

Credit Update

Everest Reinsurance Holdings, Inc.

A Member of the Everest Re Group, Ltd.

Ratings

Security Class	Current Rating	Previous Rating	Date Change
Long-Term Debt	A-	NR	11/27/01
Senior Debt	A-	NR	11/27/01

NR – Not rated.

Rating Outlook

Stable

Analysts

Frank A. Meyers
1 212 908-0347
frank.meyers@fitchratings.com

James B. Auden, CFA
1 312 368-3146
james.auden@fitchratings.com

Summary Rating Rationale**Strengths**

- Good and stable investment quality and returns.
- Adequate loss reserving and good reinsurance support.
- Sound capitalization.
- Underwriting performance better than that of peers in recent years.

Concerns

- Limited operations history since the spinoff from Prudential Insurance Company of America.
- Exposure to asbestos and environmental losses, albeit exposures are trending down and protected by reinsurance covers.
- Significant growth in primary insurance operations in last two years, primarily in volatile California workers' compensation market.

Recent Developments

Everest Reinsurance Holdings, Inc. (Everest Holdings) is a Delaware-based insurance holding company. Everest Holdings, a wholly owned subsidiary of Everest Re Group, Ltd. (Everest Re), Bermuda, serves as the holding company of the U.S. operations of Everest Re. The balance sheet of Everest Holdings represents nearly 90% of the consolidated total assets of Everest Re.

Everest Re reported June 30, 2002 pretax operating income (excluding realized capital gains or losses) of \$164 million and a net income of \$114.5 million, up 26% and 7%, respectively, from the prior year.

On Feb. 27, 2002, Everest Re sold five million shares of its common stock in a public offering. The proceeds of the sale were \$346 million and will be used for general corporate purposes and working capital needs of its operations. Everest Re's debt-to-total adjusted capital ratio was 21.3% at June 30, 2002, down from 25.8% at year-end 2001.

On July 30, 2002, Everest Re filed a shelf registration, which provides for the issuance of up to \$475 million in securities. This is a universal shelf registration and will serve to replace an existing common equity shelf registration already outstanding by Everest Re. The company desires to maintain maximum flexibility and plans to use the shelf based on market conditions and corporate needs.

Implications for Rating and Outlook

The Rating Outlook is Stable. The reinsurance markets, following the Sept. 11 events, have been characterized by rising premium rates, tighter underwriting terms and conditions, diminished capacity, and a general flight to quality. Fitch Ratings believes that, based on Everest Re's underwriting franchise, expertise, capital position, and overall financial strength (further enhanced by the equity offering), the company is positioned to benefit from continued hardening market conditions.

Financial Summary

(\$ Mil., Years Ended Dec. 31)

	—Six Months Ended—						
	6/30/02	6/30/01	2001	2000	1999	1998	1997
Operating Results							
Premiums Earned	994	721	1,467	1,174	1,071	1,068	1,050
Total Revenue (Before Realized Gains)	1,163	896	1,824	1,479	1,323	1,316	1,283
% Change	29.8	29.5	23.3	11.8	0.6	2.5	10.3
Pretax Operating Income	164	130	113	231	213	213	191
Net Income (Before Realized Gains)	137	108	114	186	169	166	145
Realized Gain/Loss – After-Tax	(23)	(1)	(15)	1	(11)	(0)	10
Net Income	114	107	99	186	158	165	155
Pretax Operating Return on Assets (%)	4.0	3.6	1.5	3.6	3.6	3.7	3.6
Return on Common Equity (%)	11.8	13.1	6.0	12.8	11.3	11.9	12.9
Asset Portfolio							
Cash and Invested Assets	6,419	5,608	5,784	5,493	4,139	4,326	4,163
% Fixed Income	91.3	94.4	94.4	90.1	93.9	94.8	92.9
% Equities	0.8	0.5	1.2	0.7	2.2	3.4	3.8
% Mortgages and Real Estate	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Cash and Short Term	7.3	4.5	3.8	8.7	3.3	1.7	3.0
% Other	0.5	0.6	0.6	0.5	0.7	0.1	0.3
Investment Yield (%)	5.8	6.2	6.0	6.3	6.0	5.8	5.9
Capitalization and Interest Coverage							
Total Capital	2,700	2,291	2,274	2,267	1,386	1,479	1,307
FAS 115 Adjustment	95	0	126	81	(10)	198	0
Total Adjusted Capital	2,605	2,291	2,148	2,186	1,396	1,282	1,307
% Short-Term Debt	4.0	5.8	4.9	10.8	4.2	0.0	0.0
% Long-Term Debt	17.2	19.6	20.9	20.5	0.0	0.0	0.0
% Hybrid Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Total Debt	21.3	25.4	25.8	31.3	4.2	0.0	0.0
% Hybrid Preferred	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Preferred Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Common Equity	78.7	74.6	74.2	68.7	95.8	100.0	100.0
Operating EBIT/Interest Expense (x)	8.7	6.4	3.4	6.9	144.2	—	—
Operating EBIT/Interest Expense and Preferred Dividends (x)	8.7	6.4	3.4	6.9	144.2	—	—
Cash Flow and Liquidity							
Cash Flow from Operations	275	144	406	90	203	183	376
Cash Flow from Investing	(567)	(95)	(275)	(678)	(127)	(121)	(406)
Cash Flow from Financing	340	(100)	(133)	605	(49)	(74)	39
Liquid Assets/Liabilities (%)	98.6	99.4	94.6	100.6	93.9	95.7	98.2
Balance Sheet Ratios							
Goodwill	0	0	0	0	0	0	0
Deferred Policy Acquisition Costs	165	134	131	107	83	71	82
Other Intangibles	0	0	0	0	0	0	0
Total Intangibles	165	134	131	107	83	71	82
Total Intangibles/Total Assets (%)	1.9	1.8	1.7	1.5	1.5	1.2	1.5
Total Intangibles/Total Adjusted Common Equity (%)	8.0	7.8	8.2	7.1	6.2	5.5	6.3
Total Assets/Total Adjusted Common Equity (x)	4.2	4.3	4.9	4.7	4.3	4.7	4.2
Debt Maturities							
2002 (Remaining)	105						
2003	0						
2004	0						
2005	250						
2006	0						
2007 or Later	199						

FAS – Financial Accounting Standard. EBIT – Earnings before interest and taxes.

Copyright © 2002 by Fitch, Inc. and Fitch Ratings, Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004.
Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. All of the information contained herein has been obtained from sources Fitch believes are reliable, but Fitch does not verify the truth or accuracy of the information. The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security, not a recommendation to buy, sell, or hold any security.