

Property/Casualty  
Insurers and Reinsurers  
Bermuda and U.S.  
Credit Analysis

**Everest Re Group, Ltd.**  
And Insurance Subsidiaries

**Ratings**

Security Class	Rating
Everest Reinsurance Holdings	
Long-Term IDR	A+
Senior Unsecured Notes	A
Junior Subordinated Notes	A-
Everest Re Capital Trust I, II	
Trust Preferred Securities	A-
Everest Reinsurance Company	
Everest National Insurance Co.	
Everest Indemnity Insurance Co.	
Everest Security Insurance Co.	
Everest Reinsurance (Bermuda) Ltd.	
Insurer Financial Strength	AA-

**Outlook**

Stable

**Financial Data**

Everest Re Group, Ltd.		
Financials	Date	\$ Mil.
Net Income	6/30/09	381
Equity	6/30/09	5,545
Debt and Hybrids	6/30/09	1,018

**Analysts**

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**Related Research**

- *Property/Casualty Insurers' Financial Leverage and Debt-Servicing Capacity, April 20, 2009*
- *Property/Casualty Insurers' Year-End 2008 Review, March 19, 2009*
- *Fitch Affirms Everest Re Ratings; Outlook Stable, March 5, 2009*
- *Bermuda (Re)Insurance Market Review and Outlook 2008-2009, Feb. 12, 2009*
- *Insurance Ratings Criteria: Application in a Stressful Environment, Feb. 10, 2009*
- *Property/Casualty Insurer Asset Risk (Growing Investment Loss Concerns), Nov. 4, 2008*

**Rating Rationale**

- On March 5, 2009, Fitch Ratings affirmed the ratings of Everest Re Group, Ltd. and its subsidiaries (Everest Group). The Rating Outlook is Stable. These rating actions reflect the company's good capital position, strong franchise and competitive position in chosen markets, and diversified underwriting portfolio in primary insurance and reinsurance markets. The ratings also reflect the company's lingering exposure to asbestos-related claims, earnings volatility from catastrophe losses, and the effect of significant competition in its chosen markets.
- Fitch's rating actions also considered the 13% decline in shareholders' equity Everest Group reported in 2008 due to difficult capital market conditions, significant losses from Hurricanes Ike and Gustav, dividend payments and share repurchases, as well as foreign currency adjustments. Fitch views this as a material decline but not outside a range of reasonably foreseeable outcomes, and notes that in 2007 and 2006 Everest Group's shareholders' equity increased 11% and 23%, respectively, over the prior year-end levels. At June 30, 2009, shareholders' equity was \$5.55 billion, up 12% from \$4.96 billion at year-end 2008.
- Going forward, Fitch believes that Everest Group's capital position is less likely than it was in 2008 to be materially affected by equity market volatility. The company sold much of its equity portfolio in 2008, reinvesting the majority of the proceeds in short-term investments. These sales, along with mark-to-market adjustments, reduced the carrying value of Everest Group's equity portfolio to \$137 million at year-end 2008 compared with \$1.6 billion at year-end 2007. The carrying value at June 30, 2009, was \$148 million.
- During the first half of 2009, Everest Group returned to shareholders over \$108 million of capital in the form of share repurchases and dividends, and repurchased debt at a discount. Fitch's current ratings incorporate expectations that Everest Group will manage any future share repurchases in such a way that they, along with the company's then-current earnings and capital formation rate, do not generate a meaningful increase in the company's current leverage ratios and are commensurate with Everest Group's current rating levels.

**Key Rating Drivers**

- Given Everest Group's current profile and very strong ratings, Fitch believes that a significant increase in capital size, enhanced underwriting profitability, and reduced reserve volatility would be required for there to be upward pressure on the rating.
- Significant deterioration in investment or underwriting performance and/or increased earnings volatility relative to peers for extended periods could lead to downward pressure on the ratings.
- Shock losses from natural catastrophes or other extreme events outside of Fitch's expectations would lead to a rating review to assess going-forward profit potential and the need for and manner in which capital could be replenished.

## Key Rating Issues

### Strong Reinsurance Franchise

Everest Group benefits from its strong ratings and financial flexibility. The company has historically provided continuity in the marketplace following market disruptions, such as the terrorist attacks on Sept. 11, 2001 and the 2004 and 2005 hurricanes. While not necessarily leading to enhanced pricing power, this reputation has provided the company with “first looks” at diverse business opportunities despite significant competition in the company’s chosen markets, which can lead to stronger underwriting results.

### High-Quality Balance Sheet and Consistent Capital Markets Access

Everest Group’s strong franchise has helped increase the company’s financial flexibility and ability to raise funds in the capital markets. Everest Group was able to raise significant funds to replenish capital after the hurricanes in 2005, and more recently was able to refinance its trust-preferred debt in April 2007. Everest Group completed a successful cash tender offer of this debt in early 2009, resulting in a 40% purchase of notes outstanding and a \$161 million reduction in debt. The company uses very little reinsurance, and thus is not subject to material recoverable issues. Everest Group also uses an acceptable amount of financial and operating leverage, averaging under 20% and near 1.0x over the past five years, respectively, with operating leverage varying greatly depending on the company’s growth mode in a hard or soft market. Fitch believes Everest Group will maintain strong capital levels going forward in support of the company’s opportunistic underwriting culture.

### Track Record of Good Profitability and Debt-Servicing Capacity

Everest Group has a track record of strong cash flow and profitability, incurring an annual net loss only twice in its operating history. Everest Group suffered its first year-end net loss in 2005 due to large losses from Hurricanes Katrina, Rita, and Wilma. Its second net loss came at year-end 2008 due primarily to the recession and its effect on Everest Group’s investment portfolio. Going forward, Fitch believes that the company’s capital position and profitability will be less likely to be materially affected by equity market volatility given that the company sold much of equity portfolio in 2008. In nonrecessionary and non-extreme catastrophe years, Everest Group has average earnings-based interest coverage over 10x. The company also has dividend capacity from its U.S. insurance operations totaling roughly \$316 million (over 4x interest coverage) as of year-end 2008, as well as its cash flow from its Bermuda-based insurance subsidiaries, so long as minimum solvency requirements are met. In addition, the company has \$300 million available for payment of dividends in 2009 from an extraordinary dividend approval from the insurance commissioner of Delaware.

### Earnings Uncertainty from Asbestos Exposure

Everest Group’s asbestos and environmental reserves constitute less than 10% of its total reserves. Everest Group’s asbestos survival ratio remains slightly below expectations relative to Fitch’s benchmarks at the company’s current ‘AA-’ very strong rating level. As a result, Fitch will view capital conservatively with this in mind going forward. Fitch continues to incorporate additional reserve strengthening needed to approximate levels indicated by Everest Group’s very strong rating. Fitch will continue to monitor Everest Group’s asbestos loss experience for this reason and as some industrywide uncertainty regarding ultimate exposures exists.

Everest Group had no additional reserve strengthening in 2008 subsequent to the \$311 million pretax charge taken in the fourth quarter of 2007 to strengthen its asbestos reserves following an internal asbestos reserve review. Fitch had historically viewed

Everest Group's asbestos survival ratio as low relative to peers and industry averages, and therefore a reserve charge of this magnitude had been incorporated into Fitch's current ratings.

Gross asbestos reserves for Everest Group were \$661 million as of June 30, 2009. Everest Group's three-year net asbestos survival ratio was 9.2x as of year-end 2008, which Fitch believes is slightly below expectations for the rating category. When adjustments for settlement agreements, actively managed settlements and stop-loss agreements are incorporated into analysis, the survival ratio increases to 12.3x.

Fitch believes that Everest Group benefits from its direct relationship with policyholders that have asbestos exposure (24% of total asbestos reserves). The company's direct relationships have enabled it to adapt aggressive litigation stances and to be actively involved in settlement negotiations. Fitch believes there is less potential for similar settlements with respect to Everest Group's reinsurance claims due to the nondirect nature of the exposure. As of June 30, 2009, of the company's \$661 million of gross asbestos loss reserves, \$502 million consisted of assumed business, and \$159 million was direct business.

Everest Group's exposure is limited to the 11-year period during which it wrote asbestos exposure (1974–1985), a much shorter period relative to some peers. Fitch views this as a positive factor in its analysis of the company's asbestos exposure.

### Peer Analysis

Comparing basic financial metrics such as net premiums written, net income, and shareholders' equity, Everest Group is larger than the median (re)insurer included in Fitch's universe of Bermuda-based (re)insurers. Everest Group's combined ratios, return on average equity, operating leverage, and its debt-to-capital ratio are in line with peer averages. Fitch views Everest Group's primary peers as Bermuda-based insurers that write a broad mix of commercial business lines on both a primary and reinsurance basis. These companies generally derive a good proportion of their premium revenues from both casualty and property lines.

### Bermuda Peer Summary Statistics

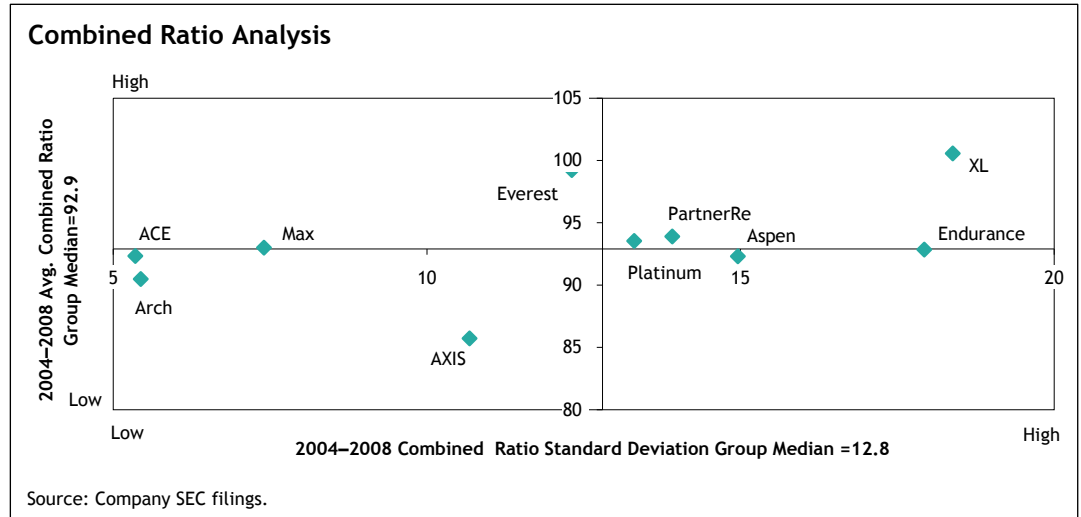
(\$ Mil.)

	IFS Rating	Net Premium Earned		Common Equity		Combined Ratio (%)		2004–2008 Avg.
		2008	2007	2008	2007	2008	2007	
ACE	AA–	12,033	11,929	14,446	16,120	89.6	87.9	92.3
Arch Capital	A+	2,845	2,945	3,108	3,711	95.0	84.1	90.1
Everest Re	AA–	3,694	3,997	4,960	5,685	95.6	91.6	99.2
Flagstone Reinsurance	A–	654	477	986	1,210	89.4	72.8	N.A.
Max Capital	A	814	818	1,280	1,584	91.9	88.2	93.3
Montpelier Re	A–	529	557	1,358	1,653	91.0	61.3	98.2
PartnerRe	AA	3,334	3,203	3,679	3,802	94.1	80.4	93.9
RenaissanceRe	A	1,387	1,424	2,383	2,828	79.0	59.3	87.4
XL Capital	A	5,990	6,504	4,615	8,948	95.7	88.8	100.4
<b>Median</b>		<b>2,845</b>	<b>2,945</b>	<b>3,108</b>	<b>3,711</b>	<b>91.9</b>	<b>84.1</b>	<b>93.6</b>

NPE – Net premium earned. N.A. – Not available as Flagstone was formed in 2005.  
Source: Highline Data, company reports, Fitch.

**2004–2008 Average Combined Ratio Higher than Peers’ but Less Volatile**

As shown in the chart below, Everest Group’s 2004–2008 average combined ratio of 99.2% was higher than most peers, due in part to large hurricane losses in 2005 and an increase to asbestos reserves in 2007, but compares favorably to that of peers in terms of its volatility (standard deviation).



**Risk-Adjusted Returns on Par with Peer Medians**

When assessing returns on capital, Fitch considers the volatility of returns as well as the absolute levels of returns. Fitch’s expectation is that as volatility around returns on capital increase, the absolute level of return on capital should increase.

In order to evaluate which publicly traded (re)insurers in Everest Group’s peer group generated higher ROAE per unit of volatility during 2004–2008, Fitch divided each (re)insurer’s average ROAE by its standard deviation of ROAE for the period. Everest Group has produced average ROAE and risk-adjusted returns in line with the peer median.

**Return On Average Equity Analysis**

(%)

	IFS Rating	2004–2008		
		Average ROAE/ Std Dev ROAE	Std. Dev. in ROAE	Average ROAE
ACE Ltd.	AA–	2.8	4.5	12.7
Arch	A+	2.2	7.4	16.5
Everest Re	AA–	0.8	10.7	8.4
Max Capital	A	0.6	13.8	8.5
Montpelier Re	A–	(0.0)	32.1	(1.1)
Partner Re	AA	1.0	12.4	11.8
Renaissance Re	A	0.5	19.5	9.7
XL Capital	A	(0.2)	24.0	(3.6)
<b>Median</b>		<b>0.7</b>	<b>13.1</b>	<b>9.1</b>

Std. Dev. – Standard deviation.  
Source: Highline Data, company annual reports, Fitch.

## Company Profile

### Ownership Structure

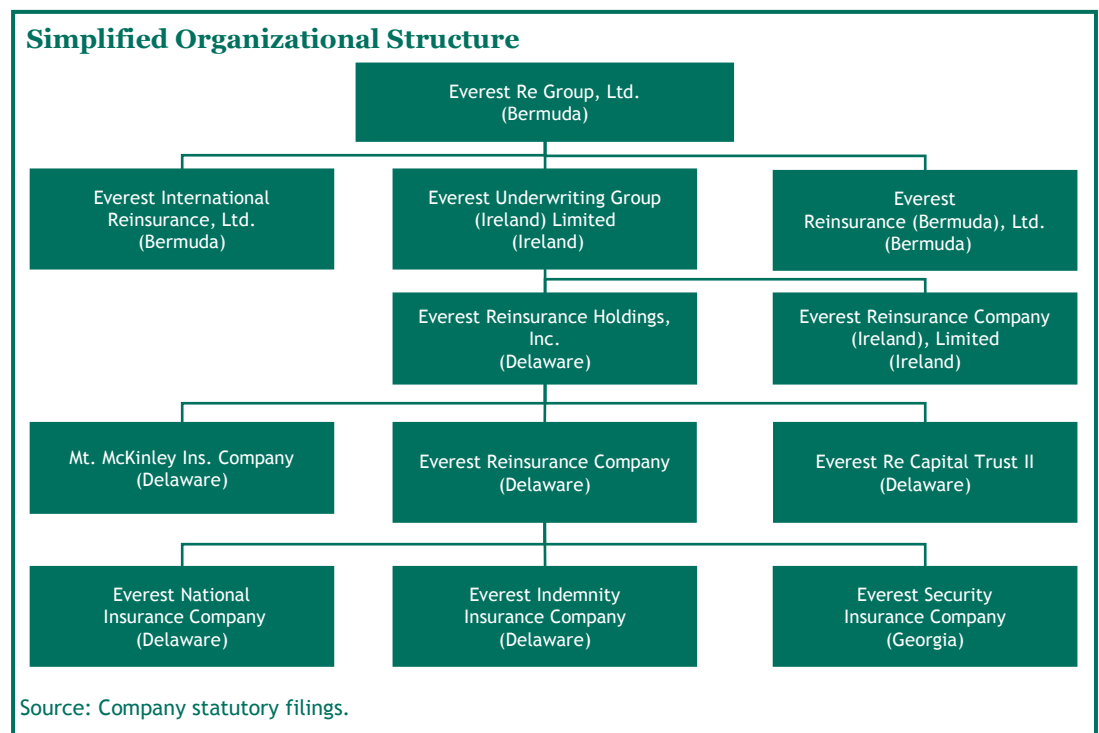
Based in Bermuda, Everest Group is a publicly traded insurance holding company (NYSE: RE), predominantly engaged in property/casualty reinsurance and insurance on a worldwide basis.

Everest Reinsurance Holdings (Everest Re Holdings) is an intermediate holding company that directly owns the subsidiaries that conduct Everest Group's U.S. reinsurance business. In addition to serving as the ownership vehicle for Everest Group's U.S. reinsurance businesses, Everest Re Holdings has also been the entity from which the organization's debt (and debt-like instruments) has been issued.

The majority of the organization's operations are conducted through five (re)insurance subsidiaries. The main operating company, Everest Reinsurance Company (Everest Re), is a Delaware-domiciled reinsurance company. Everest Re owns 100% of the primary insurance companies, Everest National Insurance Company (Everest National), Everest Indemnity Insurance Company (Everest Indemnity), and Everest Security Insurance Company.

The bulk of the companies' direct insurance premiums are generated through Everest National. Everest Indemnity is a surplus lines writer. Everest Security writes a modest amount of premium, primarily in nonstandard auto lines. A large portion of these companies' direct premium is reinsured with Everest Re.

The international (re)insurance business is written through Everest Re, Everest Reinsurance (Bermuda) Ltd. (Everest Bermuda), and recently formed Everest Reinsurance Company (Ireland), Limited (Everest Ireland). Everest Bermuda includes its Bermuda underwriting operation as well as its London and Continental Europe operations. Everest Bermuda has expanded its activity recently and also utilizes its capital as a source of internal reinsurance through arrangements with several other subsidiaries of Everest Group.



In June 2009, Everest Group announced that its newly formed subsidiary, Everest Ireland, had been granted a license by the Irish Financial Services Regulatory Authority to operate as an authorized non-life reinsurer in Ireland, which will enable the company to operate throughout the European Union under a single regulatory framework. Everest Ireland, together with its parent, Everest Underwriting Group (Ireland) Limited, form a hub for Everest Group's European operations and Fitch believes this will compliment its existing operations in London, Brussels, and Cologne, adding to the breadth of the company's worldwide franchise. Fitch views these new entities as core to Everest Group reflecting their significance to the overall franchise.

Everest Group also owns Everest International Reinsurance Ltd. (Everest International), formerly known as AFC Re Ltd., a Class 4 Bermuda property/casualty insurer that was acquired in 2000. Most of Everest International's business is interaffiliate quota-share reinsurance assumed from Everest Re and Everest Bermuda's U.K. branch.

**Products**

Fitch believes that Everest Group maintains the underwriting expertise and capital levels necessary to enter and exit business opportunities as suggested by market conditions. Fitch believes that the company typically will not sacrifice profitability for growth, but rather will use its resources to enter businesses where there is a capacity shortage or market dislocation, and exit at appropriate times. Everest Group achieved related success after entering the California workers' compensation market in 1999 (see the U.S. Insurance section below), and more recently, after increasing its exposure to property catastrophe reinsurance business in 2006.

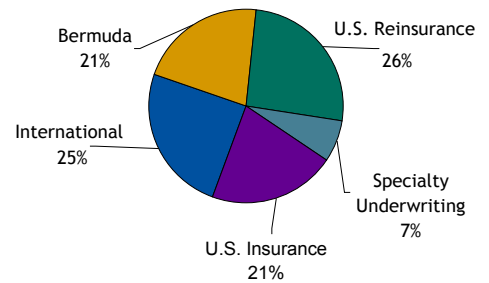
Everest Group's product lines are segmented into five primary categories for GAAP reporting purposes. Net written premium is allocated in nearly the same fashion as gross written premium since Everest ceded roughly 5% of gross premiums written in 2008.

For the six months ending June 30, 2009, gross premium volume was up 11% year over year. In 2008, gross premium volume decreased by roughly 10% relative to 2007, following a 2% increase from 2006 to 2007. New business opportunities, created by recent market dislocations and security concerns in certain markets drove the growth in the overall book of business. Increased reinsurance business was primarily due to increased rates on property business, a new crop-hail quota-share treaty business, and expanded participation on renewal contracts. Increased insurance business was primarily in the financial institutions directors and officers (D&O) and errors and omissions (E&O) lines of business, a new offering for Everest Group.

Segment underwriting performance has varied in recent years, as shown in the table below. The U.S. Reinsurance segment has been one of Everest Group's more volatile segments over time due to the impact of catastrophe losses. The U.S. Insurance segment posted sharply improved underwriting performance due to gains in critical mass and improvements in the California workers' compensation pricing environment, although this business is now decreasing in size. Everest Group expects to replace some Insurance segment premium with new program business already in progress.

**Fitch believes that Everest Group maintains the underwriting expertise and strong capital necessary to enter and exit business opportunities as suggested by market conditions.**

**Gross Premium Written by Segment**  
(\$3.7 Bil. Year-Ended Dec. 31, 2008)



Source: Company SEC filings.

Going forward, Fitch expects the U.S. Reinsurance business to remain the company's largest segment, although the Bermuda and International segments will likely increase in scale.

**GAAP Segment Results — Everest Re Group, Ltd.**

(% Combined Ratios)

	Average	Standard Deviation	2008	2007	2006	2005	2004
Specialty Underwriting	103.9	16.9	97.2	95.5	97.5	134.1	95.4
U.S. Reinsurance	103.9	19.1	105.1	83.1	91.7	133.3	106.2
Bermuda	100.5	20.4	81.5	94.5	88.3	133.7	104.3
U.S. Insurance	95.3	9.1	107.9	102.0	90.8	86.9	89.0
International	91.1	11.5	85.3	89.6	80.2	110.4	90.2
<b>Total</b>	<b>99.2</b>	<b>12.3</b>	<b>95.6</b>	<b>91.6</b>	<b>89.7</b>	<b>120.3</b>	<b>98.8</b>

Source: Everest Re Group, Ltd.'s 10-K SEC filings, analyst supplement.

**U.S. Reinsurance**

Everest Group's focus in U.S. Reinsurance has historically been on reinsuring casualty risk more so than property risk, but the differential has been narrowing in recent periods. During 2008, casualty reinsurance premiums represented roughly 32% of total U.S. Reinsurance premiums, compared with 77% in 1999.

Underlying casualty rates have been decreasing in many sectors as competition has increased and insurers have been retaining more of their business in light of good results seen over the past few years.

One of the markets least impacted by increased competition has been Everest Group's property catastrophe retrocession product in regions most affected by hurricane catastrophe events. Reinsurance capacity in these regions continues to be more constrained relative to other segments.

Going forward, Fitch expects the U.S. Reinsurance business to remain the company's largest segment, although the Bermuda and International segments may increase in dominance over the long term.

**U.S. Insurance**

The U.S. Insurance portfolio is primarily written through subsidiary, Everest National, and is heavily weighted towards commercial casualty business. The company expects the U.S. Insurance portfolio to remain casualty focused with new property exposure being opportunistic.

As of year-end 2008, roughly 26% of U.S. Insurance premium was related to California workers' compensation, previously the largest portion of the U.S. Insurance segment. Other lines written in the U.S. Insurance segment include other liability, commercial multiperil, medical malpractice, and inland marine.

The company has formed several new program manager relationships that should produce increased premium volume as the businesses mature. Fitch anticipates this new insurance business will help replace the premium reduction in the California workers' compensation and credit business.

**International and Bermuda**

The International and Bermuda segments are key elements of Everest Group's strategy to capitalize on reinsurance growth opportunities outside of the U.S., particularly Latin America, Europe, Canada, and Asia, through branches in Miami, London, Toronto, and Singapore.

Through the Bermuda segment, Everest Group underwrites property/casualty and life and annuity reinsurance. The life and annuity business is written through Everest Bermuda, and

The company has formed several new U.S. Insurance program manager relationships that should produce increased premium volume as the businesses mature. Fitch anticipates this new insurance business will help replace the premium reduction in the California workers' compensation and credit business.

the segment's property/casualty reinsurance is written through both its Bermuda office and its U.K. branch.

International segment premium volume has increased substantially since 2001. This segment's gross premium is predominately tied to commercial property risk, with a lesser amount tied to casualty risk.

The U.K. represents the largest source of business for Everest Group outside of the U.S. No other country accounted for greater than 5% of Everest Group's premium volume.

### *Specialty Underwriting*

The Specialty Underwriting segment is Everest Group's smallest business segment. Its business lines include accident and health, marine, aviation, and surety reinsurance. Accident and health, once the largest line in this segment, focuses on providing health reinsurance to traditional indemnity plans and to self-insured health plans of small to mid-sized companies.

### **Target Markets**

Everest Group's reinsurance client base consists of insurers worldwide. Based on premium volume in 2008, no single reinsurance customer represented more than 7.2% of gross premiums written companywide.

One of Everest Group's strategies is to diversify its reinsurance premium base geographically. Given Everest Group's history, the company's premium base has historically been concentrated in the continental U.S.; however, growth in its Bermuda and International operations has increased the proportion of international business to 56% of Everest Group's reinsurance book. The company's primary insurance business is U.S.-focused and Fitch expects this to continue.

### **Distribution Channels**

Fitch believes Everest Group's distribution methods are appropriate for the company's business profile and they are similar to those used by its peers.

In the reinsurance market, Everest Group writes business through brokers and on a direct basis. The company has come to rely more heavily on the brokerage market as a source of business. In 2008, broker business comprised approximately 68% of the company's total gross reinsurance premium written, while business written in the direct reinsurance and insurance markets represented 11% and 21%, respectively.

Everest Group distributes its primary insurance business via select program managers. The company continues to selectively consider relationships with other program managers in other states.

Within the broker market, Everest Group utilizes relationships with many of the largest (re)insurance brokers. The company's top 10 brokers generated approximately 62% of gross written premiums in 2008 with Aon Benfield Re (21%) and Marsh & McLennan Companies, Inc. (15%) as the leading broker relationships.

## **Financial Analysis**

### **Profitability**

Fitch believes that Everest Group's strong balance sheet, demonstrated financial flexibility, and diverse geographic and business portfolio will continue to fuel profitable growth in an increasingly complex and competitive environment. The company has a very good track record of being able and willing to grow opportunistically, and Fitch believes Everest Group will continue to use this strategy to its advantage.

Fitch believes that Everest Group has a track record of strong cash flow and profitability, incurring an annual net loss only twice in its operating history.

**Profitability**

(\$ Mil.)

	YTD 2Q09	YTD 2Q08	2008	2007	2006	2005	2004
Revenue, Excluding Realized Gains (Losses)	2,122	2,165	4,244	4,698	4,483	4,467	4,922
Premiums Earned	1,889	1,854	3,694	3,997	3,853	3,963	4,425
Pretax Realized Gains (Losses)	38	(170)	(717)	88	35	88	87
Pretax Net Investment Income	236	326	566	682	629	523	496
Pretax Operating Income	408	423	633	944	957	(369)	473
Net Income	381	231	(19)	839	841	(219)	495
% Return on Common Equity	14.5	8.2	(0.4)	15.6	18.2	(5.6)	14.4
Combined Ratio (%)	88.8	91.8	95.6	91.6	89.7	120.2	99.0
Points from Prior Year Reserve Development	N.A.	N.A.	0.9	5.2	3.5	(0.7)	5.6
Points from Catastrophe Losses	2.2	2.1	9.9	3.2	7.3	35.4	8.8

N.A. – Not available. Note: U.S. GAAP.

Source: Highline Data, company SEC filings.

Fitch also believes that the company will continue to emphasize profitability over volume growth. In 2008, Everest Group experienced modest price decreases, less restricted limits, and excess capacity in most business segments outside of U.S. Reinsurance, where regions impacted by natural catastrophes are experiencing some constrained capacity. Overall, both Fitch and the company expect the market to continue to be very competitive for the remainder of 2009 into 2010 in both property/casualty lines, especially if 2009 is a “light” catastrophe year, following in the footsteps of a relatively heavy catastrophe year in 2008. In 2008, \$364.3 million in catastrophe losses were driven by hurricanes Gustav and Ike and a major snowstorm in China. Fitch believes that Everest Group’s losses were in line with expected modeled losses.

Until this year, premium growth trends had slowed for Everest Group, reflecting increased competition; a shift in market pricing; a repositioning of the company’s reinsurance and insurance portfolios, including the impact of the terminated workers’ compensation agent agreement; and reduced auto credit business. However, during 2009, Fitch has seen some growth stemming from the company’s new program business within its insurance segment, and some firming of pricing and expanded participations within its reinsurance segment.

Through year-end 2008, Everest Group experienced a modest \$34.9 million of net unfavorable development versus \$207 million in 2007. Results in 2008 included \$85.3 million of reserve development for its run-off auto loan credit insurance program and a \$32.6 million adverse arbitration decision, partially offset by net favorable development on general reserves.

**Investments and Liquidity**

Fitch believes that Everest Group’s investment allocation is conservative and diverse. During the recent recession, Fitch conducted various levels of stress tests on the company’s investment portfolio and, at this time, Fitch believes that the results are reasonable for the rating category. Fitch will continue to monitor investment performance on an ongoing basis.

Significant net realized capital losses of \$695.8 million in 2008, compared with a gain of \$86.3 million in 2007, were due to the effect of the recession on Everest Group’s investment portfolio. The company’s equity portfolio decreased \$277.5 million due to fair value adjustments and its fixed-income portfolio decreased \$176.5 million due to other-than-temporary impairments. Additionally, the company recognized \$243.3 million of net realized capital losses primarily from the sale of equity securities as it realigned its investment portfolio. Everest Group reports changes in fair values of its equity securities

Fitch believes that Everest Group has very good liquidity characterized by good operating cash flow, a high-quality and appropriately laddered fixed-income investment portfolio, and proven capital market access.

## Investments and Liquidity

(\$ Mil.)

	2Q09	2Q08	2008	2007	2006	2005	2004
Cash and Invested Assets	14,207	14,581	13,714	14,936	13,957	12,971	11,530
% Fixed Income	83.0	77.0	79.0	69.0	74.0	77.0	86.0
% Equities	1.0	8.0	1.0	10.0	12.0	8.0	6.0
% Mortgages and Real Estate	—	—	—	—	—	—	—
% Cash and Short-Term	11.0	10	15	17	11	12	7
% Other	4.0	5.0	5.0	4.0	3.0	2.0	1.0
% Investment Yield	3.4	4.4	4.0	4.7	4.7	4.3	4.8

Note: U.S. GAAP.

Source: Highline Data, company SEC filings.

as realized capital gains or losses in accordance with FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities.

In recent years, Everest Group reallocated its equity investment portfolio to include publicly traded equity securities as well as private equity limited partnership investments. As a result of the recent recession and its effect on financial markets, the company decided to significantly reduce its exposure to public equities during the fourth quarter of 2008. As of June 30, 2009, the market value of investments in equity and limited partnership securities was roughly 13% of shareholders' equity, down from 16% at year-end 2008 and 38% at year-end 2007. Everest Group's internal investment guidelines dictate that investment in a single limited partnership is not to exceed \$100 million.

The bond portfolio is well-diversified, with a focus on tax-exempt municipal securities investments (29% of fixed-income investments at June 30, 2009), international bonds (18%), corporate securities (18%), and MBS (18% [agency 14%, non-agency 4%]). Investment-grade quality securities represent 98% of total bonds. The average credit quality of the bond portfolio is 'AA' with an average duration of 3.9 years.

Everest Group recorded other-than-temporary impairments of \$13.2 million as of June 30, 2009, compared with \$6.5 million at June 30, 2008, and \$176.5 million at year-end 2008. As a general guideline, the company may impair securities whose fair value has fallen below 80% of their amortized value at the time of review.

Fitch believes that Everest Group has very good liquidity characterized by operating cash flow, a high-quality and appropriately laddered fixed-income investment portfolio, and proven capital market access. The company's liquidity is supplemented by Everest Group's five-year \$850 million unsecured senior credit facility (renewed July 2007), of which \$350 million is a revolving credit line for general corporate purposes and the issuance of standby letters of credit. Additionally, Everest Reinsurance Holdings maintains a five-year \$150 million senior revolving credit facility (renewed August 2006) for general corporate purposes.

## Reinsurance Protection and Credit Quality

Fitch believes that Everest Group's reinsurance program provides reasonable protection against loss and that the credit quality of Everest Group's reinsurers is good. However, Fitch believes the company's limited use of

## Catastrophe Losses

(\$ Mil.)

Calendar Year	Pretax Catastrophe Losses <sup>a</sup>	% of Equity as of 6/30/09
2008	364	7
2007	160	3
2006	288	5
2005	1,486	27
2004	390	7
2003	35	1
2002	30	1

<sup>a</sup>Net of contract-specific reinsurance, and before cessions under corporate reinsurance programs.

Source: Everest Re Group, Ltd. 10-K SEC filing.

Fitch believes that Everest Group has adequate reinsurance protection given its diverse book of business and capital size, although the company's limited use of reinsurance creates increased risk of earnings volatility.

reinsurance creates increased risk of earnings volatility. Fitch views this as a reasonable strategy since the company's business model is based in part on accepting primary insurers' earnings volatility.

Everest Group selectively uses reinsurance and retrocessional arrangements to minimize exposure to large losses and catastrophic events. However, reinsurance is not used as a means to underwrite or assume types or levels of risk the company is not comfortable retaining in its own portfolio. As of year-end 2008, the company ceded roughly 5% of written and assumed premiums, up slightly from 3.9% in 2007, 3.1% in 2006, 3.3% in 2005, 3.7% in 2004, and 5.6% in 2003. As of Jan. 1, 2009, Everest Group had not purchased any retrocessional reinsurance.

Net reinsurance recoverables were \$649 million at year-to-date June 30, 2009, which is roughly 12% of shareholders' equity. The largest net recoverables were due from Transatlantic Reinsurance Company.

Everest Group performs extensive modeling analysis to measure and manage catastrophe exposures. Everest Group estimates that as of year-end 2008, its largest single-event catastrophe exposure would produce a pretax gross probable maximum loss (PML) of \$845 million for a one-in-100-year event (approximately 15% of current shareholders' equity). This exposure represents a hurricane affecting the Southeastern U.S. coast. The company has accumulated the greatest exposure to potential losses related to Southeastern U.S. hurricanes, California earthquakes, and European windstorm events.

### Reserve Adequacy and Development

Fitch believes that Everest Group's reported general loss reserves are adequate and that the company uses a reasonable method to set its reserves. However, Fitch also believes that the company's reserves represent a potential source of earnings volatility due to the company's asbestos exposure.

Fitch believes that Everest Group's reported core loss reserves are adequate. However, Fitch also believes that Everest Group's reserves represent a potential source of earnings volatility due to the company's asbestos exposure.

Based on Fitch's analysis of Everest Group's U.S. subsidiaries' loss reserves, which represent approximately 70% of consolidated net loss reserves, Fitch believes that the company's primary loss reserves are adequate. Fitch's model indicates that Everest Re is exposed to moderate reserve deficiencies for the accident years 1999–2001 in reinsurance and primary casualty lines, but not to an extent that materially affects capital adequacy. Everest Group's consolidated loss reserves net of reinsurance were approximately \$8.2 billion as of June 30, 2009. Loss reserves grew substantially in recent years due to strong growth in the primary insurance and reinsurance businesses; however, reserves have recently been stabilizing due primarily to reduced growth in net earned premiums and the payout of catastrophe losses from the 2005 hurricanes.

While Everest Group historically experienced stable-to-favorable development of prior-period loss reserves, the company has reported unfavorable reserve development in recent years. This reserve strengthening occurred in several active lines of business, including professional liability reinsurance, general casualty reinsurance, and workers' compensation insurance.

### Reserve Adequacy and Development

(\$ Mil.)

	2008	2007	2006	2005	2004
Beginning-of-Year Reserves	9,041	8,840	9,127	7,836	6,361
Beginning-of-Year Total Equity	5,685	5,108	4,140	3,713	3,165
Prior-Accident-Year (PAY) Reserve Development	35	207	136	(26)	249
PAY/Beginning-of-Year Reserves (%)	0.4	2.3	1.5	(0.3)	3.9
PAY/Beginning-of-Year Total Equity (%)	0.6	4.1	3.3	(0.7)	7.9

Source: Highline Data, company SEC filings.

**Capitalization**

(x)

	2Q09	2Q08	2008	2007	2006	2005	2004
Annualized Gross Premiums Written/Equity	0.71	0.64	0.74	0.72	0.78	0.99	1.27
Annualized Net Premiums Written/Equity	0.68	0.61	0.71	0.69	0.76	0.96	1.22
Total Assets/Total Equity	3.10	3.20	3.40	3.20	3.30	4.00	4.10
Stockholders' Equity (\$ Mil.)	5,545	5,568	4,960	5,685	5,108	4,140	3,713

Note: U.S. GAAP.

Source: Highline Data, company SEC filings.

**Capitalization**

Fitch believes that Everest Group's capital position is strong. Everest Group has a solid track record of organic capital growth and has proven access to the capital markets. Fitch believes that Everest Group's consolidated capital and operating position is consistent with the current ratings.

Everest Group's shareholders' equity increased by \$585 million at June 30, 2009 since year-end 2008, primarily due to \$381 million of net income, \$232 million of unrealized appreciation on investments after-tax, \$71 million of foreign currency translation adjustments, and share-based compensation transactions of \$7 million. These items were partially offset by \$59 million of shareholder dividends and \$49 million of share repurchases.

Fitch's most recent rating actions in March 2009 considered the 13% decline in shareholders' equity Everest Group reported in 2008 due to difficult capital market conditions, significant losses from Hurricanes Ike and Gustav, dividend payments and share repurchases, as well as foreign currency adjustments. Fitch viewed this as a material decline but not outside of a range of reasonably foreseeable outcomes, and notes that in 2007 and 2006, Everest Group's shareholders' equity increased 11% and 23% over the prior year-end levels.

Despite the decline in shareholders' equity, Everest Group's year-end 2008 operating leverage and financial leverage ratios approximated year-end 2007 levels and were below their averages for the five-year period. The company's net premiums written to surplus, net leverage, and equity-credit adjusted ratio of debt plus preferred equity to capital ratios at year-end 2008 were essentially unchanged at 0.72x, 3.4x, and 10%, respectively. Fitch views this consistency during a recessionary environment as testament to the company's strong financial strength.

Going forward, Fitch believes that Everest Group's capital position will be less likely to be significantly impacted by equity market volatility than it was in 2008 as the company sold most of its equity portfolio during 2008. Fitch views exposure to adverse reserve development and catastrophe-related losses as the most likely sources of potential shock losses to Everest Group's capital (see the *Reserves and Reinsurance sections of this report*).

Fitch believes that Everest Group's capital position provides a more than adequate cushion against the operational and financial risks the company faces. Fitch views Everest Group's use of operating leverage as generally comparable to that of peers after considering

Fitch believes that Everest Group's capital position is very good. Everest Group has a solid track record of organic capital growth and has proven access to the capital markets. Fitch believes that Everest Group's consolidated capital and operating position is consistent with the current ratings.

**Financing Alternatives**

(\$ Mil., As of June 30, 2009)

Principal Bank Facilities	Used <sup>a</sup>	Available
Everest Group — Revolver/LOC	344	506
Everest Holdings — Revolver/LOC	28	122

<sup>a</sup>Letters of credit outstanding.

Source: Company SEC filings.

differences in business mix. The company's operating leverage has trended downward in recent years and the company has comparatively little exposure to reinsurance recoverables, goodwill and other intangible assets, and unaffiliated equity investments.

Everest Re's statutory capital as measured by the NAIC risk-based capital ratio (RBC) was 216% of the company action level at year-end 2008, down from 234% at year-end 2007, but still above its lower levels of 212% at year-end 2005, 152% at year-end 2004 and 113% at year-end 2003. This recent decrease in RBC was primarily due to capital-reducing investment losses. Fitch expects the company's RBC level to improve gradually going forward due to modest new business growth in the near-term and increasing stability seen in the financial markets.

Everest Bermuda had \$2.2 billion in statutory capital and surplus at Dec. 31, 2008. Approximately 21% of consolidated premium is written through Everest Bermuda.

### Financial Leverage and Balance Sheet Quality

Fitch believes that Everest Group's moderate use of financial leverage within its capital structure is within the acceptable range for the company's rating level. Financial leverage is expected to remain near current levels going forward. Fitch also believes that the quality of the company's capital is very good and that it has access to a variety of sources of capital.

Intermediate holding company, Everest Re Holdings, had nearly \$3.5 billion of total capital at June 30, 2009, which was allocated approximately 12.8% debt, 16.1% trust preferred securities, and 71.1% common equity.

In March 2009, Everest Group completed its previously announced cash tender offer to purchase any and all of its \$400 million principal amount of 6.60% fixed to floating-rate long-term subordinated notes due 2067. The notes were originally issued April 2007. Everest Holdings, the issuer of the notes, purchased roughly 40% of the outstanding notes, reducing outstanding debt by \$161.4 million at a cost of \$87 million. Fitch views this transaction as favorable due to the reduction in debt service and financial leverage and corresponding increase in liquidity.

### Debt-Servicing Capabilities

Fitch believes that Everest Group has very good debt service capabilities due to its operating subsidiaries' generally strong operating cash flow and dividend capacity that far exceeds its comparatively modest annual cash interest and pro forma preferred dividend requirements. Everest Group is domiciled in Bermuda, and Fitch generally views a Bermuda domicile favorably when evaluating holding company debt service capabilities because it provides operating companies with significant dividend flexibility. Everest Group is required to meet solvency requirements established by Bermuda regulatory authorities and is generally prohibited from paying dividends on its common stock that:

- Exceed 25% of its prior year-end statutory capital and surplus.
- Reduce its prior year-end statutory capital by more than 15%.

Fitch believes the company has adequate liquidity and cash flow to meet its debt-servicing needs at both the Everest Group and Everest Holdings levels based on the company's debt coverage analysis, along with reasonable access to the debt and equity markets. Fitch also believes that the company's debt repayment schedule is well-laddered with minimal refinancing needs in the near term.

Everest Holdings relies primarily on dividends from its primary U.S. subsidiary, Everest Reinsurance Company, to service its debt obligations. The shelf registration filed in December 2005 (renewed in December 2008) allows for securities issued by Everest

**Everest Group's utilization of financial leverage within its capital structure is within the acceptable range for its rating level. Financial leverage is expected to remain near current levels going forward.**

**Fitch believes that Everest Group has very good debt service capabilities due to its operating subsidiaries' generally strong operating cash flow and dividend capacity that far exceeds its comparatively modest annual cash interest and pro forma preferred dividend requirements.**

**Debt-Servicing Capabilities**

(\$ Mil.)

	YTD 2Q09	2Q08	2008	2007	2006	2005	2004
Interest Expense	37	40	79	84	69	73	76
Operating EBIT/Interest Exp.(x)	11.9	11.7	9.0	12.2	14.9	(4.0)	7.3
Operating EBIT/Interest Exp. and Preferred Div.(x)	11.9	11.7	9.0	12.2	14.9	(4.0)	7.3
Cash Flow from Operations	284	232	663	854	636	1,066	1,488

Note: U.S. GAAP.

Source: Highline Data, company SEC filings.

Holdings to be guaranteed by the ultimate parent, Everest Group. However, the current outstanding securities are not guaranteed. At this time, Everest Group does not have any outstanding debt that would effectively subordinate the Everest Holdings debt. Additionally, debt issued or guaranteed by Everest Group would have direct access to dividends from Everest Bermuda, a more modestly regulated entity. Because of this additional financial flexibility, Fitch may rate debt issued at the Everest Group level or with Everest Group's guaranty one notch higher than Everest Holdings' debt.

**Fitch believes that Everest Group views Everest Holdings as its core holding company, strategically used to issue debt and have ownership of its primary subsidiaries.**

Fitch believes that Everest Group views Everest Holdings as its core holding company, strategically used to issue debt and have ownership of its primary subsidiaries. Fitch believes that, even in a scenario where Everest Holdings' debt was effectively subordinated to new Everest Group debt, Everest Group would continue to support Everest Holdings without a formal guarantee.

Everest Holdings provides a full, unconditional guarantee of Everest Group's trust preferred securities' payment obligations, issued under Everest Re Capital Trust and Everest Re Capital Trust II.

Cash available to Everest Group is determined by the level of shareholders' dividends from its operating insurance companies. This is limited by the various insurance regulators. Based on these regulatory guidelines, Everest Group had dividend capacity from the insurance operations of \$315.6 million for 2009. This translates into an estimated annualized interest coverage ratio of over 4x. In addition, the company has \$300 million available for payment of dividends in 2009 from an extraordinary dividend approval from the insurance commissioner of Delaware.

These figures do not include dividends available from the company's Bermuda subsidiary, Everest Bermuda. At year-end 2008, both Everest Bermuda and Everest International met their solvency and liquidity requirements by a significant margin.

During 2008, U.S. subsidiaries paid \$285 million in dividends to the intermediate parent holding company, while Everest Bermuda paid a \$120 million dividend to Everest Group, compared with \$245 million and \$0 in 2007, respectively.

As of June 30, 2009, Everest Group had returned over \$108 million of capital to shareholders in the form of share repurchases and dividends. In 2008, Everest Group had share repurchases of \$150.7 million and dividend payouts of \$118.6 million. Fitch views dividends paid to shareholders and stock buybacks as discretionary and Fitch believes that the company would cease these practices if prudent to do so in order to preserve capital and/or liquidity. Fitch's current ratings incorporate expectations that Everest Group will manage any future share repurchases in such a way that they, along with the company's then-current earnings and capital formation rate, do not generate a meaningful increase in the company's current leverage ratios, and are commensurate with the company's current rating levels.

**Appendix A: Individual Company Statutory Data**

(\$000)

Company Name	State of Domicile	2008				
		DPW	NPW	Net Income	Surplus	NAIC RBC Ratio (%)
Everest Reinsurance Company	Delaware	18,907	838,765	74,398	2,342,375	216
Everest National Insurance Company	Delaware	600,218	78,075	6,349	184,722	634
Everest Indemnity Insurance Company	Delaware	137,770	12,136	3,291	62,863	729
Everest Security Insurance Company	Georgia	22,144	3,318	758	27,923	1,302
<b>Total U.S.-Domiciled Subsidiaries</b>	—	<b>779,039</b>	<b>932,294</b>	<b>84,796</b>	<b>2,617,883</b>	—

Percentage of Consolidated GAAP Total (%) — — 27 N.A. 53 —

DPW – Direct premium written. NPW – Net premium written. RBC – Risk-based capital (company action level). N.A. – Not applicable.

Source: Highline Data.

**Appendix B: Significant Events Timeline**

Date	Event
2009	Management changes announced: 1) Retirement of Thomas Gallagher, chief underwriting officer; 2) Renewal of Joseph Taranto's, CEO, contract until year-end 2010; 3) Hiring of new CFO, Dominic Addesso, of Munich Re America to succeed retiring Craig Eisenacher.
2009	Cash tender offer completed for roughly 40% of its 6.60% fixed to floating-rate long-term subordinated notes.
2008	Renewed shelf registration originally filed in 2005 (see below).
2005	Shelf registration filed authorizing the issuance of common shares, preferred shares, debt securities, warrants, and hybrid securities.
2004	Everest Reinsurance (Bermuda), Ltd. establishes a U.K. branch and purchases Everest Reinsurance Company's U.K. operations.
2000	Acquires AFC Re, Ltd., a Bermuda-based annuity/life reinsurer, from AFC Holdings, Ltd.
2000	Acquires Gibraltar Casualty Co., a run-off property/casualty insurer. Name changed to Mt. McKinley Insurance Co.
2000	Forms a new reinsurer, Everest Reinsurance (Bermuda), Ltd., to write reinsurance in Bermuda and international markets.
2000	In a corporate restructuring, a newly formed holding company, Everest Re Group, Ltd., becomes the parent company.
2000	Acquires Southeastern Security Insurance Co., a Georgia insurer that underwrites nonstandard auto business in Georgia.
1997	Mt. McKinley Managers, LLC, a New Jersey limited liability company, is formed with surplus lines authority.
1997	Everest Indemnity Insurance Co is formed to provide excess and surplus lines business in the U.S.
1996	Acquires Everest Insurance Co. of Canada with licenses to write property/casualty business in Canada.
1996	Prudential Re, Prudential National, and Prudential Reinsurance Holdings adopt the "Everest" name.
1995	The Prudential sells its entire interest in Prudential Reinsurance Holdings' shares of common stock in a public offering.
1993	Prudential Reinsurance Holdings, Inc. is formed by The Prudential to serve as the parent holding company of Pru Re.
1973	Prudential Reinsurance Company (Pru Re) is formed as a subsidiary of The Prudential Insurance Co. of America (The Prudential).

Source: Various Everest Group SEC filings, Everest Group's Web site, Fitch.

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