$ 292,263

The Company reports results from limited partnership investments on the equity basis of accounting with changes in value reported through net investment income. Due to the timing of receiving financial information from these partnerships, the results are generally reported on a one month or quarter lag. If the Company determines there has been a significant decline in value of a limited partnership during this lag period, a loss will be recorded in the period in which the Company identifies the decline.

The Company had contractual commitments to invest up to an additional \$145.6 million in limited partnerships at September 30, 2009. These commitments will be funded when called in accordance with the partnership agreements, which have investment periods that expire, unless extended, through 2014.

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

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Fixed maturity securities, market value:				
Other-than-temporary impairments	\$ -	\$ (63,793)	\$ (5,510)	\$ (67,854)
Losses from sales	(4,131)	(12,172)	(32,612)	(13,086)
Fixed maturity securities, fair value:				
Gain from sales	172	-	401	-
Gains (losses) from fair value adjustments	5,837	(247)	7,805	(247)
Equity securities, market value:				
Gains from sales	8,041	-	8,041	-
Equity securities, fair value:				
Gains (losses) from sales	1,299	(1,061)	6,483	(12,630)
Gains (losses) from fair value adjustments	23,075	(58,817)	23,448	(122,938)
Other invested assets, fair value:				
Gains (losses) from fair value adjustments	67,103	27,438	48,091	(44,562)
Short-term investment (losses) gains	(2)	-	4	(30)
Total net realized capital gains (losses)	<u>\$ 101,394</u>	<u>\$ (108,652)</u>	<u>\$ 56,151</u>	<u>\$ (261,347)</u>

Proceeds from the sales of fixed maturity securities for the three months ended September 30, 2009 and 2008 were \$38.6 million and \$52.2 million, respectively. Gross gains of \$2.3 million and \$0.0 million and gross losses of \$6.2 million and \$12.2 million were realized on those fixed maturity securities sales for the three months ended September 30, 2009 and 2008, respectively. Proceeds from sales of equity securities for the three months ended September 30, 2009 and 2008 were \$34.3 million and \$151.8 million, respectively. Gross gains of \$9.4 million and \$3.8 million and gross losses of \$0.0 million and \$4.8 million were realized on those equity sales for the three months ended September 30, 2009 and 2008, respectively.

Proceeds from sales of fixed maturity securities for the nine months ended September 30, 2009 and 2008 were \$99.7 million and \$138.3 million, respectively. Gross gains of \$4.6 million and \$1.1 million and gross losses of \$36.8 million and \$14.2 million were realized on those fixed maturity securities sales for the nine months ended September 30, 2009 and 2008, respectively. Proceeds from sales of equity securities for the nine months ended September 30, 2009 and 2008 were \$46.6 million and \$380.9 million, respectively. Gross gains of \$15.3 million and \$5.9 million and gross losses of \$0.7 million and \$18.6 million were realized on those equity sales for the nine months ended September 30, 2009 and 2008, respectively.

Included in net realized capital gains (losses) was \$5.5 million for the nine months ended September 30, 2009 and \$63.8 million and \$67.9 million for the three and nine months ended September 30, 2008, respectively, of write-downs in the value of securities deemed to be impaired on an other-than-temporary basis. There were no write-downs in the value of securities deemed to be impaired on an other-than-temporary basis for the three months ended September 30, 2009.

At September 30, 2009 the Company had no other-than-temporary impaired securities where the impairment had both a credit and non-credit component.

#### 4. Fair Value

The Company records fair value re-measurements as net realized capital gains or losses in the consolidated statements of operations and comprehensive income (loss). The Company recorded \$96.0 million and \$79.3 million in net realized capital gains due to fair value re-measurements on fixed maturity securities, equity securities and other invested assets, at fair value, for the three and nine months ended September 30, 2009, respectively. The Company recorded \$31.6 million and \$167.7 million in net realized capital losses due to fair value re-measurements on fixed maturity securities, equity securities and other invested assets, at fair value, for the three and nine months ended September 30, 2008, respectively.

The Company's fixed maturity and equity securities are 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 tests the prices on a random basis to an independent pricing source. In limited situations, where financial markets are inactive or illiquid, the Company may use its own assumptions about future cash flows and risk-adjusted discount rates to determine fair value. The Company made no such adjustments at September 30, 2009.

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 valuation of less liquid securities such as commercial mortgage-backed securities.

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.

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

The following tables present the fair value measurement levels for all assets and liabilities, which the Company has recorded at fair value as of the periods indicated:

		Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)	September 30, 2009			
<b>Assets:</b>				
Fixed maturities, market value	\$ 6,363,908	\$ -	\$ 6,351,181	\$ 12,727
Fixed maturities, fair value	52,815	-	52,815	-
Equity securities, market value	12	12	-	-
Equity securities, fair value	158,456	157,459	997	-
Other invested assets, fair value	364,841	364,841	-	-

		Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)	December 31, 2008			
<b>Assets:</b>				
Fixed maturities, market value	\$ 5,511,856	\$ -	\$ 5,500,889	\$ 10,967
Fixed maturities, fair value	43,090	-	43,090	-
Equity securities, market value	16	16	-	-
Equity securities, fair value	119,815	119,092	723	-
Other invested assets, fair value	316,750	316,750	-	-

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
(Dollars in thousands)				
<b>Assets:</b>				
Balance, beginning of period	\$ 11,807	\$ 17,132	\$ 10,967	\$ 78,709
Total gains or (losses) (realized/unrealized)				
Included in earnings (or changes in net assets)	46	(316)	42	(2,630)
Included in other comprehensive income	1,136	(812)	1,692	(1,400)
Purchases, issuances and settlements	(113)	(114)	(192)	(5,318)
Transfers in and/or (out) of Level 3	(149)	36	218	(53,435)
Balance, end of period	\$ 12,727	\$ 15,926	\$ 12,727	\$ 15,926
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	\$ -	\$ 1,302	\$ (131)	\$ (2,759)



## **5. Capital Transactions**

On December 17, 2008, Group and Holdings renewed their shelf registration statement on Form S-3ASR with the SEC, as a Well Known Seasoned Issuer. This shelf registration statement can be used by Group to register common shares, preferred shares, debt securities, warrants, share purchase contracts and share purchase units; by Holdings to register debt securities and by Everest Re Capital Trust III (“Capital Trust III”) to register trust preferred securities.

## **6. Contingencies**

In the ordinary course of business, the Company is involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which will determine the Company’s rights and obligations under insurance, reinsurance and other contractual 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. While the final outcome of these matters cannot be predicted with certainty, the Company does not believe that any of these matters, when finally resolved, will have a material adverse effect on the Company’s financial position or liquidity. However, an adverse resolution of one or more of these items in any one quarter or fiscal year could have a material adverse effect on the Company’s results of operations in that period.

The Company does not believe that there are any material pending legal proceedings to which it or any of its subsidiaries is a party or of which any of their properties are the subject.

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

The Company’s reserves include an estimate of the Company’s ultimate liability for asbestos and environmental (“A&E”) claims. As of September 30, 2009, approximately 9% of the Company’s gross reserves were an estimate of the Company’s ultimate liability for A&E claims. The Company’s A&E liabilities emanate from Mt. McKinley Insurance Company’s (“Mt. McKinley”), a direct subsidiary of the Company, direct insurance business and Everest Re’s assumed reinsurance business. All of the contracts of insurance and reinsurance under which the Company has received claims during the past three years, expired more than 20 years ago. There are significant uncertainties surrounding the Company’s reserves for its A&E losses.

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

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Gross basis:</b>				
Beginning of period reserves	\$ 704,507	\$ 870,998	\$ 786,842	\$ 922,843
Incurred losses	-	-	-	-
Paid losses	(52,170)	(16,895)	(134,505)	(68,740)
End of period reserves	<u>\$ 652,337</u>	<u>\$ 854,103</u>	<u>\$ 652,337</u>	<u>\$ 854,103</u>
<b>Net basis:</b>				
Beginning of period reserves	\$ 455,379	\$ 513,516	\$ 485,296	\$ 537,549
Incurred losses	-	-	-	-
Paid losses	(13,527)	(8,724)	(43,444)	(32,757)
End of period reserves	<u>\$ 441,852</u>	<u>\$ 504,792</u>	<u>\$ 441,852</u>	<u>\$ 504,792</u>

At September 30, 2009, the gross reserves for A&E losses were comprised of \$141.3 million representing case reserves reported by ceding companies, \$152.1 million representing additional case reserves established by the Company on assumed reinsurance claims, \$66.5 million representing case reserves established by the Company on direct excess insurance claims, including Mt. McKinley and \$292.4 million representing incurred but not reported ("IBNR") reserves.

With respect to asbestos only, at September 30, 2009, the Company had gross asbestos loss reserves of \$618.7 million, or 94.8%, of total A&E reserves, of which \$486.4 million was for assumed business and \$132.3 million was for direct business.

Management believes that these uncertainties and factors continue to render reserves for A&E and particularly asbestos losses significantly less subject to traditional actuarial analysis than reserves for other types of losses. The Company establishes reserves to the extent that, in the judgment of management, the facts and prevailing law reflect an exposure for the Company or its ceding companies.

Due to the uncertainties, the ultimate losses attributable to A&E, and particularly asbestos, may be subject to more variability than are non-A&E reserves and such variation, depending on coverage under the Company's various reinsurance arrangements, could have a material adverse effect on the Company's future financial condition, results of operations and cash flows.

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. At September 30, 2009 and December 31, 2008, the estimated cost to replace all such annuities for which the Company was contingently liable was \$151.8 million and \$152.1 million, respectively.

Prior to its 1995 initial public offering, the Company had 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. At September 30, 2009 and December 31, 2008, the estimated cost to replace such annuities was \$24.1 million and \$23.1 million, respectively.

## 7. Other Comprehensive Income (Loss)

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

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Unrealized appreciation (depreciation) ("URA(D)") of investments <sup>(1)</sup>				
URA(D) of investments	\$ 232,607	\$ (209,446)	\$ 401,856	\$ (329,376)
Tax (expense) benefit	(81,413)	73,307	(140,650)	115,281
URA(D), net of tax	<u>151,194</u>	<u>(136,139)</u>	<u>261,206</u>	<u>(214,095)</u>
Foreign currency translation adjustments	16,204	(15,469)	33,281	(16,231)
Tax (expense) benefit	(5,672)	5,412	(11,649)	5,679
Net foreign currency translation adjustments	<u>10,532</u>	<u>(10,057)</u>	<u>21,632</u>	<u>(10,552)</u>
Pension adjustment	949	308	2,849	1,283
Tax expense	(332)	(108)	(564)	(449)
Net pension adjustment	<u>617</u>	<u>200</u>	<u>2,285</u>	<u>834</u>
Other comprehensive income (loss), net of deferred taxes	<u>\$ 162,343</u>	<u>\$ (145,996)</u>	<u>\$ 285,123</u>	<u>\$ (223,813)</u>

(1) The following are the components of URA(D) of investments:

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
URA(D) of investments - temporary	\$ 228,966	\$ (209,446)	\$ 388,791	\$ (329,376)
Tax expense	(80,138)	(73,307)	(136,077)	(115,281)
Net URA(D) of investments - temporary	<u>\$ 148,828</u>	<u>\$ (136,139)</u>	<u>\$ 252,714</u>	<u>\$ (214,095)</u>
URA(D) of investments - credit OTTI	\$ (415)	\$ -	\$ 3,411	\$ -
Tax benefit (expense)	145	-	(1,194)	-
Net URA(D) of investments - credit OTTI	<u>\$ (270)</u>	<u>\$ -</u>	<u>\$ 2,217</u>	<u>\$ -</u>
URA(D) of investments - non-credit OTTI	\$ 4,056	\$ -	\$ 9,654	\$ -
Tax expense	(1,420)	-	(3,379)	-
Net URA(D) of investments - non-credit OTTI	<u>\$ 2,636</u>	<u>\$ -</u>	<u>\$ 6,275</u>	<u>\$ -</u>

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)	September 30,	December 31,
	2009	2008
Unrealized appreciation (depreciation) on investments, net of deferred taxes		
Temporary	\$ 176,405	\$ (69,248)
Credit, other-than-temporary impairments	2,217	-
Non-credit, other-than-temporary impairments	(2,164)	-
Total unrealized appreciation (depreciation) on investments, net of deferred taxes	<u>176,458</u>	<u>(69,248)</u>
Foreign currency translation adjustments, net of deferred taxes	50,538	28,906
Pension adjustments, net of deferred taxes	(29,436)	(31,721)
Accumulated other comprehensive income (loss)	<u>\$ 197,560</u>	<u>\$ (72,063)</u>

## 8. Credit Line

Effective August 23, 2006, Holdings entered into a five year, \$150.0 million senior revolving credit facility with a syndicate of lenders, 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 prime rate or (b) 0.5% per annum above the Federal Funds Rate, 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 \$1.5 billion plus 25% of future aggregate net income and 25% of future aggregate capital contributions after December 31, 2005, which at September 30, 2009, was \$1,889.9 million. As of September 30, 2009, Holdings was in compliance with all Holdings Credit Facility covenants.

At September 30, 2009 and December 31, 2008, there were outstanding letters of credit of \$28.0 million under the Holdings Credit Facility.

Costs incurred in connection with the Holdings Credit Facility were \$166,083 and \$106,158 for the nine months ended September 30, 2009 and 2008, respectively.

## 9. Letters of Credit

The Citibank Holdings Credit Facility involves a syndicate of lenders (see Note 8), with Citibank acting as administrative agent. At September 30, 2009 and December 31, 2008, letters of credit for \$28.0 million were issued and outstanding. The following table summarizes the Company's letters of credit at September 30, 2009.

(Dollars in thousands)

Bank	Commitment	In Use	Date of Expiry
Citibank Holdings Credit Facility	\$ 150,000	\$ 27,959	12/31/2009
Total Citibank Holdings Credit Facility	<u>\$ 150,000</u>	<u>\$ 27,959</u>	

## 10. Trust Agreements

A subsidiary of the Company, Everest Re, has established a trust agreement, which effectively uses Everest Re's investments as collateral, as security for assumed losses payable to a non-affiliated ceding company. At September 30, 2009, the total amount on deposit in the trust account was \$24.0 million.

## 11. Senior Notes

On October 12, 2004, Holdings completed a public offering of \$250.0 million principal amount of 5.40% senior notes due October 15, 2014. On March 14, 2000, Holdings completed a public offering of \$200.0 million principal amount of 8.75% senior notes due March 15, 2010.

Interest expense incurred in connection with these senior notes was \$7.8 million for the three months ended September 30, 2009 and 2008, and \$23.4 million for the nine months ended September 30, 2009 and 2008. Market value, which is based on quoted market price at September 30, 2009 and December 31, 2008, was \$247.8 million and \$186.2 million, respectively, for the 5.40% senior notes and \$206.3 million and \$156.8 million, respectively, for the 8.75% senior notes.

## 12. Long Term Subordinated Notes

On April 26, 2007, Holdings completed a public offering of \$400.0 million principal amount of 6.6% fixed to floating rate long term subordinated notes with a scheduled maturity date of May 15, 2037 and a final maturity date of May 1, 2067. 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 London Interbank Offered Rate ("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 \$161.4 million, which resulted in a pre-tax gain on debt repurchase of \$78.3 million.

Interest expense incurred in connection with these long term notes was \$3.9 million and \$6.6 million for the three months ended September 30, 2009 and 2008, respectively, and \$14.4 million and \$19.8 million for the nine months ended September 30, 2009 and 2008, respectively. Market value, which is based on quoted market prices at September 30, 2009 and December 31, 2008, was \$163.4 million on outstanding 6.6% long term subordinated notes of \$238.6 million and \$168.0 million on outstanding 6.6% long term subordinated notes of \$399.6 million, respectively.

## 13. Junior Subordinated Debt Securities Payable

On March 29, 2004, Holdings issued \$329.9 million of 6.20% junior subordinated debt securities due March 29, 2034 to Everest Re Capital Trust II ("Capital Trust II"). 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.

Fair value, which is primarily based on quoted market price of the related trust preferred securities, at September 30, 2009 and December 31, 2008, was \$296.9 million and \$222.2 million, respectively, for the 6.20% junior subordinated debt securities.

Interest expense incurred in connection with these junior subordinated notes was \$5.1 million for the three months ended September 30, 2009 and 2008, and \$15.3 million for the nine months ended September 30, 2009 and 2008.

Capital Trust II is a wholly owned finance subsidiary of Holdings.

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 the 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 the Company's operating subsidiaries to transfer funds to the Company in the form of cash dividends, loans or advances. The insurance laws of the State of Delaware, where the Company's direct insurance subsidiaries are domiciled, require regulatory approval before those subsidiaries can pay dividends or make loans or advances to the Company that exceed certain statutory thresholds. In addition, the terms of the Holdings Credit Facility (discussed in Note 8) require Everest Re, the Company's principal insurance subsidiary, to maintain a certain statutory surplus level as measured at the end of each fiscal year. At December 31, 2008, \$1,745.6 million of the \$2,735.2 million in net assets of the Company's consolidated subsidiaries were subject to the foregoing regulatory restrictions.

#### **14. Segment Results**

The Company, through its subsidiaries, operates in four segments: U.S. Reinsurance, U.S. Insurance, Specialty Underwriting and International. The U.S. Reinsurance operation writes property and casualty reinsurance, on both a treaty and facultative basis, through reinsurance brokers, as well as directly with ceding companies within the U.S. The U.S. Insurance operation writes property and casualty insurance primarily through general agents and surplus lines brokers within the U.S. The Specialty Underwriting operation writes accident and health ("A&H"), marine, aviation and surety business within the U.S. and worldwide through brokers and directly with ceding companies. The International operation writes non-U.S. property and casualty reinsurance through Everest Re's branches in Canada and Singapore and offices in Miami and New Jersey.

These segments are managed in a coordinated fashion 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 loss adjustment expenses ("LAE") incurred, commission and brokerage expenses and other underwriting expenses. Underwriting results are measured using ratios, in particular loss, commission and brokerage and other underwriting expense ratios, which, respectively, divide incurred losses, commissions and brokerage and other underwriting expenses by premiums earned.

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

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

<u>U.S. Reinsurance</u> (Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	Gross written premiums	\$ 345,567	\$ 280,467	\$ 876,049
Net written premiums	191,666	146,467	487,849	424,982
Premiums earned	\$ 162,037	\$ 167,468	\$ 489,067	\$ 527,475
Incurred losses and LAE	56,158	240,734	232,262	446,013
Commission and brokerage	21,397	27,473	90,525	125,762
Other underwriting expenses	9,665	7,840	25,250	23,500
Underwriting gain (loss)	\$ 74,817	\$ (108,579)	\$ 141,030	\$ (67,800)

<u>U.S. Insurance</u> (Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	Gross written premiums	\$ 230,491	\$ 194,021	\$ 648,719
Net written premiums	76,400	98,597	301,910	312,949
Premiums earned	\$ 89,237	\$ 107,822	\$ 306,860	\$ 372,032
Incurred losses and LAE	71,423	78,386	210,329	335,965
Commission and brokerage	10,512	4,798	32,379	48,438
Other underwriting expenses	19,982	16,876	56,415	47,118
Underwriting (loss) gain	\$ (12,680)	\$ 7,762	\$ 7,737	\$ (59,489)

<u>Specialty Underwriting</u> (Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	Gross written premiums	\$ 67,615	\$ 54,828	\$ 183,726
Net written premiums	38,259	34,564	102,990	128,787
Premiums earned	\$ 39,182	\$ 35,317	\$ 108,513	\$ 126,318
Incurred losses and LAE	25,197	37,615	73,740	81,747
Commission and brokerage	10,510	8,660	29,435	30,418
Other underwriting expenses	2,383	1,937	6,227	6,182
Underwriting gain (loss)	\$ 1,092	\$ (12,895)	\$ (889)	\$ 7,971

<u>International</u> (Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	Gross written premiums	\$ 272,603	\$ 248,821	\$ 797,606
Net written premiums	146,330	144,810	435,650	394,260
Premiums earned	\$ 147,864	\$ 139,285	\$ 433,099	\$ 395,511
Incurred losses and LAE	89,214	90,261	260,964	252,088
Commission and brokerage	34,840	32,885	100,062	90,652
Other underwriting expenses	6,159	4,691	16,463	14,492
Underwriting gain	\$ 17,651	\$ 11,448	\$ 55,610	\$ 38,279

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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Underwriting gain (loss)	\$ 80,880	\$ (102,264)	\$ 203,488	\$ (81,039)
Net investment income	65,492	97,305	179,667	292,263
Net realized capital gains (losses)	101,394	(108,652)	56,151	(261,347)
Realized gain on debt repurchase	-	-	78,271	-
Corporate expense	(1,675)	(1,425)	(4,871)	(4,502)
Interest, fee and bond issue cost amortization expense	(17,073)	(19,745)	(53,779)	(59,233)
Other income (expense)	15,081	7,951	7,801	(16,039)
Income (loss) before taxes	\$ 244,099	\$ (126,830)	\$ 466,728	\$ (129,897)

The Company produces business in the U.S. 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, other than the U.S., no other country represented more than 5% of the Company's revenues.

## 15. 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.

The Company engages in reinsurance transactions with Bermuda Re and Everest International Reinsurance, Ltd. ("Everest International"), affiliates, primarily driven by enterprise risk and capital management consideration, under which business is ceded at market rates and terms. These transactions include:

- Effective September 19, 2000, Mt. McKinley and Bermuda Re entered into a loss portfolio transfer reinsurance agreement, whereby Mt. McKinley transferred all of its net insurance exposures and reserves to Bermuda Re.
- Effective October 1, 2001, Everest Re and Bermuda Re entered into a loss portfolio reinsurance agreement, whereby Everest Re transferred all of its Belgium branch net insurance exposures and reserves to Bermuda Re.
- For premiums earned and losses incurred for the period January 1, 2002 through December 31, 2002, Everest Re, Everest National Insurance Company and Everest Security Insurance Company entered into an Excess of Loss Reinsurance Agreement with Bermuda Re, covering workers' compensation losses occurring on and after January 1, 2002, as respects new, renewal and in force policies effective on that date through December 31, 2002. Bermuda Re is liable for any loss exceeding \$100,000 per occurrence, with its liability not to exceed \$150,000 per occurrence.
- Effective January 1, 2002 for the 2002 underwriting year, Everest Re ceded 20.0% of its net retained liability to Bermuda Re through a quota share reinsurance agreement ("whole account quota share").
- Effective January 1, 2003, Everest Re and Bermuda Re amended the whole account quota share, through which Everest Re previously ceded 20.0% of its business to Bermuda Re so that effective January 1, 2003 Everest Re ceded 25.0% to Bermuda Re of the net retained liability on all new and renewal policies underwritten during the term of this agreement. This amendment remained in effect through December 31, 2003.



- Effective January 1, 2003, Everest Re entered into a whole account quota share with Bermuda Re, whereby Everest Re's Canadian branch ceded to Bermuda Re 50.0% of its net retained liability on all new and renewal property business. This remained in effect through December 31, 2006.
- Effective January 1, 2004, Everest Re and Bermuda Re amended the whole account quota share through which Everest Re previously ceded 25.0% of its business to Bermuda Re so that effective January 1, 2004 Everest Re ceded 22.5% to Bermuda Re and 2.5% to Everest International of the net retained liability on all new and renewal covered business written during the term of this agreement. This amendment remained in effect through December 31, 2005.
- Effective January 1, 2006, Everest Re, Bermuda Re and Everest International amended the whole account quota share so that for all new and renewal business recorded on or after January 1, 2006, Everest Re ceded 31.5% and 3.5% of its casualty business to Bermuda Re and Everest International, respectively, and Everest Re ceded 18.0% and 2.0% of its property business to Bermuda Re and Everest International, respectively. However, in no event shall the loss cessions to Bermuda Re and Everest International relating to any one occurrence on the property business exceed \$125.0 million. The property portion of this amendment remained in effect through December 31, 2006. The casualty portion remained in effect through December 31, 2007.
- Effective January 1, 2007, Everest Re and Bermuda Re amended the whole account quota share so that for all new and renewal business recorded on or after January 1, 2007, Everest Re cedes 60.0% of its Canadian branch property business to Bermuda Re.
- Effective January 1, 2007, Everest Re, Bermuda Re and Everest International amended the whole account quota share so that for all new and renewal property business recorded on or after January 1, 2007, Everest Re ceded 22.5% and 2.5% to Bermuda Re and Everest International, respectively. However, in no event shall the loss cessions to Bermuda Re and Everest International relating to any one occurrence on the property business exceed \$130.0 million. This amendment remained in effect through December 31, 2007.
- Effective January 1, 2008, Everest Re, Bermuda Re and Everest International amended the whole account quota share whereby, for all new and renewal casualty and property business recorded on or after January 1, 2008, Everest Re ceded 36.0% and 4.0% to Bermuda Re and Everest International, respectively. However, in no event shall the loss cessions to Bermuda Re and Everest International relating to any one catastrophe occurrence on the property business exceed \$130.0 million or in the aggregate for each underwriting year for all property catastrophes exceed \$275.0 million. This amendment remained in effect through December 31, 2008.
- Effective October 1, 2008, Everest Re and Bermuda Re entered into a loss portfolio transfer reinsurance agreement, whereby Everest Re transferred a percentage of its net loss reserves (\$747.0 million) corresponding to all existing open and future liabilities at December 31, 2007, arising from policies, insurance or reinsurance written or renewed by or on behalf of Everest Re during the period of January 1, 2002 through December 31, 2007, classified by Everest Re as casualty.
- Effective January 1, 2009, Everest Re, Bermuda Re and Everest International amended the whole account quota share whereby, for all new and renewal casualty and property business recorded on or after January 1, 2009, Everest Re cedes 36% and 8% to Bermuda Re and Everest International, respectively. However, in no event shall the loss cessions to Bermuda Re and Everest International relating to any one occurrence exceed \$150.0 million or in the aggregate for each underwriting year for all occurrences exceed \$325.0 million.

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

<u>Bermuda Re</u> (Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Ceded written premiums	\$ 323,098	\$ 285,039	\$ 879,163	\$ 705,859
Ceded earned premiums	286,537	243,685	835,673	667,799
Ceded losses and LAE (a)	196,630	198,505	529,229	409,440

  

<u>Everest International</u> (Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Ceded written premiums	\$ 68,937	\$ 30,098	\$ 152,819	\$ 73,798
Ceded earned premiums	49,381	25,739	121,664	69,517
Ceded losses and LAE	27,070	21,506	63,625	43,762

(a) Ceded losses and LAE include the Mt. McKinley loss portfolio transfer that constitutes losses ceded under retroactive reinsurance and therefore, in accordance with ASC 944-20 (FAS 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts"), a deferred gain on retroactive reinsurance is reflected in other expenses on the consolidated statement of operations and comprehensive income.

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

## 16. Income Taxes

The Company uses a projected annual effective tax rate in accordance with ASC 740-10-05 (FAS 109, "Accounting for Income Taxes"), to calculate its quarterly tax expense. Under this methodology, when an interim quarter's pre-tax income (loss) varies significantly from a full year's income (loss) projection, the tax impact resulting from the income (loss) variance is effectively spread between the impacted quarter and the remaining quarters of the year, except for discreet items impacting an individual quarter.

The Company recognizes accrued interest related to unrecognized tax benefits and penalties in income taxes. For the three and nine months ended September 30, 2009, the Company expensed approximately \$1.3 million and \$3.9 million, respectively, in interest and penalties.

## 17. Subsequent Events

The Company has evaluated known recognized and nonrecognized subsequent events through November 16, 2009, the date the financial statements were issued. The Company does not have any subsequent events to report.

## 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 Company and/or Standard & Poor's Rating Services, underwriting expertise, the jurisdictions where the reinsurer or insurer is licensed or otherwise authorized, capacity and coverages offered, premiums charged, other terms and conditions of the reinsurance and insurance business offered, services offered, speed of claims payment and reputation and experience in lines written. Furthermore, the market impact from these competitive factors related to reinsurance and insurance is generally not consistent across lines of business, domestic and international geographical areas and distribution channels.

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

Starting in the latter part of 2007, throughout 2008 and into 2009, there has been a significant slowdown in the global economy, which has negatively impacted the financial resources of the industry. Excessive availability and use of credit, particularly by individuals, led to increased defaults on sub-prime mortgages in the U.S. and elsewhere, falling values for houses and many commodities and contracting consumer spending. The significant increase in default rates negatively impacted the value of asset-backed securities held by both foreign and domestic institutions. The defaults have led to a corresponding increase in foreclosures, which have driven down housing values, resulting in additional losses on the asset-backed securities. During the third and fourth quarters of 2008, the credit markets deteriorated dramatically, evidenced by widening credit spreads and dramatically reduced availability of credit. Many financial institutions, including some insurance entities, experienced liquidity crises due to immediate demands for funds for withdrawals or collateral, combined with falling asset values and their inability to sell assets to meet the increased demands. As a result, several financial institutions have failed or been acquired at distressed prices, while others have received loans from the U.S. government to continue operations. The liquidity crisis significantly increased the spreads on fixed maturities and, at the same time, had a dramatic and negative impact on the stock markets around the world. The combination of losses on securities from failed or impaired companies combined with the decline in values of fixed maturity and equity securities has resulted in significant declines in the capital bases of most insurance and reinsurance companies. While there has been improvement in the financial markets during 2009, it is too early to predict the timing and extent of impact the capital deterioration and subsequent partial recovery will have on insurance and reinsurance market conditions.

Worldwide insurance and reinsurance market conditions continued to be very competitive. Generally, there was ample insurance and reinsurance capacity relative to demand. We noted, however, that in many markets and lines, the rates of decline have slowed, pricing in some segments was relatively flat and there was upward movement in some others, particularly property catastrophe coverage. Competition and its effect on rates, terms and conditions vary widely by market and coverage yet continues to be most prevalent in the U.S. casualty insurance and reinsurance markets. The U.S. insurance markets in which we participate were extremely competitive as well, particularly in the workers' compensation, public entity and contractor

sectors. While our growth in existing programs has slowed, given the specialty nature of our business and our underwriting discipline, we believe the impact on the profitability of our business will be less pronounced than on the market generally. In addition, we continue to opportunistically add new programs and lines of business to enhance growth and profitability.

The reinsurance industry has experienced a period of falling rates and volume, particularly in the casualty lines of business. We are now seeing smaller rate declines, pockets of stability and some increases in some markets and for some coverages. As a result of very significant investment and catastrophe losses incurred by both primary insurers and reinsurers over the past year, but principally in the last nine months of 2008, industry-wide capital declined and rating agency scrutiny increased. It is too early to gauge the extent of hardening, if any, that will occur; however, it appears that much of the redundant capital in the industry has been depleted and the stage is set for firmer markets.

Rates in the international markets have generally been more adequate than in the U.S., and we have seen some increases, particularly for catastrophe exposed business. We have grown our business in the Middle East, Latin America and Asia. We are expanding our international reach with the opening of a new office in Brazil to capitalize on the recently expanded opportunity for professional reinsurers in that market and on the economic growth expected for Brazil in the future.

The 2009 renewals rates, particularly for property catastrophe and retrocessional covers and in international markets, were generally firmer compared to a year ago.

Overall, we believe that current marketplace conditions offer 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.

## Financial Summary.

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

(Dollars in millions)	Three Months Ended September 30,		Percentage Increase/ (Decrease)	Nine Months Ended September 30,		Percentage Increase/ (Decrease)
	2009	2008		2009	2008	
Gross written premiums	\$ 916.3	\$ 778.1	17.8%	\$ 2,506.1	\$ 2,158.1	16.1%
Net written premiums	452.7	424.4	6.6%	1,328.4	1,261.0	5.3%
<b>REVENUES:</b>						
Premiums earned	\$ 438.3	\$ 449.9	-2.6%	\$ 1,337.5	\$ 1,421.3	-5.9%
Net investment income	65.5	97.3	-32.7%	179.7	292.3	-38.5%
Net realized capital gains (losses)	101.4	(108.7)	-193.3%	56.2	(261.3)	-121.5%
Gain on tender of debt	-	-	-	78.3	-	-
Other income (expense)	15.1	8.0	89.6%	7.8	(16.0)	-148.6%
Total revenues	620.3	446.5	38.9%	1,659.4	1,436.2	15.5%
<b>CLAIMS AND EXPENSES:</b>						
Incurred losses and loss adjustment expenses	242.0	447.0	-45.9%	777.3	1,115.8	-30.3%
Commission, brokerage, taxes and fees	77.3	73.8	4.7%	252.4	295.3	-14.5%
Other underwriting expenses	39.9	32.8	21.7%	109.2	95.8	14.0%
Interest, fee and bond issue cost amortization expense	17.1	19.7	-13.5%	53.8	59.2	-9.2%
Total claims and expenses	376.2	573.3	-34.4%	1,192.7	1,566.1	-23.8%
INCOME (LOSS) BEFORE TAXES	244.1	(126.8)	NM	466.7	(129.9)	NM
Income tax expense (benefit)	80.0	(47.9)	NM	128.4	(69.3)	NM
NET INCOME (LOSS)	\$ 164.1	\$ (78.9)	NM	\$ 338.3	\$ (60.6)	NM
<b>RATIOS:</b>						
			Point Change			Point Change
Loss ratio	55.2%	99.4%	(44.2)	58.1%	78.5%	(20.4)
Commission and brokerage ratio	17.6%	16.4%	1.2	18.9%	20.8%	(1.9)
Other underwriting expense ratio	9.1%	7.2%	1.9	8.2%	6.7%	1.5
Combined ratio	81.9%	123.0%	(41.1)	85.2%	106.0%	(20.8)

(Dollars in millions)	At September 30, 2009	At December 31, 2008	Percentage Increase/ (Decrease)
<b>Balance sheet data:</b>			
Total investments and cash	\$ 8,073.5	\$ 7,395.1	9.2%
Total assets	13,381.8	12,866.6	4.0%
Loss and loss adjustment expense reserves	7,247.0	7,420.0	-2.3%
Total debt	1,017.9	1,179.1	-13.7%
Total liabilities	10,551.3	10,663.7	-1.1%
Stockholder's equity	2,830.5	2,203.0	28.5%

(NM, not meaningful)

(Some amounts may not reconcile due to rounding)

## Revenues.

**Premiums.** Gross written premiums increased by \$138.1 million, or 17.8%, for the three months ended September 30, 2009 compared to the three months ended September 30, 2008, reflecting an increase of \$101.7 million in our reinsurance business and \$36.5 million in our insurance business. Gross written premiums increased by \$348.0 million, or 16.1%, for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008, reflecting an increase of \$294.7 million in our reinsurance business and \$53.3 million in our insurance business. The increased reinsurance business was

primarily attributable to increased rates on property business, in both the international and U.S. markets, new crop hail quota share treaty business, expanded participation on renewal contracts and new writings as ceding companies continue to favor reinsurers such as Everest, with strong financial ratings. The increase in insurance premiums were primarily in the financial institutions directors and officers (“D&O”) and errors and omissions (“E&O”) lines of business, which are new offerings for us, as well as additional written property insurance premiums in Florida where rates to exposure remain attractive.

Net written premiums increased by \$28.2 million, or 6.6%, for the three months ended September 30, 2009 compared to the three months ended September 30, 2008, and \$67.4 million, or 5.3%, for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. The increases in net written premiums are primarily due to the increase in gross written premiums, partially offset by the increase in cessions under the affiliated quota share agreement. Premiums earned decreased by \$11.6 million, or 2.6%, for the three months ended September 30, 2009 compared to the three months ended September 30, 2008, and \$83.8 million, or 5.9%, for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. 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 on the initiation of coverage.

Net Investment Income. Net investment income decreased by 32.7% for the three months ended September 30, 2009, compared to the three months ended September 30, 2008 and by 38.5% for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008, due primarily to losses from our limited partnership investments that principally invest in public and non-public securities, both equity and debt, which report to us on a quarter lag, a reduction in invested assets resulting from the October 1, 2008 loss portfolio transfer agreement with Everest Reinsurance (Bermuda), Ltd. (“Bermuda Re”) and lower yields for new long and short term fixed maturity investments. As a result, net pre-tax investment income, as a percentage of average invested assets, was 3.4% for the three months ended September 30, 2009 compared to 4.6% for the three months ended September 30, 2008 and 3.1% for the nine months ended September 30, 2009 compared to 4.5% for the nine months ended September 30, 2008.

Net Realized Capital Gains (Losses). Net realized capital gains were \$101.4 million and \$56.2 million for the three and nine months ended September 30, 2009, respectively. Net realized capital losses were \$108.7 million and \$261.3 million for the three and nine months ended September 30, 2008, respectively. The realized gains and losses reflected for each period were primarily a function of changes in sales, fair value re-measurements and other-than-temporary impairments. The largest changes were the result of the fair value re-measurements of our investment in an affiliated entity’s shares and public equity securities portfolio. During 2008, our public equity securities portfolio was much larger and with the equity markets declining rapidly, fair value re-measurements resulted in realized losses. Conversely in 2009, the equity markets improved resulting in fair value re-measurement gains. In addition, other-than-temporary impairments on fixed income securities, decreased period over period due to the improving financial markets.

Realized Gain on Debt Repurchase. On March 19, 2009, we announced the commencement of a cash tender offer for any and all of the 6.60% fixed to floating rate long term subordinated notes due 2067. Upon expiration of the tender offer, we had reduced our outstanding debt by \$161.4 million, which resulted in a pre-tax gain on debt repurchase of \$78.3 million.

Other Income (Expense). We recorded other income of \$15.1 million and \$7.8 million for the three and nine months ended September 30, 2009, respectively. We recorded other income of \$8.0 million and other expense of \$16.0 million for the three and nine months ended September 30, 2008, respectively. The variances were primarily due to the deferrals on retroactive reinsurance agreements with affiliates and changes in foreign currency exchange rates for the corresponding periods.

## Claims and Expenses.

Incurred Losses and Loss Adjustment Expenses. The following tables present our incurred losses and loss adjustment expenses ("LAE") for all segments for the periods indicated.

Three Months Ended September 30,						
(Dollars in millions)	Current Year	Ratio%/ Pt Change	Prior Years	Ratio%/ Pt Change	Total Incurred	Ratio%/ Pt Change
<b>2009</b>						
Attritional (a)	\$ 246.7	56.3%	\$ (19.1)	-4.4%	\$ 227.6	51.9%
Catastrophes	11.2	2.6%	3.2	0.7%	14.4	3.3%
A&E	-	0.0%	-	0.0%	-	0.0%
Total segment	<u>\$ 257.9</u>	<u>58.8%</u>	<u>\$ (15.9)</u>	<u>-3.6%</u>	<u>\$ 242.0</u>	<u>55.2%</u>
<b>2008</b>						
Attritional (a)	\$ 301.7	67.1%	\$ (12.2)	-2.7%	\$ 289.5	64.4%
Catastrophes	151.5	33.7%	6.0	1.3%	157.5	35.0%
A&E	-	0.0%	-	0.0%	-	0.0%
Total segment	<u>\$ 453.2</u>	<u>100.7%</u>	<u>\$ (6.2)</u>	<u>-1.4%</u>	<u>\$ 447.0</u>	<u>99.4%</u>
<b>Variance 2009/2008</b>						
Attritional (a)	\$ (55.0)	(10.8) pts	\$ (6.9)	(1.6) pts	\$ (61.9)	(12.4) pts
Catastrophes	(140.3)	(31.1) pts	(2.8)	(0.6) pts	(143.1)	(31.7) pts
A&E	-	- pts	-	- pts	-	- pts
Total segment	<u>\$ (195.3)</u>	<u>(41.9) pts</u>	<u>\$ (9.7)</u>	<u>(2.2) pts</u>	<u>\$ (205.0)</u>	<u>(44.2) pts</u>
<b>Nine Months Ended September 30,</b>						
(Dollars in millions)	Current Year	Ratio%/ Pt Change	Prior Years	Ratio%/ Pt Change	Total Incurred	Ratio%/ Pt Change
<b>2009</b>						
Attritional (a)	\$ 789.0	59.0%	\$ (36.0)	-2.7%	\$ 753.0	56.3%
Catastrophes	20.3	1.5%	4.0	0.3%	24.3	1.8%
A&E	-	0.0%	-	0.0%	-	0.0%
Total segment	<u>\$ 809.3</u>	<u>60.5%</u>	<u>\$ (32.0)</u>	<u>-2.4%</u>	<u>\$ 777.3</u>	<u>58.1%</u>
<b>2008</b>						
Attritional (a)	\$ 870.3	61.2%	\$ 62.9	4.4%	\$ 933.1	65.7%
Catastrophes	168.3	11.8%	14.4	1.0%	182.7	12.9%
A&E	-	0.0%	-	0.0%	-	0.0%
Total segment	<u>\$ 1,038.6</u>	<u>73.1%</u>	<u>\$ 77.2</u>	<u>5.4%</u>	<u>\$ 1,115.8</u>	<u>78.5%</u>
<b>Variance 2009/2008</b>						
Attritional (a)	\$ (81.3)	(2.2) pts	\$ (98.8)	(7.1) pts	\$ (180.2)	(9.4) pts
Catastrophes	(148.0)	(10.3) pts	(10.4)	(0.7) pts	(158.4)	(11.0) pts
A&E	-	- pts	-	- pts	-	- pts
Total segment	<u>\$ (229.3)</u>	<u>(12.6) pts</u>	<u>\$ (109.2)</u>	<u>(7.8) pts</u>	<u>\$ (338.5)</u>	<u>(20.4) pts</u>

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

Incurred losses and LAE were lower by \$205.0 million, or 45.9%, for the three months ended September 30, 2009 compared to the same period in 2008. Catastrophe losses, at \$14.4 million for the three months ended September 30, 2009, were \$143.1 million lower than the same period in 2008, primarily due to the absence in 2009, of any large catastrophe losses. Attritional losses incurred decreased \$61.9 million (12.4 points) for the third quarter, period over period, due to mix of business and premiums earned, in conjunction with affiliated cessions.

Incurred losses and LAE were lower by \$338.5 million, or 30.3%, for the nine months ended September 30, 2009 compared to the same period in 2008. The primary contributor to the decrease was the result of the reduction in current year catastrophe losses of \$148.0 million. The variance in the prior years' attritional losses was primarily due to the absence, in 2009, of \$85.3 million reserve strengthening on an auto loan credit program.

Commission, Brokerage, Taxes and Fees. Commission, brokerage, taxes and fees increased by \$3.4 million, or 4.7%, for the three months ended September 30, 2009 compared to the same period in 2008, and decreased by \$42.9 million, or 14.5%, for the nine months ended September 30, 2009 compared to the same period in 2008. The change in this directly variable expense was influenced by changes in the mix of business and increased cessions under the affiliated quota share agreement.

Other Underwriting Expenses. Other underwriting expenses were \$39.9 million compared to \$32.8 million for the three months ended September 30, 2009 and 2008, respectively, and \$109.2 million compared to \$95.8 million for the nine months ended September 30, 2009 and 2008, respectively. These increases were the result of expansion as we continue to grow our books of business. In addition, other underwriting expenses included corporate expenses, which are expenses that are not allocated to segments, of \$1.7 million and \$1.4 million for the three months ended September 30, 2009 and 2008, respectively, and \$4.9 million and \$4.5 million for the nine months ended September 30, 2009 and 2008, respectively.

Interest, Fees and Bond Issue Cost Amortization Expense. Interest and other expense was \$17.1 million and \$19.7 million for the three months ended September 30, 2009 and 2008, respectively, and \$53.8 million and \$59.2 million for the nine months ended September 30, 2009 and 2008, respectively. The decrease, period over period, was primarily due to the partial repurchase of our long term subordinated notes in March 2009.

Income Tax Expense (Benefit). We had an income tax expense of \$80.0 million and \$128.4 million for the three and nine months ended September 30, 2009, respectively, and an income tax benefit \$47.9 million and \$69.3 million for the three and nine months ended September 30, 2008, respectively. The period over period variances were primarily due to the increase in pre-tax net income in 2009 versus pre-tax net losses in 2008. Our income tax is primarily a function of the statutory tax rate coupled with the impact from tax-preferenced investment income.

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

Our net income was \$164.1 million and \$338.3 million for the three and nine months ended September 30, 2009, respectively, compared to a net loss of \$78.9 million and \$60.6 million for the three and nine months ended September 30, 2008, respectively. These changes were the result of the items discussed above.

#### **Ratios.**

Our combined ratio decreased by 41.1 points to 81.9% for the three months ended September 30, 2009 compared to 123.0% for the three months ended September 30, 2008, and decreased by 20.8 points to 85.2% for the nine months ended September 30, 2009 compared to 106.0% for the nine months ended September 30, 2008. The loss ratio component decreased 44.2 points and 20.4 points for the three and nine months ended September 30, 2009, respectively, compared to the same periods last year, principally due to the significant decrease in catastrophe losses. The commission and brokerage ratio component increased by 1.2 points and decreased by 1.9 points for the three and nine months ended September 30, 2009, respectively, compared to the same periods last year, due to mix of business and increased cessions under the affiliated quota share agreement, while the other underwriting expense ratio component increased by 1.9 points and 1.5 points for the three and nine months ended September 30, 2009, respectively, compared to the same periods last year.

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

Stockholder's equity increased by \$627.5 million to \$2,830.5 million at September 30, 2009 from \$2,203.0 million at December 31, 2008, principally as a result of \$338.3 million of net income, \$261.2 million of unrealized appreciation on investments, net of tax, \$21.6 million of foreign currency translation adjustments and \$4.1 million of share-based compensation transactions.



## Consolidated Investment Results

### Net Investment Income.

Net investment income decreased 32.7% to \$65.5 million for the three months ended September 30, 2009 from \$97.3 million for the three months ended September 30, 2008, and decreased to \$179.7 million for the nine months ended September 30, 2009 from \$292.3 million for the nine months ended September 30, 2008. These decreases were primarily due to losses from our limited partnership investments that principally invest in public and non-public securities, both equity and debt, which reported to us on a quarter lag, a reduction in invested assets resulting from the October 1, 2008 loss portfolio transfer agreement with Bermuda Re and lower yields for new long and short term fixed maturity investments.

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

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Fixed maturity securities	\$ 71.0	\$ 81.1	\$ 212.9	\$ 233.1
Equity securities	0.8	1.8	2.2	4.9
Short-term investments and cash	0.3	4.3	3.3	23.8
Other invested assets				
Limited partnerships	(4.4)	10.2	(36.5)	29.9
Other	0.7	2.4	5.7	7.2
Total gross investment income	68.2	99.8	187.6	299.0
Interest credited and other expense	(2.8)	(2.4)	(7.9)	(6.6)
Total net investment income	\$ 65.5	\$ 97.3	\$ 179.7	\$ 292.3

(Some amounts may not reconcile due to rounding)

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

	At September 30,	At December 31,
	2009	2008
Imbedded pre-tax yield of cash and invested assets	3.8%	4.3%
Imbedded after-tax yield of cash and invested assets	3.1%	3.5%

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Annualized pre-tax yield on average cash and invested assets	3.4%	4.6%	3.1%	4.5%
Annualized after-tax yield on average cash and invested assets	2.9%	3.6%	2.7%	3.6%

### Net Realized Capital Gains (Losses).

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2009	2008	Variance	2009	2008	Variance
<i>(Dollars in millions)</i>						
<u>Gains (losses) from sales:</u>						
Fixed maturity, market value						
Gains	\$ 2.0	\$ -	\$ 2.0	\$ 4.0	\$ 1.1	\$ 2.9
Losses	(6.1)	(12.2)	6.1	(36.6)	(14.2)	(22.4)
Total	<u>(4.1)</u>	<u>(12.2)</u>	<u>8.1</u>	<u>(32.6)</u>	<u>(13.1)</u>	<u>(19.5)</u>
Fixed maturity securities, fair value						
Gains	0.3	-	0.3	0.6	-	0.6
Losses	(0.1)	-	(0.1)	(0.1)	-	(0.1)
Total	<u>0.2</u>	<u>-</u>	<u>0.2</u>	<u>0.4</u>	<u>-</u>	<u>0.5</u>
Equity securities, market value						
Gains	8.0	-	8.0	8.0	-	8.0
Losses	-	-	-	-	-	-
Total	<u>8.0</u>	<u>-</u>	<u>8.0</u>	<u>8.0</u>	<u>-</u>	<u>8.0</u>
Equity securities, fair value						
Gains	1.3	3.8	(2.5)	7.2	5.9	1.3
Losses	-	(4.8)	4.8	(0.7)	(18.5)	17.8
Total	<u>1.3</u>	<u>(1.0)</u>	<u>2.3</u>	<u>6.5</u>	<u>(12.6)</u>	<u>19.1</u>
Total net realized gains (losses) from sales						
Gains	11.6	3.8	7.8	19.8	7.0	12.8
Losses	(6.3)	(17.0)	10.7	(37.5)	(32.7)	(4.8)
Total	<u>5.4</u>	<u>(13.2)</u>	<u>18.6</u>	<u>(17.7)</u>	<u>(25.7)</u>	<u>8.0</u>
Other than temporary impairments:	-	(63.8)	63.8	(5.5)	(67.9)	62.4
<u>Gains (losses) from fair value adjustments:</u>						
Fixed maturities, fair value	5.8	(0.2)	6.0	7.8	(0.2)	8.0
Equity securities, fair value	23.1	(58.8)	81.9	23.4	(122.9)	146.3
Other invested assets, fair value	67.1	27.4	39.7	48.1	(44.6)	92.7
Total	<u>96.0</u>	<u>(31.6)</u>	<u>127.6</u>	<u>79.3</u>	<u>(167.7)</u>	<u>247.0</u>
Total net realized gains (losses)	<u>\$ 101.4</u>	<u>\$ (108.7)</u>	<u>\$ 210.0</u>	<u>\$ 56.2</u>	<u>\$ (261.3)</u>	<u>\$ 317.5</u>

(Some amounts may not reconcile due to rounding)

We reported \$101.4 million net realized capital gains and \$108.7 million net realized capital losses for the three months ended September 30, 2009 and 2008, respectively. We recorded \$96.0 million in net realized capital gains and \$31.6 million in net realized capital losses due to fair value re-measurements for the three months ended September 30, 2009 and 2008, respectively. This improvement in fair value was primarily due to the healthier financial markets. In addition, we did not record any other-than-temporary impairments for the three months ended September 30, 2009 compared to the \$63.8 million recorded for the three months ended September 30, 2008.

We reported \$56.2 million net realized capital gains and \$261.3 million net realized capital losses for the nine months ended September 30, 2009 and 2008, respectively. We recorded \$79.3 million in net realized capital gains and \$167.7 million in net realized capital losses due to fair value re-measurements for the nine

months ended September 30, 2009 and 2008, respectively. Once again, this improvement in fair value was primarily due to the improved financial markets. We recorded other-than-temporary impairments of \$5.5 million and \$67.9 million for the nine months ended September 30, 2009 and 2008, respectively.

**Segment Results.**

Through our subsidiaries, we operate in four segments: U.S. Reinsurance, U.S. Insurance, Specialty Underwriting and International. The U.S. Reinsurance operation writes property and casualty reinsurance, on both a treaty and facultative basis, through reinsurance brokers, as well as directly with ceding companies within the U.S. The U.S. Insurance operation writes property and casualty insurance primarily through general agents and surplus lines brokers within the U.S. The Specialty Underwriting operation writes accident and health (“A&H”), marine, aviation and surety business within the U.S. and worldwide through brokers and directly with ceding companies. The International operation writes non-U.S. property and casualty reinsurance through Everest Reinsurance Company’s (“Everest Re”) branches in Canada and Singapore and offices in Miami and New Jersey.

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

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

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

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

### U.S. Reinsurance.

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

(Dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009	2008	Variance	% Change	2009	2008	Variance	% Change
Gross written premiums	\$ 345.6	\$ 280.5	\$ 65.1	23.2%	\$ 876.0	\$ 714.5	\$ 161.5	22.6%
Net written premiums	191.7	146.5	45.2	30.9%	487.8	425.0	62.9	14.8%
Premiums earned	\$ 162.0	\$ 167.5	\$ (5.4)	-3.2%	\$ 489.1	\$ 527.5	\$ (38.4)	-7.3%
Incurred losses and LAE	56.2	240.7	(184.6)	-76.7%	232.3	446.0	(213.8)	-47.9%
Commission and brokerage	21.4	27.5	(6.1)	-22.1%	90.5	125.8	(35.2)	-28.0%
Other underwriting expenses	9.7	7.8	1.8	23.3%	25.3	23.5	1.8	7.4%
Underwriting gain (loss)	\$ 74.8	\$ (108.6)	\$ 183.4	-168.9%	\$ 141.0	\$ (67.8)	\$ 208.8	NM
				Point Chg				Point Chg
Loss ratio	34.7%	143.7%		(109.0)	47.5%	84.6%		(37.1)
Commission and brokerage ratio	13.2%	16.4%		(3.2)	18.5%	23.8%		(5.3)
Other underwriting expense ratio	5.9%	4.7%		1.2	5.2%	4.5%		0.7
Combined ratio	53.8%	164.8%		(111.0)	71.2%	112.9%		(41.7)

(NM, not meaningful)

(Some amounts may not reconcile due to rounding)

**Premiums.** Gross written premiums increased by 23.2% to \$345.6 million for the three months ended September 30, 2009 from \$280.5 million for the three months ended September 30, 2008, primarily due to \$26.8 million from several new crop hail quota share treaties, a \$20.9 million (28.6%) increase in treaty casualty volume, a \$13.4 million (7.0%) increase in treaty property volume and a \$4.0 million (22.7%) increase in facultative volume. Our treaty casualty premiums were higher as we are writing more quota share business, which in part, is driven by the capital concerns of our ceding company customers looking for broader reinsurance support. The crop hail business is a new 2009 line of business for us and we anticipate similar volume in the remaining quarter of 2009. Net written premiums increased by 30.9% to \$191.7 million for the three months ended September 30, 2009 compared to \$146.5 million for the three months ended September 30, 2008, primarily due to the increase in gross written premiums. Premiums earned decreased by 3.2% to \$162.0 million for the three months ended September 30, 2009 compared to \$167.5 million for the three months ended September 30, 2008. The change in premiums earned relative to net written premiums is primarily the result of timing; premiums, for proportionate contracts, are earned ratably over the coverage period whereas written premiums are recorded on the initiation of the coverage period. In addition, part of the variance was due to the impact of changes in the affiliated quota share agreement.

Gross written premiums increased by 22.6% to \$876.0 million for the nine months ended September 30, 2009 from \$714.5 million for the nine months ended September 30, 2008, primarily due to \$68.5 million from the new crop hail quota share treaties, a \$59.8 million (29.7%) increase in treaty casualty volume, a \$31.0 million (7.0%) increase in treaty property volume and a \$2.2 million (3.2%) increase in facultative volume. Net written premiums increased by 14.8% to \$487.8 million for the nine months ended September 30, 2009 compared to \$425.0 million for the nine months ended September 30, 2008, primarily due to the increase in gross written premiums combined with increased cessions under the affiliated quota share agreement. Premiums earned decreased by 7.3% to \$489.1 million for the nine months ended September 30, 2009 compared to \$527.5 million for the nine months ended September 30, 2008. Variances for the nine months were reflective of the change in premium volume, timing and cessions under the affiliated quota share reinsurance agreement.

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

Three Months Ended September 30,						
(Dollars in millions)	Current Year	Ratio%/ Pt Change	Prior Years	Ratio%/ Pt Change	Total Incurred	Ratio%/ Pt Change
<b>2009</b>						
Attritional	\$ 72.7	44.9%	\$ (18.4)	-11.4%	\$ 54.3	33.5%
Catastrophes	-	0.0%	1.8	1.1%	1.8	1.1%
A&E	-	0.0%	-	0.0%	-	0.0%
Total segment	<u>\$ 72.7</u>	<u>44.9%</u>	<u>\$ (16.6)</u>	<u>-10.2%</u>	<u>\$ 56.2</u>	<u>34.7%</u>
<b>2008</b>						
Attritional	\$ 96.9	57.8%	\$ 4.9	2.9%	\$ 101.8	60.8%
Catastrophes	133.4	79.7%	5.6	3.3%	138.9	83.0%
A&E	-	0.0%	-	0.0%	-	0.0%
Total segment	<u>\$ 230.3</u>	<u>137.5%</u>	<u>\$ 10.5</u>	<u>6.3%</u>	<u>\$ 240.7</u>	<u>143.7%</u>
<b>Variance 2009/2008</b>						
Attritional	\$ (24.1)	(13.0) pts	\$ (23.3)	(14.3) pts	\$ (47.5)	(27.3) pts
Catastrophes	(133.4)	(79.7) pts	(3.7)	(2.2) pts	(137.1)	(81.8) pts
A&E	-	- pts	-	- pts	-	- pts
Total segment	<u>\$ (157.5)</u>	<u>(92.6) pts</u>	<u>\$ (27.1)</u>	<u>(16.5) pts</u>	<u>\$ (184.6)</u>	<u>(109.0) pts</u>
Nine Months Ended September 30,						
(Dollars in millions)	Current Year	Ratio%/ Pt Change	Prior Years	Ratio%/ Pt Change	Total Incurred	Ratio%/ Pt Change
<b>2009</b>						
Attritional	\$ 250.2	51.2%	\$ (18.1)	-3.7%	\$ 232.1	47.5%
Catastrophes	-	0.0%	0.1	0.0%	0.1	0.0%
A&E	-	0.0%	-	0.0%	-	0.0%
Total segment	<u>\$ 250.2</u>	<u>51.2%</u>	<u>\$ (18.0)</u>	<u>-3.7%</u>	<u>\$ 232.3</u>	<u>47.5%</u>
<b>2008</b>						
Attritional	\$ 285.6	54.2%	\$ 9.5	1.8%	\$ 295.1	55.9%
Catastrophes	139.4	26.4%	11.6	2.2%	150.9	28.6%
A&E	-	0.0%	-	0.0%	-	0.0%
Total segment	<u>\$ 425.0</u>	<u>80.6%</u>	<u>\$ 21.0</u>	<u>4.0%</u>	<u>\$ 446.0</u>	<u>84.6%</u>
<b>Variance 2009/2008</b>						
Attritional	\$ (35.4)	(3.0) pts	\$ (27.6)	(5.5) pts	\$ (62.9)	(8.5) pts
Catastrophes	(139.4)	(26.4) pts	(11.4)	(2.2) pts	(150.8)	(28.6) pts
A&E	-	- pts	-	- pts	-	- pts
Total segment	<u>\$ (174.8)</u>	<u>(29.4) pts</u>	<u>\$ (39.0)</u>	<u>(7.7) pts</u>	<u>\$ (213.8)</u>	<u>(37.1) pts</u>

(Some amounts may not reconcile due to rounding.)

Incurred losses were \$184.6 million (109.0 points) lower for the three months ended September 30, 2009 compared the three months ended September 30, 2008, primarily as a result of a \$133.4 million (79.7 points) decrease due to the absence of current year catastrophe losses in the third quarter of 2009 compared to the same period in 2008. In addition, prior years' reserves developed favorably in 2009 by \$16.6 million, primarily treaty casualty, compared to unfavorable development in 2008 of \$10.5 million, primarily treaty property.

Incurred losses were \$213.8 million (37.1 points) lower at \$232.3 million for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008, primarily due to a \$139.4 million (26.4 points) decrease due to absence of current year catastrophe losses in 2009 and \$39.0 million (7.7 points) favorable variance, period over period, of prior years' reserve development.

Segment Expenses. Commission and brokerage expenses decreased 22.1% to \$21.4 million for the three months ended September 30, 2009 from \$27.5 million for the three months ended September 30, 2008. Commission and brokerage expenses decreased 28.0% to \$90.5 million for the nine months ended September 30, 2009 from \$125.8 million for the nine months ended September 30, 2008. These decreases were primarily due to the fluctuation in premiums earned in conjunction with the change in the mix and type of business written and the increased cessions under the affiliated quota share agreement. Segment other

underwriting expenses were \$9.7 million and \$7.8 million for the three months ended September 30, 2009 and 2008, respectively. Segment other underwriting expenses for the nine months ended September 30, 2009 and 2008 were \$25.3 million and \$23.5 million, respectively.

### U.S. Insurance.

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

(Dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009	2008	Variance	% Change	2009	2008	Variance	% Change
Gross written premiums	\$ 230.5	\$ 194.0	\$ 36.5	18.8%	\$ 648.7	\$ 595.5	\$ 53.3	8.9%
Net written premiums	76.4	98.6	(22.2)	-22.5%	301.9	312.9	(11.0)	-3.5%
Premiums earned	\$ 89.2	\$ 107.8	\$ (18.6)	-17.2%	\$ 306.9	\$ 372.0	\$ (65.2)	-17.5%
Incurred losses and LAE	71.4	78.4	(7.0)	-8.9%	210.3	336.0	(125.6)	-37.4%
Commission and brokerage	10.5	4.8	5.7	119.1%	32.4	48.4	(16.1)	-33.2%
Other underwriting expenses	20.0	16.9	3.1	18.4%	56.4	47.1	9.3	19.7%
Underwriting (loss) gain	\$ (12.7)	\$ 7.8	\$ (20.4)	NM	\$ 7.7	\$ (59.5)	\$ 67.2	-113.0%
				Point Chg				Point Chg
Loss ratio	80.0%	72.7%		7.3	68.5%	90.3%		(21.8)
Commission and brokerage ratio	11.8%	4.4%		7.4	10.6%	13.0%		(2.4)
Other underwriting expense ratio	22.4%	15.7%		6.7	18.4%	12.7%		5.7
Combined ratio	114.2%	92.8%		21.4	97.5%	116.0%		(18.5)

(NM, not meaningful)

(Some amounts may not reconcile due to rounding)

**Premiums.** Gross written premiums increased by 18.8% to \$230.5 million for the three months ended September 30, 2009 from \$194.0 million for the three months ended September 30, 2008. Most of the new premium was derived from our entry into the financial institution D&O and E&O market and additional property insurance written in Florida, where rates to exposure remain attractive. Net written premiums decreased by 22.5% to \$76.4 million for the three months ended September 30, 2009 compared to \$98.6 million for the three months ended September 30, 2008. The change in net written premiums was primarily due to the increase in gross written premiums, partially offset by the change in reinsurance cessions. Premiums earned decreased 17.2% to \$89.2 million for the three months ended September 30, 2009 from \$107.8 million for the three months ended September 30, 2008.

Gross written premiums increased by 8.9% to \$648.7 million for the nine months ended September 30, 2009 from \$595.5 million for the nine months ended September 30, 2008. Net written premiums decreased by 3.5% to \$301.9 million for the nine months ended September 30, 2009 compared to \$312.9 million for the nine months ended September 30, 2008. Premiums earned decreased 17.5% to \$306.9 million for the nine months ended September 30, 2009 from \$372.0 million for the nine months ended September 30, 2008. 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, in addition to the impact of the affiliated quota share agreement.

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

		Three Months Ended September 30,					
(Dollars in millions)		Current	Ratio%/	Prior	Ratio%/	Total	Ratio%/
		Year	Pt Change	Years	Pt Change	Incurred	Pt Change
<u>2009</u>							
Attritional	\$	71.4	80.0%	\$ 0.1	0.1%	\$ 71.4	80.0%
Catastrophes		-	0.0%	-	0.0%	-	0.0%
Total segment	\$	71.4	80.0%	\$ 0.1	0.1%	\$ 71.4	80.0%
<u>2008</u>							
Attritional	\$	80.7	74.9%	\$ (2.4)	-2.2%	\$ 78.4	72.7%
Catastrophes		-	0.0%	-	0.0%	-	0.0%
Total segment	\$	80.7	74.9%	\$ (2.4)	-2.2%	\$ 78.4	72.7%
<u>Variance 2009/2008</u>							
Attritional	\$	(9.4)	5.1 pts	\$ 2.4	2.3 pts	\$ (7.0)	7.3 pts
Catastrophes		-	- pts	-	- pts	-	- pts
Total segment	\$	(9.4)	5.1 pts	\$ 2.4	2.3 pts	\$ (7.0)	7.3 pts
		Nine Months Ended September 30,					
(Dollars in millions)		Current	Ratio%/	Prior	Ratio%/	Total	Ratio%/
		Year	Pt Change	Years	Pt Change	Incurred	Pt Change
<u>2009</u>							
Attritional	\$	226.8	73.9%	\$ (16.4)	-5.4%	\$ 210.3	68.5%
Catastrophes		-	0.0%	-	0.0%	-	0.0%
Total segment	\$	226.8	73.9%	\$ (16.4)	-5.4%	\$ 210.3	68.5%
<u>2008</u>							
Attritional	\$	261.8	70.4%	\$ 74.4	20.0%	\$ 336.2	90.4%
Catastrophes		-	0.0%	(0.2)	-0.1%	(0.2)	-0.1%
Total segment	\$	261.8	70.4%	\$ 74.2	19.9%	\$ 336.0	90.3%
<u>Variance 2009/2008</u>							
Attritional	\$	(35.1)	3.5 pts	\$ (90.8)	(25.3) pts	\$ (125.8)	(21.8) pts
Catastrophes		-	- pts	0.2	0.1 pts	0.2	0.1 pts
Total segment	\$	(35.1)	3.5 pts	\$ (90.6)	(25.3) pts	\$ (125.6)	(21.8) pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased by 8.9% to \$71.4 million for the three months ended September 30, 2009 from \$78.4 million for the three months ended September 30, 2008, primarily driven by the \$9.4 million decrease in current year attritional losses, principally as a result of the 17.2% decrease in premiums earned.

Incurred losses and LAE decreased by 37.4% to \$210.3 million for the nine months ended September 30, 2009 from \$336.0 million for the nine months ended September 30, 2008, primarily driven by the 17.5% decrease in premiums earned and the absence, in 2009, of \$85.3 million of prior years' attritional loss development on an auto loan credit program.

Segment Expenses. Commission and brokerage expenses increased to \$10.5 million for the three months ended September 30, 2009 from \$4.8 million for the three months ended September 30, 2008. Commission and brokerage expenses decreased by 33.2% to \$32.4 million for the nine months ended September 30, 2009 from \$48.4 million for the nine months ended September 30, 2008. These variances were primarily due to the decrease in premiums earned, changes in the mix of business written and the impact from internal quota share agreements whereby other underwriting expenses were ceded through commission and brokerage expense. Segment other underwriting expenses were \$20.0 million and \$16.9 million for the three months ended September 30, 2009 and 2008, respectively. Segment other underwriting expenses were \$56.4 million and \$47.1 million for the nine months ended September 30, 2009 and 2008, respectively. These increases were primarily due to compensation costs.

### Specialty Underwriting.

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

(Dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009	2008	Variance	% Change	2009	2008	Variance	% Change
Gross written premiums	\$ 67.6	\$ 54.8	\$ 12.8	23.3%	\$ 183.7	\$ 193.9	\$ (10.2)	-5.3%
Net written premiums	38.3	34.6	3.7	10.7%	103.0	128.8	(25.8)	-20.0%
Premiums earned	\$ 39.2	\$ 35.3	\$ 3.9	10.9%	\$ 108.5	\$ 126.3	\$ (17.8)	-14.1%
Incurred losses and LAE	25.2	37.6	(12.4)	-33.0%	73.7	81.7	(8.0)	-9.8%
Commission and brokerage	10.5	8.7	1.9	21.4%	29.4	30.4	(1.0)	-3.2%
Other underwriting expenses	2.4	1.9	0.4	23.0%	6.2	6.2	-	0.7%
Underwriting gain (loss)	\$ 1.1	\$ (12.9)	\$ 14.0	-108.5%	\$ (0.9)	\$ 8.0	\$ (8.9)	-111.2%
				Point Chg				Point Chg
Loss ratio	64.3%	106.5%		(42.2)	68.0%	64.7%		3.3
Commission and brokerage ratio	26.8%	24.5%		2.3	27.1%	24.1%		3.0
Other underwriting expense ratio	6.1%	5.5%		0.6	5.7%	4.9%		0.8
Combined ratio	97.2%	136.5%		(39.3)	100.8%	93.7%		7.1

(NM, not meaningful)

(Some amounts may not reconcile due to rounding)

**Premiums.** Gross written premiums increased by 23.3% to \$67.6 million for the three months ended September 30, 2009 from \$54.8 million for the three months ended September 30, 2008, primarily due to a \$9.0 million increase in aviation premiums and a \$7.6 million increase in A&H premiums, partially offset by a \$4.0 million decrease in surety premiums. Net written premiums increased by 10.7% to \$38.3 million for the three months ended September 30, 2009 compared to \$34.6 million for the three months ended September 30, 2008, as a result of the increase in the aviation and A&H lines. Premiums earned increased by 10.9% to \$39.2 million for the three months ended September 30, 2009 compared to \$35.3 million for the three months ended September 30, 2008, in line with the change in net written premiums.

Gross written premiums decreased by 5.3% to \$183.7 million for the nine months ended September 30, 2009 from \$193.9 million for the nine months ended September 30, 2008, primarily due to a \$24.1 million decrease in marine premiums, partially offset by a \$9.5 million increase in aviation premiums and a \$3.6 million increase in A&H premiums. Net written premiums decreased by 20.0% to \$103.0 million for the nine months ended September 30, 2009 compared to \$128.8 million for the nine months ended September 30, 2008, as a result of the decrease in gross writings and increased cessions under the affiliated quota share agreement. Premiums earned decreased to \$108.5 million for the nine months ended September 30, 2009 from \$126.3 million for the nine months ended September 30, 2008. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.



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

		Three Months Ended September 30,					
(Dollars in millions)		Current	Ratio%/	Prior	Ratio%/	Total	Ratio%/
		Year	Pt Change	Years	Pt Change	Incurred	Pt Change
<b>2009</b>							
Attritional	\$	26.2	66.8%	(0.2)	-0.4%	26.0	66.4%
Catastrophes		-	0.0%	(0.8)	-2.1%	(0.8)	-2.1%
Total segment	\$	26.2	66.8%	(1.0)	-2.5%	25.2	64.3%
<b>2008</b>							
Attritional	\$	24.6	69.8%	-	0.0%	24.6	69.8%
Catastrophes		10.5	29.7%	2.5	7.0%	13.0	36.7%
Total segment	\$	35.1	99.5%	2.5	7.0%	37.6	106.5%
<b>Variance 2009/2008</b>							
Attritional	\$	1.5	(3.0) pts	(0.2)	(0.4) pts	1.4	(3.4) pts
Catastrophes		(10.5)	(29.7) pts	(3.3)	(9.1) pts	(13.8)	(38.8) pts
Total segment	\$	(9.0)	(32.7) pts	(3.4)	(9.5) pts	(12.4)	(42.2) pts
		Nine Months Ended September 30,					
(Dollars in millions)		Current	Ratio%/	Prior	Ratio%/	Total	Ratio%/
		Year	Pt Change	Years	Pt Change	Incurred	Pt Change
<b>2009</b>							
Attritional	\$	77.0	70.9%	(6.0)	-5.5%	71.0	65.4%
Catastrophes		-	0.0%	2.8	2.6%	2.8	2.6%
Total segment	\$	77.0	70.9%	(3.2)	-3.0%	73.7	68.0%
<b>2008</b>							
Attritional	\$	75.1	59.5%	(7.7)	-6.1%	67.4	53.4%
Catastrophes		10.5	8.3%	3.9	3.1%	14.4	11.4%
Total segment	\$	85.6	67.8%	(3.9)	-3.1%	81.7	64.7%
<b>Variance 2009/2008</b>							
Attritional	\$	1.8	11.5 pts	1.7	0.6 pts	3.6	12.0 pts
Catastrophes		(10.5)	(8.3) pts	(1.1)	(0.5) pts	(11.6)	(8.8) pts
Total segment	\$	(8.7)	3.1 pts	0.7	0.1 pts	(8.0)	3.3 pts

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased by 33.0% to \$25.2 million for the three months ended September 30, 2009 compared to \$37.6 million for the three months ended September 30, 2008, principally as a result of favorable variances in current and prior years' catastrophe losses in 2009 in comparison to 2008.

Incurred losses and LAE decreased by 9.8% to \$73.7 million for the nine months ended September 30, 2009 compared to \$81.7 million for the nine months ended September 30, 2008, primarily as a result of decreased catastrophe losses in 2009 in comparison to 2008.

Segment Expenses. Commission and brokerage expenses increased to \$10.5 million for the three months ended September 30, 2009 from \$8.7 million for the three months ended September 30, 2008. Commission and brokerage expenses decreased to \$29.4 million for the nine months ended September 30, 2009 from \$30.4 million for the nine months ended September 30, 2008. These fluctuations are primarily the result of fluctuations in premiums earned and the increase in the affiliated quota share agreement. Segment other underwriting expenses were \$2.4 million and \$1.9 million for the three months ended September 30, 2009 and 2008, respectively. Segment other underwriting expenses were \$6.2 million for the nine months ended September 30, 2009 and 2008.

## International.

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

(Dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009	2008	Variance	% Change	2009	2008	Variance	% Change
Gross written premiums	\$ 272.6	\$ 248.8	\$ 23.8	9.6%	\$ 797.6	\$ 654.2	\$ 143.4	21.9%
Net written premiums	146.3	144.8	1.5	1.0%	435.7	394.3	41.4	10.5%
Premiums earned	\$ 147.9	\$ 139.3	\$ 8.6	6.2%	\$ 433.1	\$ 395.5	\$ 37.6	9.5%
Incurred losses and LAE	89.2	90.3	(1.0)	-1.2%	261.0	252.1	8.9	3.5%
Commission and brokerage	34.8	32.9	2.0	5.9%	100.1	90.7	9.4	10.4%
Other underwriting expenses	6.2	4.7	1.5	31.3%	16.5	14.5	2.0	13.6%
Underwriting gain	\$ 17.7	\$ 11.4	\$ 6.2	54.2%	\$ 55.6	\$ 38.3	\$ 17.3	45.3%
				Point Chg				Point Chg
Loss ratio	60.3%	64.8%		(4.5)	60.3%	63.7%		(3.4)
Commission and brokerage ratio	23.6%	23.6%		-	23.1%	22.9%		0.2
Other underwriting expense ratio	4.2%	3.4%		0.8	3.8%	3.7%		0.1
Combined ratio	88.1%	91.8%		(3.7)	87.2%	90.3%		(3.1)

(NM, not meaningful)

(Some amounts may not reconcile due to rounding)

**Premiums.** Gross written premiums increased by 9.6% to \$272.6 million for the three months ended September 30, 2009 from \$248.8 million for the three months ended September 30, 2008. As a result of our strong financial strength ratings, we continue to see increased participations on treaties in most regions, new business writings and preferential signings, including preferential terms and conditions. In addition, rates, in some markets, also contributed to the increased written premiums. Premiums written through the Brazil, Miami and New Jersey offices increased by \$11.1 million (7.0%), through the Asian branch by \$7.4 million (13.8%) and through the Canadian branch by \$5.3 million (14.0%). Net written premiums increased by 1.0% to \$146.3 million for the three months ended September 30, 2009 compared to \$144.8 million for the three months ended September 30, 2008, primarily due to the increase in gross written premiums, which were partially offset by increased cessions under the affiliated quota share agreement. Premiums earned increased by 6.2% to \$147.9 million for the three months ended September 30, 2009 compared to \$139.3 million for the three months ended September 30, 2008. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned notably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

Gross written premiums increased by 21.9% to \$797.6 million for the nine months ended September 30, 2009 from \$654.2 million for the nine months ended September 30, 2008. Premiums written through the Brazil, Miami and New Jersey offices increased by \$112.5 million (27.3%) and through the Asian branch by \$31.9 million (24.5%), while premiums written through the Canadian branch decreased by \$1.0 million (0.9%). Net written premiums increased by 10.5% to \$435.7 million for the nine months ended September 30, 2009 compared to \$394.3 million for the nine months ended September 30, 2008. Premiums earned increased by 9.5% to \$433.1 million for the nine months ended September 30, 2009 compared to \$395.5 million for the nine months ended September 30, 2008, in line with the increase in net written premiums. Variance explanations for the nine months were similar to factors discussed above for the three months.

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

Three Months Ended September 30,						
(Dollars in millions)	Current Year	Ratio%/Pt Change	Prior Years	Ratio%/Pt Change	Total Incurred	Ratio%/Pt Change
<b>2009</b>						
Attritional	\$ 76.4	51.7%	\$ (0.6)	-0.4%	\$ 75.8	51.3%
Catastrophes	11.2	7.6%	2.1	1.5%	13.4	9.0%
Total segment	<u>\$ 87.7</u>	<u>59.3%</u>	<u>\$ 1.5</u>	<u>1.0%</u>	<u>\$ 89.2</u>	<u>60.3%</u>
<b>2008</b>						
Attritional	\$ 99.4	71.4%	\$ (14.8)	-10.6%	\$ 84.7	60.8%
Catastrophes	7.6	5.5%	(2.0)	-1.5%	5.6	4.0%
Total segment	<u>\$ 107.0</u>	<u>76.9%</u>	<u>\$ (16.8)</u>	<u>-12.0%</u>	<u>\$ 90.3</u>	<u>64.8%</u>
<b>Variance 2009/2008</b>						
Attritional	\$ (23.0)	(19.7) pts	\$ 14.2	10.2 pts	\$ (8.8)	(9.5) pts
Catastrophes	3.6	2.1 pts	4.2	2.9 pts	7.8	5.0 pts
Total segment	<u>\$ (19.4)</u>	<u>(17.6) pts</u>	<u>\$ 18.3</u>	<u>13.0 pts</u>	<u>\$ (1.0)</u>	<u>(4.5) pts</u>
<b>Nine Months Ended September 30,</b>						
(Dollars in millions)	Current Year	Ratio%/Pt Change	Prior Years	Ratio%/Pt Change	Total Incurred	Ratio%/Pt Change
<b>2009</b>						
Attritional	\$ 235.0	54.3%	\$ 4.5	1.1%	\$ 239.5	55.3%
Catastrophes	20.3	4.7%	1.1	0.3%	21.4	5.0%
Total segment	<u>\$ 255.3</u>	<u>58.9%</u>	<u>\$ 5.7</u>	<u>1.3%</u>	<u>\$ 261.0</u>	<u>60.3%</u>
<b>2008</b>						
Attritional	\$ 247.7	62.6%	\$ (13.2)	-3.3%	\$ 234.5	59.3%
Catastrophes	18.4	4.7%	(0.8)	-0.2%	17.6	4.5%
Total segment	<u>\$ 266.1</u>	<u>67.3%</u>	<u>\$ (14.1)</u>	<u>-3.6%</u>	<u>\$ 252.1</u>	<u>63.7%</u>
<b>Variance 2009/2008</b>						
Attritional	\$ (12.7)	(8.4) pts	\$ 17.8	4.4 pts	\$ 5.0	(4.0) pts
Catastrophes	1.9	0.0 pts	2.0	0.5 pts	3.8	0.5 pts
Total segment	<u>\$ (10.8)</u>	<u>(8.4) pts</u>	<u>\$ 19.7</u>	<u>4.9 pts</u>	<u>\$ 8.9</u>	<u>(3.4) pts</u>

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased by 1.2% to \$89.2 million for the three months ended September 30, 2009 compared to \$90.3 million for the three months ended September 30, 2008. The segment loss ratio decreased by 4.5 points for the three months ended September 30, 2009 compared to the three months ended September 30, 2008, primarily due to the decreased third quarter 2009 attritional losses (9.5 points), partially offset by the increased catastrophe losses (5.0 points).

Incurred losses and LAE increased by 3.5% to \$261.0 million for the nine months ended September 30, 2009 compared to \$252.1 million for the nine months ended September 30, 2008, primarily as a result of the increase in premium earned.

Segment Expenses. Commission and brokerage expenses increased 5.9% to \$34.8 million for the three months ended September 30, 2009 from \$32.9 million for the three months ended September 30, 2008. Commission and brokerage expenses increased 10.4% to \$100.1 million for the nine months ended September 30, 2009 from \$90.7 million for the nine months ended September 30, 2008. These changes are primarily the result of the change in earned premium and the blend of business mix. Segment other underwriting expenses were \$6.2 million and \$4.7 million for the three months ended September 30, 2009 and 2008, respectively. Segment other underwriting expenses were \$16.5 million and \$14.5 million for the nine months ended September 30, 2009 and 2008, respectively.

### Market Sensitive Instruments.

The Securities and Exchange Commission's ("SEC") 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.

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

Interest Rate Risk. Our \$8.1 billion investment portfolio at September 30, 2009 was 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 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 \$509.7 million of mortgage-backed securities in the \$6,416.7 million fixed maturity securities 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 securities portfolio (including \$645.1 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.

(Dollars in millions)	Impact of Interest Rate Shift in Basis Points				
	At September 30, 2009				
	-200	-100	0	100	200
Total Market/Fair Value	\$ 7,665.3	\$ 7,380.6	\$ 7,061.8	\$ 6,697.5	\$ 6,353.4
Market/Fair Value Change from Base (%)	8.5 %	4.5 %	0.0 %	-5.2 %	-10.0 %
Change in Unrealized Appreciation					
After-tax from Base (\$)	\$ 392.3	\$ 207.2	\$ -	\$ (236.8)	\$ (460.5)

We had \$7,247.0 million and \$7,420.0 million of gross reserves for losses and LAE as of September 30, 2009 and December 31, 2008, 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 fixed income portfolio has an expected duration that is reasonably consistent with our loss and loss reserve obligations.

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

The table below displays the impact on the fair/market value and the 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 September 30, 2009				
(Dollars in millions)	-20%	-10%	0%	10%	20%
Fair/Market Value of the Equity Portfolio	\$ 126.8	\$ 142.6	\$ 158.5	\$ 174.3	\$ 190.2
After-tax Change in Fair/Market Value	\$ (20.6)	\$ (10.3)	\$ -	\$ 10.3	\$ 20.6

**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. (“foreign”) operations maintains capital in the currency of the country of its geographic location consistent with local regulatory guidelines. Generally, we prefer to maintain the capital of our operations in U.S. dollar assets, although this varies by regulatory jurisdiction in accordance with market needs. 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 our foreign operations are the Canadian 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 ASC 830 (Financial Accounting Standards No. 52 “Foreign Currency Translation”), we translate the assets, liabilities and income of non-U.S. dollar functional currency legal entities to the U.S. dollar. This translation amount is reported as a component of other comprehensive income. As of September 30, 2009 there has been no material change in exposure to foreign exchange rates as compared to December 31, 2008.

**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”. Forward-looking statements contained in this report include information regarding our reserves for losses and LAE, the adequacy of our provision for uncollectible balances, estimates of our catastrophe exposure, the effects of catastrophic events on our financial statements and the ability of our subsidiaries to pay dividends. Forward-looking statements only reflect our expectations and are not guarantees of performance. These statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from our expectations. Important factors that could cause our actual events or results to be materially different from our expectations include the uncertainties that surround the impact on our financial statements and liquidity resulting from changes in the global economy and credit markets, the estimating of reserves for losses and LAE, those discussed in Note 6 of Notes to Consolidated Financial Statements (unaudited) included in this report and the risks described under the caption “Risk Factors” in our most recently filed Annual Report on Form 10-K, PART I, ITEM 1A. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

### **ITEM 4. CONTROLS AND PROCEDURES**

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

## **PART II**

### **ITEM 1. LEGAL PROCEEDINGS**

In the ordinary course of business, we are involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which will determine our rights and obligations under insurance, reinsurance and other contractual agreements. 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, we believe that our positions are legally and commercially reasonable, and we vigorously seek to preserve, enforce and defend our legal rights under various agreements. While the final outcome of these matters cannot be predicted with certainty, we do not believe that any of these matters, when finally resolved, will have a material adverse effect on our financial position or liquidity. However, an adverse resolution of one or more of these items in any one quarter or fiscal year could have a material adverse effect on our results of operations in that period.

### **ITEM 1A. RISK FACTORS**

No material changes.

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

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

Exhibit Index:

<u>Exhibit No.</u>	<u>Description</u>
31.1	Section 302 Certification of Joseph V. Taranto
31.2	Section 302 Certification of Dominic J. Addesso
32.1	Section 906 Certification of Joseph V. Taranto and Dominic J. Addesso

Everest Reinsurance Holdings, Inc.

Signatures

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

Everest Reinsurance Holdings, Inc.  
(Registrant)

/S/ DOMINIC J. ADDESSO

Dominic J. Addesso  
Executive Vice President and  
Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

Dated: November 16, 2009