

Rating Action: Everest Re Group, Ltd.

Moody's affirms Everest Re, outlook stable

\$1.2 billion debt securities affirmed.

New York, March 25, 2009 -- Moody's Investors Service has affirmed the ratings of Everest Re Group, Ltd. (NYSE: RE) and its subsidiaries, including the A3 senior debt and Baa1 junior subordinated hybrid securities (tender offer outstanding) of Everest Reinsurance Holdings, Inc., and the Aa3 insurance financial strength of the two main operating companies (full list below). Moody's has also assigned provisional ratings to the universal shelf registration of Everest Re Group, Ltd., Everest Reinsurance Holdings, Inc., and Everest Re Capital Trust III.

According to Moody's, the ratings of Everest Re Group reflect its strong competitive position in the broker reinsurance markets, particularly with respect to specialty and medium-size insurers in the U.S. As one of the world's ten largest reinsurers, the group often takes the lead role in negotiating price and terms on syndicated treaties rather than accepting terms set by other reinsurers. Its narrower focus and lead position have contributed to a profitable track record.

"Everest's operating returns on revenue have historically exceeded many of its peers," notes Kevin Lee, Senior Credit Officer at Moody's. Operating return on revenue, excluding realized gains and losses, has averaged roughly 14% over the past ten years (1999-2008).

The rating agency noted that the group's financial flexibility remains very good, as Everest Reinsurance Holdings maintains sufficient cash and short-term investments and can also access \$316 million of dividends from its main U.S. operating company in 2009 without prior regulatory approval. The company also has a \$150 million line of credit (expires August 2011) and \$350 million line of credit (part of the group's credit facility and expires July 2012) for general corporate purposes. All outstanding debt currently resides at Everest Reinsurance Holdings.

These strengths are tempered by uncertainty around asbestos reserves, which are difficult to estimate, and exposure to natural and man-made catastrophes, as nearly three-quarters of its reinsurance book is property related (about 60% International / 40% U.S.). Following Hurricane Katrina, management introduced more risk tolerance measures which, among other restrictions, limit the maximum possible loss from a single event in a single risk zone to below a certain fraction of shareholders' equity. Given the current business mix, Moody's expects the company to adhere roughly to these risk tolerance limits, which will also help mitigate the downside risk associated with its flexible underwriting strategy of moving in and out of markets.

For 2008, the group reported a net loss of \$19 million, notably due to realized capital losses of \$695.8 million (pre-tax) as the company sold nearly all public equities at a loss. Everest's invested assets are now more conservatively positioned with cash, short-terms, governments, municipals, and agency securities accounting for nearly two-thirds of invested assets. ABS/RMBS/CMBS represent 6%, and alternative investments 5%. The latter, which are largely limited partnerships, remains an area of vigilance. Shareholders' equity ended the year at \$5.0 billion, or down 13% mainly due to unrealized losses on investments (\$499.6 million), capital management actions, including share buybacks and dividends (\$269.3 million) and foreign currency translation adjustments (\$193.3 million).

The rating agency noted the following factors could lead to a ratings upgrade: adjusted debt-to-total capital below 15% for the consolidated group (19% at 12/31/2008) and operating returns on revenue consistently above 15%. Conversely, the following factors could put pressure on the ratings: failure to adhere to risk tolerance limits, adverse loss development in excess of 5% of reserves (including asbestos and environmental liabilities), erosion of equity by more than 10% over a 12 month period, or adjusted debt-to-total capital above 25% for the consolidated group.

The provisional (P)A3 senior debt rating for the Bermuda-based holding company, Everest Re Group, Ltd., is rated three notches -- rather than two notches -- below the financial strength rating of its main operating company 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.

The following ratings have been affirmed with a stable outlook:

Everest Reinsurance Holdings, Inc. -- senior unsecured debt at A3, junior subordinated debt at Baa1;

Everest Re Capital Trust II -- preferred securities at Baa1;

Everest Reinsurance (Bermuda), Ltd. -- insurance financial strength at Aa3;

Everest Reinsurance Company -- insurance financial strength at Aa3.

The following provisional ratings have been assigned to a universal shelf registration:

Everest Re Group, Ltd. -- provisional senior unsecured debt at (P)A3, provisional subordinated debt at (P)Baa1, provisional preferred stock at (P)Baa2;

Everest Reinsurance Holdings, Inc. - provisional senior unsecured debt at (P)A3, provisional subordinated debt at (P)Baa1, provisional junior subordinated debt at (P)Baa1;

Everest Re Capital Trust III -- provisional preferred securities at (P)Baa1.

Everest Re Group, Ltd. is a Bermuda-based holding company that is engaged, through its subsidiaries, in property and casualty insurance and reinsurance worldwide. Everest Re Group, Ltd. wholly owns Everest Reinsurance Holdings, Inc., which is the intermediate holding company for Everest's U.S. operations.

The last rating action on Everest Re Group, Ltd. occurred on January 18, 2008 when Moody's affirmed the ratings following a \$311 million asbestos reserve charge.

The principal methodology used in rating Everest Re Group was Moody's Global Rating Methodology for Reinsurers, Updated July 2008, which can be found at www.moody.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating Everest Re Group can also be found in the Credit Policy & Methodologies directory.

For more information, visit our website at www.moody.com/insurance.

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