Moody's Investors Service

Credit Opinion: Everest Re Group, Ltd.

Global Credit Research - 22 Dec 2009

Bermuda

Ratings

Category	Moody's Rating
Rating Outlook	STA
Everest Reinsurance (Bermuda), Ltd.	
Rating Outlook	STA
Insurance Financial Strength	Aa3
Everest Reinsurance Company	
Rating Outlook	STA
Insurance Financial Strength	Aa3
Everest Reinsurance Holdings, Inc.	
Rating Outlook	STA
Senior Unsecured	A3
BACKED Senior Unsecured	A3
Junior Subordinate	Baa1

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Key Indicators

Everest Re Group, Ltd.[1]

	2008	2007	2006	2005	2004
Total Assets ($ Mil.)	$ 16,847	$ 17,999	$ 17,108	$ 16,475	$ 15,073
Equity ($ Mil.)	$ 4,960	$ 5,685	$ 5,108	$ 4,140	$ 3,713
Net Income ($ Mil.)	$ (19)	$ 839	$ 841	$ (219)	$ 495
Gross Premiums Written ($ Mil.)	$ 3,678	$ 4,078	$ 4,001	$ 4,109	$ 4,704
Net Premiums Written ($ Mil.)	$ 3,505	$ 3,919	$ 3,876	$ 3,972	$ 4,531
High Risk Assets % Invested Assets	7.5%	16.3%	17.0%	12.9%	11.2%
Reinsurance Recoverable and Goodwill % Equity	13.2%	11.7%	15.1%	25.3%	32.6%
Gross Underwriting Leverage (1 yr.)	2.5x	2.3x	2.5x	3.2x	3.4x
Return on Average Equity (1 yr.)	-0.4%	15.6%	18.2%	-5.6%	14.4%
Sharpe Ratio of Return on Revenue (5 yr.)	77.3%	110.4%	---	---	---
Adv. (Fav.) Loss Dev. % Beg. Reserves (1 yr.)	0.4%	2.6%	1.7%	-0.4%	4.9%
A&E Net Funding Ratio (1 yr.) [2]	9.6x	11.6x	11.2x	3.3x	2.7x
Financial Leverage	18.8%	16.5%	17.3%	20.7%	26.2%
Earnings Coverage (1 yr.)	0.0x	11.8x	14.4x	-2.6x	8.1x

[1] Based on U.S. GAAP financials. [2] Does not exclude large one-time settlements, whereas the 5-year funding ratio shown in the Scorecard does exclude such one-time settlements.

Opinion

SUMMARY RATING RATIONALE

Everest Re Group, Ltd. (NYSE: RE) is a Bermuda holding company that is engaged in property and casualty insurance and reinsurance worldwide. The Aa3 insurance financial strength ratings on its two main operating subsidiaries -- Everest Reinsurance (Bermuda) Limited and Everest Reinsurance Company -- reflect the group's established presence in the global reinsurance market, its profitable track record, and prudent approach to capital management. These strengths are tempered by the group's exposure to natural and man-made catastrophes, legacy asbestos and environmental (A&E) liabilities, and highly competitive nature of the (re)insurance market.

With the exception of 2005, Everest has turned an operating profit every year (excluding realized gains and losses) since its public offering in 1995, having sidestepped most of the problems associated with the previous soft market. However, losses in 2005 underscored its vulnerability to natural catastrophes and highlighted areas in risk management that needed further improvement. Management responded by introducing additional risk tolerance limits, which Moody's believes were essential, particularly because the company is not as well diversified as certain peer companies. Furthermore, Everest continues to face uncertainty with respect to legacy A&E exposures, having recorded a reserve charge most recently in 4Q2007.

Credit Strengths

- Disciplined underwriting approach and profitable track record

- Prudent approach to capital management and good financial flexibility

- High-quality investment portfolio

Credit Challenges

- Exposure to natural and man-made catastrophes

- Exposure to asbestos liabilities is meaningful

- Opportunistic approach increases growth prospects, but also carries attendant risks

Rating Outlook

The outlook for the ratings is stable.

What Could Change the Rating - Up

- Adjusted debt-to-total capital below 15% for the consolidated group (19% as of 12/31/2008)

- Operating returns on revenue consistently above 15%

- Sustained gross underwriting leverage below 2x (with balanced mix between property and casualty lines)

What Could Change the Rating - Down

- Adverse loss reserve development in excess of 5% of carried reserves

- Erosion of shareholders' equity by more than 10% over a 12 month period

- Adjusted debt-to-total capital in excess of 25% for the consolidated group and above 40% at Everest Reinsurance Holdings

- Gross underwriting leverage in excess of 3x

Notching Considerations

Moody's rates the A3 senior debt rating of Everest Reinsurance Holdings, Inc. (the U.S. intermediate holding company) at three notches below the Aa3 insurance financial strength rating of its principal U.S. operating company. This is consistent with Moody's typical notching practices for U.S. insurance holding company structures.

The provisional (P)A3 senior debt rating for the Bermuda-based holding company, Everest Re Group, Ltd., is rated three notches below the Aa3 financial strength rating of its main Bermuda operating company -- rather than the customary two notches for Bermuda insurance holding company structures -- because over 40% of the group's capital resides outside of Bermuda in jurisdictions (principally the U.S.) that have more restrictive dividend rules than Bermuda.

Recent Results and Developments

Through the first nine months of 2009, the company reported net written premiums of $3.0 billion and net income of $610 million. As of September 30, 2009, shareholders' equity was $6.1 billion.

DETAILED RATING CONSIDERATIONS

Moody's rates the two principal operating subsidiaries -- Everest Reinsurance (Bermuda) Limited and Everest Reinsurance Company -- Aa3 for insurance financial strength, which is consistent with the adjusted rating in Moody's rating scorecard (see last page).

Insurance Financial Strength Rating

The key factors that influence the rating and outlook are:

Factor 1 - Market Position, Brand and Distribution: Aa

Everest ranks among the world's 15 largest reinsurers in terms of reinsurance premiums, writing business mainly through brokers. It is widely regarded as a viable counterparty for not only short-tail property risks but also for casualty risks where the long-tail nature of the exposures makes clients more sensitive to credit quality. In the U.S. in particular, it targets certain brokers who have relationships with specialty insurers and small or medium standard insurers, often leading the negotiations on syndicated transactions to ensure that it gets the price and terms it wants. The company's established presence within these segments, we believe, is a better reflection of its competitive position than what its global market share would suggest.

The company's broker base is fairly diverse but writing business through brokers has its pros and cons. Brokers allow reinsurers to reduce fixed costs associated with claims administration, but they increase competition amongst reinsurers by increasing market transparency. Brokers can also steer ceding companies away from traditional reinsurance solutions to alternatives such as catastrophe bonds or captives. In this respect, Everest is at a disadvantage relative to some larger direct writers (e.g., Munich Re, Swiss Re) who can offer clients greater resources, including alternatives to traditional reinsurance and risk consulting services.

Everest's underwriting strategy emphasizes flexibility and responsiveness to changing market conditions, which is best illustrated by entry into medical stop-loss reinsurance and California workers' compensation insurance in the early part of the decade and the retrocession catastrophe market in 2006-2007. More recently, it has increased capacity to certain specialty insurance programs underwritten by general agents. While this flexible approach has produced successes for the most part, it has also produced some exceptions such as the Centrix subprime auto loan credit insurance program which is now in run-off.

Factor 2 - Product Risk and Diversification: A

Everest maintains a relatively balanced portfolio of property and casualty lines, reflecting market acceptance as a (re)insurer for both short and long-tail risks. In recent years, as property (re)insurance rates became comparatively more attractive relative to casualty rates, the company shifted more toward property business, which accounted for about 60% of premiums in 2008. Nearly three-quarters of the reinsurance book is property related with a slight disposition toward non-U.S. business. The reinsurance portfolio is fairly diversified across brokers, geography, ceding companies and individual contracts. The insurance portfolio, on the other hand, is concentrated in a handful of programs underwritten by a limited number of general agents.

Everest lacks additional diversification from life (re)insurance business in contrast to some of its counterparts who - in part because of life business - managed to turn a profit in 2005 despite unprecedented hurricane losses.

Factor 3 - Asset Quality: Aa

We believe the current investment portfolio provides sufficient safety and liquidity to support potential claim obligations. Allocation to equities and private equity limited partnership investments - which created substantial volatility on the income statement in 2008 -- have fallen to 5% of cash and invested assets compared to about 15% at year end 2007. We expect allocation to equities to remain well below the company's self-imposed threshold especially in light of its shift toward more property business, which may occasionally call for substantial claim payments on short notice..

Everest makes limited use of reinsurance and therefore has modest credit risk to reinsurance counterparties. At 12/31/2008, reinsurance recoverables represented less than 13% of shareholder's equity, though nearly half of the recoverable amount is attributed to three reinsurance companies, each of which is rated A2 or higher by Moody's. Everest does not have any goodwill on its balance sheet.

Factor 4 - Capital Adequacy: A

In our opinion, Everest has good risk-adjusted capitalization. This is supported by a track record of prudent capital management and improved risk controls following 2005 hurricane losses. The latter is particularly important because of the lesser extent of diversification - with respect product mix - compared to some similarly rated reinsurers (see Factor 2 above). But given the vagaries of natural catastrophes and significant 2005 hurricane losses, we continue to take a guarded view toward the capital adequacy of catastrophe (re)insurers.

- Prudent capital management: Since turning public in 1995, Everest has grown capital in lockstep with (or faster than) premiums in most years. This is largely due to two reasons. First, it has been consistently profitable (2005 being the exception), having refrained - for the most part -- from cutthroat pricing during the last soft market. Secondly, the company has been a net consumer of capital, repurchasing shares in modicum but issuing over $1.4 billion in equity and $1.6 billion in debt since 1999. Of late, however, it has been returning capital to shareholders more aggressively - quadrupling its common dividend since 2007 and repurchasing $242, $151 and $90 million of common stock in 2007, 2008 and first nine months of 2009, respectively. Our ratings expectation is for the company to manage future return of capital in a way that is consistent with the risks it bears and softening conditions.

- Improved risk controls: The 2005 hurricanes cost Everest about $1.5 billion pre-tax, more than a year's earnings. It subsequently appointed a Chief Risk Officer and introduced additional risk limits to manage its natural catastrophe exposure. The three risk limits are: 1) 100-year single-event modeled loss, after tax and after reinstatement premiums, must be less than 10% of GAAP equity; 2) 250-year annual aggregate (multiple events) modeled loss in any one risk zone, after tax, must be less than a certain percentage of annual earnings; and 3) maximum liability from a single event in any one risk zone, after tax and catastrophe premiums, must be less than a certain percent of shareholders' equity. The third risk limit is particularly important because it is not affected by model error.

Factor 5 - Profitability: A

We believe the profit picture for Everest remains supportive of its ratings for several reasons. First, Everest was one of the first reinsurers to reduce casualty reinsurance business where rates have fallen significantly over the past three years. Secondly, after the 2005 hurricanes, it implemented new risk controls which should improve earnings diversification. Thirdly, its incentive structure and track record point to prudent cycle management. At Everest, underwriters are rewarded for profitable results, not growth.

With the exception of 2005, Everest has turned an operating profit every year since 1995, producing an average operating ROE from 1999-2008 of 12% and a pretax operating return on revenue over that same time period of 14%. The company refrained from growing aggressively in the last soft cycle and therefore managed to sidestep most (but not all) of the under-reserving problems that plagued much of the industry. The question is whether Everest will stick to its past philosophy of maintaining underwriting discipline, now that its equity base is five times larger (and the opportunities greater) than what it was in the last soft market.

Factor 6 - Reserve Adequacy: A

Moody's believes that Everest's non-asbestos reserves fall within a reasonable range of estimates. As a reinsurer, however, it relies heavily on timely and accurate claims information from its clients, which poses additional challenges to the loss reserving process. This is especially relevant for professional liability reinsurance and general casualty reinsurance as both have accounted for adverse reserve development in years past.

Asbestos and environmental (A&E) liabilities remain an important rating concern as net A&E reserves at 9/30/2009 equate to about 10% of shareholders' equity. In 4Q2007, Everest took a $311 million pre-tax reserve charge for asbestos, which brought its survival ratio in line with most peers. (The survival ratio is a rough measure of comparative reserve strength and not of absolute reserve adequacy. It is calculated by dividing current reserves by the average of paid losses over a specified time horizon.) A&E reserve adequacy is influenced by tort reforms and judicial and legislative developments. While some of the recent developments are suspected to benefit (re)insurers, the certainty of their impact will show up more slowly in Everest's situation because it is further removed from the underlying claims due to the nature of its coverages (i.e., excess policies and reinsurance policies).

Factor 7 - Financial Flexibility: Aa

We believe the operating subsidiaries' earnings capacity and unrestricted dividend capacity should provide sufficient funds over the near to medium term to meet holding company obligations comfortably.

As of 9/30/2009, the consolidated group had $1.0 billion of long term debt outstanding, all of which reside at the U.S. holding company. Debt maturities are staggered and the earliest maturity is in March 2010 ($200 million senior). The U.S. subsidiaries by themselves have the earnings potential to cover interest expense comfortably (EBIT has averaged about 4 times interest expense since 2000). EBIT coverage is stronger still when one considers that funds can be downstreamed from the Bermudian parent company (via the Irish holding company) to the U.S. holding company. The Bermudian parent and its Bermuda insurance subsidiaries account for a meaningful portion of the consolidated group's net assets.

Aside from its investment portfolio, Everest has access to additional liquidity through two senior credit facilities - a $850 million five year facility that can be accessed by the group for liquidity and standby letters of credit, and a $150 million five year facility that can be accessed by the U.S. holding company for general corporate purposes. The latter requires the U.S. holding company to maintain a debt-to-capital ratio, excluding AOCI, of less than 35% (28% as of 9/30/2009). Neither facility contains material adverse change clauses or rating triggers.

Rating Factors

Everest Re Group, Ltd.

Financial Strength Rating Scorecard [1][2][3]	**Aaa**	**Aa**	**A**	**Baa**	**< Baa**	**Score**	**Adjusted Score**
Business Profile						**A**	**Aa**
Market Position, Brand and Distribution (20%)						**A**	**Aa**
Relative Market Share Ratio, Global Reinsurance			**X**				
Direct Premiums % GPW			**X**				
Product Focus and Diversification (15%)						**Aa**	**A**
Product & Geographic Diversification		**X**					
Financial Profile						**A**	**Aa**
Asset Quality (10%)						**Aaa**	**Aa**
High Risk Assets % Invested Assets	**7.5%**						
Reinsurance Recoverable and Goodwill % Equity	**13.2%**						
Capital Adequacy (20%)						**A**	**A**
Gross Underwriting Leverage			**2.5x**				
Gross Natural Catastrophe Exposure			**X**				
Net Natural Catastrophe Exposure			**X**				
Profitability (10%)						**A**	**A**
Return on Average Equity (5 yr. avg.)			**8.4%**				
Sharpe Ratio of Return on Revenue (5 yr.)				**77.3%**			
Reserve Adequacy (10%)						**A**	**A**
Adv. (Fav.) Loss Dev. % Beg. Reserves (5 yr. avg.)		**1.8%**					
A&E Net Funding Ratio (5 yr. avg.)				**9.7x**			
Financial Flexibility (15%)						**A**	**Aa**
Financial Leverage		**18.8%**					
Earnings Coverage (5 yr. avg.)			**6.3x**				
Aggregate Profile						**A1**	**Aa3**

[1] Based on 2004-2008 U.S. GAAP financials. [2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis [3] A&E funding ratio excludes large one-time settlements from payments and reserves.