

EVEREST RE GROUP LTD  
Form S-3/A  
December 17, 2003  
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As filed with the Securities and Exchange Commission on December 17, 2003

Registration No. 333-106595

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### Amendment No. 3

to

### FORM S-3

### REGISTRATION STATEMENT

*Under*

*The Securities Act of 1933*

## EVEREST RE GROUP, LTD.

(Exact Name of Registrant as Specified in Its Charter)

**Bermuda**  
(State of Other Jurisdiction of Incorporation)

**98-0365432**  
(I.R.S. Employer Identification No.)  
**Stephen L. Limauro**

c/o ABG Financial & Management Services Inc.  
Parker House  
Willey Business Park, Wildey Road  
St. Michael, Barbados  
(246) 228-7398  
(Address, Including Zip Code, and Telephone Number,

Everest Global Services, Inc.  
477 Martinsville Road  
P.O. Box 830  
Liberty Corner, New Jersey 07938-0830  
(908) 604-3000  
(Name, Address, Including Zip Code, and Telephone Number,

Including Area Code, of Registrant's Principal Executive Offices)

Including Area Code, of Agent For Service)

## EVEREST REINSURANCE HOLDINGS, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

477 Martinsville Road

Stephen L. Limauro

P.O. Box 830

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Liberty Corner, New Jersey 07938-0830

P.O. Box 830

(908) 604-3000

Liberty Corner, New Jersey 07938-0830

(908) 604-3000

(Address, Including Zip Code, and Telephone Number,

(Name, Address, Including Zip Code, and Telephone Number,

Including Area Code, of Registrant s Principal Executive Offices)

Including Area Code, of Agent For Service)

**EVEREST RE CAPITAL TRUST II**

**EVEREST RE CAPITAL TRUST III**

(Exact Names of Registrants as Specified in Their Charters)

83-6054671

Delaware

(State or Other Jurisdiction of Incorporation)

c/o Everest Reinsurance Holdings, Inc.

477 Martinsville Road

P.O. Box 830

Liberty Corner, New Jersey 07938-0830

(908) 604-3000

(Address, Including Zip Code, and Telephone Number,

83-6054672

(I.R.S. Employer Identification No.)

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(908) 604-3000

(Name, Address, Including Zip Code, and Telephone Number,

Including Area Code, of Registrant s Principal Executive Offices)

Including Area Code, of Agent For Service)

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477 Martinsville Road  
P.O. Box 830  
Liberty Corner, New Jersey 07938-0830  
(908) 604-3000

**Approximate date of commencement of proposed sale to the public:** From time to time after this Registration Statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

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If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. "

Title of Each Class of Securities to be Registered (1)	Amount to be Registered(1)(2)	Proposed maximum aggregate offering price(2)(3)	Amount of registration fee
Everest Re Group, Ltd. Common Shares (4)			
Everest Re Group, Ltd. Preferred Shares (5)			
Everest Re Group, Ltd. Debt Securities			
Everest Reinsurance Holdings, Inc. Debt Securities			
Everest Re Group, Ltd. Warrants			
Share Purchase Contracts			
Share Purchase Units (6)			
Everest Re Capital Trust II Preferred Securities			
Everest Re Capital Trust III Preferred Securities			
Guarantee of Everest Reinsurance Holdings, Inc. Debt Securities (7)			
Guarantees of Preferred Securities of Everest Re Capital Trust II and Everest Re Capital Trust III (7)			
<b>Total</b>	\$ 975,000,000	\$ 975,000,000	\$ 78,878(8)

- (1) These offered securities may be sold separately, together or as units with other offered securities and include an indeterminate number or amount of common shares, preferred shares, debt securities, warrants, share purchase contracts and share purchase units of Everest Re Group, Ltd., debt securities and warrants of Everest Reinsurance Holdings, Inc. and preferred securities of Everest Re Capital Trust II and Everest Re Capital Trust III as may from time to time be issued at indeterminate prices in U.S. Dollars.
- (2) In no event will the aggregate maximum offering price of all securities issued pursuant to this Registration Statement exceed \$975,000,000, or if any debt securities are issued with original issue discount, such greater amount as shall result in an aggregate offering price of \$975,000,000.
- (3) Estimated solely for the purpose of calculating the registration fee, which is calculated in accordance with Rule 457(o) of the rules and regulations under the Securities Act of 1933. Rule 457(o) permits the registration fee to be calculated on the basis of the maximum offering price of all the securities listed. The table does not specify by each class information as to the amount to be registered, proposed maximum offering price per unit or proposed maximum aggregate offering price. Unless otherwise indicated in an amendment to this filing, no separate consideration will be received for common shares, preferred shares or debt securities that are issued by Everest Re Group, Ltd. or Everest Reinsurance Holdings, Inc. upon conversion, exchange or exercise of securities registered under this registration statement.
- (4) Also includes such presently indeterminate number of common shares as may be issued by Everest Re Group, Ltd. (a) upon conversion of or exchange for any debt securities or preferred shares that provide for conversion or exchange into common shares, (b) upon exercise of warrants to purchase common shares or (c) pursuant to share purchase contracts.
- (5) Also includes such presently indeterminate number of preferred shares as may be issued by Everest Re Group, Ltd. (a) upon conversion of or exchange for any debt securities that provide for conversion or exchange into preferred shares, (b) upon exercise of warrants to purchase preferred shares or (c) pursuant to share purchase contracts.
- (6) Each share purchase unit consists of (a) a share purchase contract under which the holder, upon settlement, will purchase or sell an indeterminate number of common shares or preferred shares and (b) common shares, preferred shares, debt securities, trust preferred securities, other share purchase contracts or debt obligations of third parties securing the holder's obligation to purchase or sell the securities subject to the share purchase

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contract. No separate consideration will be received for the share purchase contract or the related pledged securities.

- (7) The guarantees include the rights of holders of the preferred securities under the guarantees of Everest Re Group, Ltd. and Everest Reinsurance Holdings, Inc., the debt securities guarantee of Everest Re Group, Ltd., the obligations of Everest Reinsurance Holdings, Inc. under a junior subordinated indenture, any supplemental indentures thereto, under the trust agreement, as amended, and under the expense agreement to be responsible for specified costs, expenses, debt and liabilities of Everest Re Capital Trust II and Everest Re Capital Trust III, all as described in this Registration Statement. No separate consideration will be received for any of these guarantees.

- (8) Previously paid.

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**The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED DECEMBER 17, 2003.**

**PRELIMINARY PROSPECTUS**

**\$975,000,000**

**EVEREST RE GROUP, LTD.**

**Common Shares, Preferred Shares, Debt Securities,  
Warrants to Purchase Common or Preferred Shares or Debt Securities,  
Share Purchase Contracts and Share Purchase Units**

**EVEREST REINSURANCE HOLDINGS, INC.**

**Debt Securities**

**EVEREST RE CAPITAL TRUST II**

**EVEREST RE CAPITAL TRUST III**

## Preferred Securities

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We may offer and sell from time to time securities in one or more offerings up to a total dollar amount of \$975,000,000. This prospectus provides you with a general description of the securities we may offer.

Everest Group may offer and sell the following securities:

common shares;

preferred shares;

senior or subordinated debt securities, which may be convertible into common or preferred shares;

warrants to purchase common shares, preferred shares or debt securities; and

share purchase contracts and share purchase units.

Everest Holdings may offer and sell senior or subordinated debt securities, which may be convertible into Everest Group common or preferred shares and which may be guaranteed by Everest Group.

Each Everest Capital Trust may offer and sell investment grade preferred securities, which will be guaranteed by Everest Holdings and which may be guaranteed by Everest Group.

Each time that securities are sold using this prospectus, we will provide a supplement to this prospectus that contains specific information about the offering. The supplement may also add to or update information contained in this prospectus. You should read this prospectus and any supplement carefully before you invest.

The securities will be offered through underwriters, dealers or agents or directly to investors. The supplements to this prospectus will provide the specific terms of the plan of distribution.

**The securities offered by this prospectus involve a high degree of risk. See Risk Factors beginning on page 4 for a discussion of certain factors that you should consider before buying the securities.**

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Everest Group's common shares are listed on the New York Stock Exchange under the ticker symbol RE. The closing price of the common shares, as reported on the New York Stock Exchange Composite Tape on December 16, 2003, was \$81.26 per share. If we decide to list any other of these securities on a national securities exchange upon issuance, the applicable supplement to this prospectus will identify the exchange and the date when we expect trading to begin.

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is December , 2003.

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**ABOUT THIS PROSPECTUS**

You should rely only on the information contained or incorporated by reference in this prospectus. Incorporated by reference means that we can disclose important information to you by referring you to another document filed separately with the SEC. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making, nor will we make, an offer to sell securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and any supplement to this prospectus is current only as of the dates on their covers. Our business, financial condition, results of operations and prospects may have changed since that date.

Unless the context otherwise requires, references in this prospectus to we, us and our refer to Everest Re Group, Ltd. and its subsidiaries, collectively. References to Everest Group refer to Everest Re Group, Ltd. References to Everest Holdings refer to Everest Reinsurance Holdings, Inc., our Delaware holding company subsidiary. References to the Everest Capital Trusts refer collectively to Everest Re Capital Trust II and Everest Re Capital Trust III, each a Delaware statutory trust. References to the common shares refer to Everest Group's common shares, par value \$.01 per share. References to \$ are to United States currency, and the terms United States and U.S. mean the United States of America, its states, its territories, its possessions and all areas subject to its jurisdiction.

IF SECURITIES OFFERED HEREBY ARE SOLD BY MEANS OF A FIRM COMMITMENT UNDERWRITING, CERTAIN PERSONS PARTICIPATING IN THE OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE SECURITIES, INCLUDING OVER-ALLOTMENT, STABILIZING AND SHORT-COVERING TRANSACTIONS IN THE SECURITIES AND THE IMPOSITION OF A PENALTY BID, IN CONNECTION WITH THE OFFERING MADE HEREBY.

**EVEREST RE GROUP, LTD.**

Our principal business, conducted through our operating subsidiaries, is the underwriting of reinsurance and insurance in the United States, Bermuda and international markets. Reinsurance is a form of insurance purchased by an insurance company to indemnify it for all or part of the loss that it may sustain under insurance contracts it has written. Insurance companies purchasing reinsurance are often referred to as ceding companies or reinsureds.

We underwrite reinsurance both through brokers and directly with ceding companies, giving us the flexibility to pursue business regardless of the ceding company's preferred reinsurance purchasing method. All of our insurance company subsidiaries, except Mt. McKinley Insurance Company, Everest Insurance Company of Canada and Everest International Reinsurance, Ltd., are rated A+ ( Superior ) by A.M. Best Company, an independent insurance industry rating organization that rates insurance companies on factors of concern to policyholders. Mt. McKinley Insurance Company and Everest Insurance Company of Canada are not rated because they are no longer actively writing business. Everest International Reinsurance, Ltd. is not rated because it is not currently writing business, but it may start writing business in the future, in which case a rating may be obtained at that time.

The address of our principal executive offices is c/o ABG Financial & Management Services Inc., Parker House, Wildey Business Park, Wildey Road, St. Michael, Barbados, and our telephone number is (246) 228-7398.

Our significant operating subsidiaries are:

*Everest Reinsurance Company*, a Delaware insurance company, referred to in this prospectus as Everest Re, underwrites property and casualty reinsurance for insurance and reinsurance companies in the United States and international markets.

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*Everest Reinsurance (Bermuda), Ltd.*, a Bermuda insurance company, referred to in this prospectus as Everest Bermuda, writes property and casualty business and life and annuity business from its offices in Bermuda.

*Everest National Insurance Company*, an Arizona insurance company, referred to in this prospectus as Everest National, writes property and casualty insurance in the United States.

*Everest Indemnity Insurance Company*, a Delaware insurance company, engages in the excess and surplus lines insurance business in the United States. Excess and surplus lines insurance is specialty property and liability coverage that an insurer not licensed to write insurance in a particular state is permitted to provide when the specific specialty coverage is unavailable from licensed insurers.

*Mt. McKinley Insurance Company*, formerly known as Gibraltar Casualty Company, a Delaware insurance company, engaged in the excess and surplus lines insurance business in the United States from 1978 to 1985. In 1985, it ceased writing new and renewal insurance, and now its ongoing operations relate to servicing claims arising from its previously written business.

*Everest Security Insurance Company*, a Georgia insurance company, writes property and casualty insurance primarily in Georgia.

**EVEREST REINSURANCE HOLDINGS, INC.**

Everest Holdings was established in 1993 in Delaware to serve as the parent holding company of Everest Re. Until October 6, 1995, Everest Holdings was an indirect, wholly-owned subsidiary of The Prudential Insurance Company of America, referred to in this prospectus as The Prudential. On October 6, 1995, The Prudential sold its entire interest in Everest Holdings' shares of common stock in an initial public offering. Effective February 24, 2000, Everest Holdings completed a restructuring whereby Everest Holdings became the wholly-owned subsidiary of Everest Group, and each outstanding share of common stock of Everest Holdings automatically converted into one common share of Everest Group. Everest Holdings continues to act as the holding company for the subsidiaries of Everest Group in the United States and Canada.

Everest Holdings' principal executive offices are located at 477 Martinsville Road, P.O. Box 830, Liberty Corner, New Jersey 07938-0830, and its telephone number is (908) 604-3000.

**EVEREST RE CAPITAL TRUST II AND EVEREST RE CAPITAL TRUST III**

Everest Holdings created the Everest Capital Trusts as Delaware statutory trusts pursuant to their respective trust agreements. Everest Holdings will enter into amended and restated trust agreements, referred to in this prospectus as the trust agreements, for the Everest Capital Trusts, which will state the terms and conditions for each Everest Capital Trust to issue and sell preferred securities and common securities.

Each Everest Capital Trust exists solely to:

issue and sell investment grade preferred securities, representing undivided beneficial interests in the assets of the trust, to the public;

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issue and sell its common securities, representing undivided beneficial interests in the assets of the trust, to Everest Holdings;

use the proceeds from the sale of its preferred and common securities to purchase a series of Everest Holdings junior subordinated debt securities;

distribute the cash payments it receives from the junior subordinated notes it owns to the holders of the preferred and common securities; and

engage in other activities that are necessary or incidental to these purposes.

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Everest Holdings will purchase all of the common securities of each Everest Capital Trust. The common securities will represent an aggregate liquidation amount equal to at least 3% of the trust's total capitalization. The preferred securities will represent the remaining 97% of the trust's total capitalization. The common securities will have terms substantially identical to, and will rank equal in priority of payment with, the preferred securities. However, if Everest Holdings defaults on the related junior subordinated debt securities, then cash distributions and liquidation, redemption and other amounts payable on the common securities will be subordinate in priority of payment to these amounts payable on the preferred securities.

The preferred securities will be guaranteed by Everest Holdings and may be guaranteed by Everest Group as described later in this prospectus. Each of the Everest Capital Trusts is a legally separate entity, and the assets of one are not available to satisfy the obligations of the other.

Everest Holdings has appointed five trustees to conduct the business and affairs of each Everest Capital Trust:

JPMorgan Chase Bank, as property trustee;

Chase Manhattan Bank USA, National Association, as Delaware trustee; and

Three officers of Everest Holdings, as regular trustees.

Except under specified limited circumstances, only Everest Holdings can remove or replace the trustees. In addition, Everest Holdings can increase or decrease the number of trustees.

Everest Holdings will pay all fees and expenses related to each Everest Capital Trust and the offering of the preferred securities and will pay all ongoing costs and expenses of each Everest Capital Trust, except each Everest Capital Trust's obligations under its preferred and common securities.

None of the Everest Capital Trusts have separate financial statements. The statements would not be material to holders of the preferred securities because none of the Everest Capital Trusts will have any independent operations and exist solely for the reasons summarized above. Financial information regarding the Everest Capital Trusts is included in the consolidated financial statements of Everest Holdings.

The Everest Capital Trusts' principal executive offices are located at 477 Martinsville Road, P.O. Box 830, Liberty Corner, New Jersey 07938-0830, and their telephone number is (908) 604-3000.

**Table of Contents****RISK FACTORS**

You should carefully consider the following risk factors regarding us and our securities, in addition to the other information provided in this prospectus, before you purchase any securities. If any of the following risks actually occur, our business, financial condition or results of operations could be materially and adversely affected and the trading price of our securities could decline significantly.

***Risks Relating to Our Business*****Our results could be adversely affected by catastrophic events.**

Like all insurance and reinsurance companies, we are exposed to unpredictable catastrophic events, including weather-related and other natural catastrophes, as well as war and acts of terrorism. Any material reduction in our operating results caused by the occurrence of one or more catastrophes could inhibit our ability to pay dividends or to meet our interest and principal payment obligations. We define a catastrophe as an event that causes a pre-tax loss on property exposures of at least \$5.0 million and has an event date of January 1, 1998 or later. By way of illustration, during the past five calendar years, our pre-tax catastrophe losses, net of contract specific reinsurance but before cessions under corporate reinsurance programs, were as follows:

<u>Calendar year</u>	<u>Pre-tax catastrophe losses</u>
1998	\$ 30.6 million
1999	45.9 million
2000	13.9 million
2001	222.6 million
2002	30.2 million

**If our loss reserves are inadequate to meet our actual losses, our net income would be reduced or we could incur a loss.**

We are required to maintain reserves to cover our estimated ultimate liability of losses and loss adjustment expenses for both reported and unreported claims incurred. These reserves are only estimates of what we think the settlement and administration of claims will cost based on facts and circumstances known to us. In setting reserves for our reinsurance liabilities, we rely on claim data supplied by our ceding companies and brokers. This information is not always timely or accurate and can result in inaccurate loss projections. Because of the uncertainties that surround estimating loss reserves and loss adjustment expenses, we cannot be certain that ultimate losses will not exceed these estimates of losses and loss adjustment reserves. If our reserves are insufficient to cover our actual losses and loss adjustment expenses, we would have to augment our reserves and incur a charge to our earnings. These charges could be material.

By way of illustration, during the past five calendar years, the reserve re-estimation process affected our net income in the following manner:

<u>Calendar year</u>	<u>Effect on pre-tax net income (in millions)</u>
1998	\$ 26.2 decrease
1999	35.4 increase
2000	7.8 decrease
2001	no change
2002	140.1 decrease

The discussion of our business in Everest Group's Annual Report on Form 10-K for the year ended December 31, 2002 includes a section captioned "Changes in Historical Reserves," which provides a more detailed chart showing the effect of reserve re-estimates on calendar year operating results for the past ten years.

The difficulty in estimating our reserves is increased because our loss reserves include reserves for potential asbestos and environmental liabilities. Asbestos and environmental liabilities are especially hard to estimate for many reasons, including the long waiting periods between exposure and manifestation of any bodily injury or

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property damage, difficulty in identifying the source of the asbestos or environmental contamination, long reporting delays and difficulty in properly allocating liability for the asbestos or environmental damage. Legal tactics and judicial and legislative developments affecting the scope of insurers' liability, which can be difficult to predict, also contribute to uncertainties in estimating reserves for asbestos and environmental liabilities.

### **The failure to assess underwriting risk accurately could reduce our net income and even result in an operating loss.**

Our success depends on our ability to assess accurately the risks associated with the businesses on which the risk is retained. If we fail to assess accurately the risks we retain, we may fail to establish adequate premium rates to cover our losses and loss adjustment expenses. This could reduce our net income and even result in an operating loss. Losses may arise from events or exposures that are not anticipated when the coverage is priced. An example of an unanticipated event is the terrorist attacks of September 11, 2001. Our loss from those attacks, after reinsurance and taxes, was \$75 million. Neither the magnitude of loss on a single line of business nor the combined impact on several lines of business from acts of terrorism on such a large scale was contemplated when we priced our coverages. In addition to unanticipated events, we also face the unanticipated expansion of our exposures, particularly in our long-tail liability lines. An example of this is the ongoing expansion of the scope of insurers' legal liability for asbestos and environmental exposures discussed above.

### **Decreases in pricing for property and casualty reinsurance and insurance could reduce our net income.**

We write primarily property and casualty reinsurance and insurance. The worldwide reinsurance and insurance businesses are highly competitive, yet cyclical by product and market. These cycles, as well as other business, economic and societal trends that influence aggregate supply and demand for property and casualty insurance and reinsurance products, are outside of our control. The phase of the industry cycle that prevailed from 1987 through 1999 was characterized by increasingly competitive global market conditions across most lines of business, leading to decreasing prices and broadening contract terms, which in turn had a negative impact on insurers' financial results and eroded the industry capital base. These trends resulted from a number of factors, including the emergence of significant reinsurance capacity in Bermuda, changes in the Lloyd's market, consolidation and increased capital levels in the insurance and reinsurance industries and the emergence of new reinsurance and financial products addressing traditional exposures in alternative fashions. This industry cycle began to reverse in 2000, when the industry entered a period of firming prices, more restrictive terms and conditions and tightened coverage availability across most classes and markets. These new trends were intensified and accelerated by losses from the September 11, 2001 terrorist attacks, which reduced industry capacity and were of sufficient magnitude to cause most insurers to reassess their capital position, tolerance for risk, exposure control mechanisms and the pricing terms and conditions at which they are willing to take on risk. Additional contributing factors included deteriorating investment market conditions and results and renewed concerns regarding longer-term industry-specific issues, such as asbestos and environmental exposures. Although the industry is currently in a favorable phase of the pricing cycle, we cannot assure you that this favorable phase will continue. Many of the factors that contributed to decreasing prices during the prior phase of the cycle continue to exist and new and unanticipated factors could emerge. Any significant decrease in pricing for property and casualty insurance or reinsurance could reduce our ability to write business profitably and reduce our net income. Further discussion of competition issues can be found on pages 26-27 of Everest Group's Annual Report on Form 10-K for the year ended December 31, 2002.

### **If rating agencies downgrade their ratings of our insurance company subsidiaries, our future prospects for growth and profitability could be significantly and adversely affected.**

Our insurance company subsidiaries, other than Mt. McKinley Insurance Company, Everest Insurance Company of Canada and Everest International Reinsurance, Ltd., currently hold an A+ ( Superior ) financial strength rating from A.M. Best Company. Everest Re, Everest Bermuda and Everest National hold an AA ( Very Strong ) financial strength rating from Standard & Poor's Ratings Services. Everest Re and Everest





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Bermuda hold an Aa3 ( Excellent ) financial strength rating from Moody s Investors Service, Inc. Financial strength ratings are used by insurers and reinsurance and insurance intermediaries as an important means of assessing the financial strength and quality of reinsurers. In addition, the rating of a company purchasing reinsurance may be adversely affected by an unfavorable rating or the lack of a rating of its reinsurer. A downgrade or withdrawal of any of these ratings might adversely affect our ability to market our insurance products and could have a significant and adverse effect on our future prospects for growth and profitability. During the last five years, no active subsidiary of the Company has experienced a credit rating downgrade. However, we cannot assure you that no credit downgrade will ever occur in the future. Consistent with market practice, roughly 20% to 30% of our treaty reinsurance business allows the ceding company to terminate the contract in the event of a rating downgrade. The termination provision would generally be triggered only if a rating fell below A.M. Best s A rating level, which is three levels below Everest Re s current rating of A+. Everest Re also has minimal exposure to reinsurance contracts that contain provisions for obligatory funding of outstanding liabilities in the event of a rating agency downgrade. That provision would also generally be triggered only if Everest Re s rating fell below A.M. Best s A rating level.

**Our reinsurers may not satisfy their obligations to us.**

We are subject to credit risk with respect to our reinsurers because the transfer of risk to a reinsurer does not relieve us of our liability to the insured. In addition, reinsurers may be unwilling to pay us even though they are able to do so. The failure of one or more of our reinsurers to honor their obligations to us in a timely fashion would impact our cash flow and reduce our net income and could cause us to incur a significant loss.

**If we are unable or choose not to purchase reinsurance and transfer risk to reinsurers, our net income could be reduced or we could incur a net loss in the event of unusual loss experience.**

We are generally less reliant on the purchase of reinsurance than many of our competitors, in part because of our strategic emphasis on underwriting discipline and management of the cycles inherent in our business. We try to separate our risk taking process from our risk mitigation process in order to avoid developing too great a reliance on reinsurance. Thus, we generally evaluate, underwrite, select and price our products prior to consideration of reinsurance. However, our underwriters generally consider purchasing reinsurance with respect to specific insurance contracts or programs, and our senior management generally considers purchasing reinsurance with respect to our overall operations, where reinsurance is deemed prudent from a risk mitigation perspective or is expected to have a positive cost/benefit relationship. Since we generally purchase reinsurance only when we expect a net benefit, the percentage of business that we reinsure, as indicated in the chart below, varies considerably from year to year, depending on our view of the relationship between cost and expected benefit for the contract period.

	Nine months ended			
	September 30,			
	2000	2001	2002	2003
Percentage of gross written premiums ceded for reinsurance	12.0%	16.8%	7.3%	5.6%

Changes in the availability and cost of reinsurance, which are subject to market conditions that are outside of our control, have thus reduced to some extent our ability to use reinsurance to tailor the risks we assume on a contract or program basis or to mitigate or balance exposures across our reinsurance operations. Because we have reduced our level of reinsurance purchases, our net income could be reduced in the event of a large non-reinsured event or adverse overall experience.

**Our industry is highly competitive and we may not be able to compete successfully in the future.**

Our industry is highly competitive and has experienced significant price competition over most of the last decade. In addition, a number of new well-capitalized competitors have entered the market recently, and we expect to face further competition from new market entrants in the future. We compete globally in the United

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States, Bermuda and other international markets. According to the 2002 edition of Standard & Poor's special report on the global reinsurance industry, there are 232 reinsurance organizations operating worldwide, consisting of 32 groups and 200 operating companies from 38 countries. Market share is largely concentrated within the top 25 groups, one of which is our Everest group of companies. We consider the 15 groups that have financial strength ratings generally comparable to or above our rating to be our primary competitors. The leaders in this market are Munich Re, Swiss Re, Berkshire Hathaway, Hannover Re and Employers Re. Some of these competitors have greater financial resources than we do, have been operating for longer than we have and have established long-term and continuing business relationships throughout the industry, which can be a significant competitive advantage. In addition, we expect to face further competition in the future. We may not be able to compete successfully in the future.

### **We are dependent on our key personnel.**

Our success has been, and will continue to be, dependent on our ability to retain the services of our existing key executive officers and to attract and retain additional qualified personnel in the future. The loss of the services of any of our key executive officers or the inability to hire and retain other highly qualified personnel in the future could adversely affect our ability to conduct our business. Generally, we consider our key executive officers to be those individuals who have the greatest influence in setting our overall policy and controlling our operations: our Chairman and Chief Executive Officer, Joseph V. Taranto (age 54), our President and Chief Operating Officer, Thomas J. Gallagher (age 54), and our Executive Vice President and Chief Financial Officer, Stephen L. Limauro (age 51). Of those three officers, we only have an employment contract with Mr. Taranto. That contract has been previously filed with the Securities and Exchange Commission and was most recently amended on April 18, 2003 to extend Mr. Taranto's term of employment from March 31, 2004 until March 31, 2006. We are not aware that any of the above three officers are planning to leave the company or retire in the near future. We do not maintain any key employee insurance on any of our employees.

Special considerations apply to our Bermuda operations. Under Bermuda law, non-Bermudians, other than spouses of Bermudians and individuals holding permanent resident certificates, are not permitted to engage in any gainful occupation in Bermuda without a work permit issued by the Bermuda government. A work permit is only granted or extended if the employer can show that, after a proper public advertisement, no Bermudian, spouse of a Bermudian or individual holding a permanent resident certificate is available who meets the minimum standards for the position. The Bermuda government has announced a policy that places a six-year term limit on individuals with work permits, subject to specified exemptions for persons deemed to be key employees. Currently, all five of our Bermuda-based professional employees who require work permits have been granted permits by the Bermuda government that expire at various times between July 2004 and May 2006. This includes Peter J. Bennett, the chief executive officer of our Bermuda reinsurance operation. In the event his work permit were not renewed, we could lose his services, thereby adversely affecting our ability to conduct our business in Bermuda until we were able to replace him with an individual in Bermuda who did not require a work permit or who was granted the permit.

### **The value of our investment portfolio and the investment income we receive from that portfolio could decline as a result of market fluctuations and economic conditions.**

A significant portion of our investment portfolio consists of fixed income securities and a smaller portion consists of equity securities. Both the fair market value of these assets and the investment income from these assets fluctuate depending on general economic and market conditions. For example, the fair market value of our fixed income securities generally increases or decreases in an inverse relationship with fluctuations in interest rates. The fair market value of our fixed income securities can also decrease as a result of any downturn in the business cycle that causes the credit quality of those securities to deteriorate. The net investment income that we realize from future investments in fixed income securities will generally increase or decrease with interest rates. Interest rate fluctuations also can cause net investment income from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, to differ from the income anticipated from those securities



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at the time we bought them. In addition, if issuers of individual investments are unable to meet their obligations, investment income will be reduced and realized capital losses may arise. Because all of our securities are classified as available for sale, changes in the market value of our securities are reflected in our financial statements. Similar treatment is not available for liabilities. As a result, a decline in the value of the securities in our portfolio could reduce our net income or cause us to incur a loss.

The following table quantifies the portion of our investment portfolio that consists of fixed income securities, equity securities and investments that carry prepayment risk.

**Summary of Selected Invested Assets****Everest Re Group, Ltd.****as of December 31, 2002**

<b>Type of Security</b>	<b>Market Value (in thousands of dollars)</b>
<b>Fixed Income:</b>	
Mortgage Backed Securities	\$ 881,429
Other Asset Backed	196,699
<b>Total Asset Backed</b>	<b>1,078,128</b>
Other Fixed Income	5,701,730
<b>Total Fixed Income</b>	<b>6,779,858</b>
Equity Securities	47,473
Other Invested Assets	53,856
Cash and Short-term Investments	377,946
<b>Total Investments and Cash</b>	<b>\$ 7,259,133</b>

Further discussion of market-sensitive instruments can be found on pages 58-63 of Everest Group's Annual Report on Form 10-K for the year ended December 31, 2002.

**We may experience foreign currency exchange losses.**

Our functional currency is the United States dollar. However, we write a portion of our business in currencies other than United States dollars. During the year ended December 31, 2002, we wrote approximately 14% of our insurance coverages in currencies other than United States dollars. We also maintain a portion of our investment portfolio in investments denominated in currencies other than United States dollars. As of December 31, 2002, we maintained approximately 7% of our investment portfolio in investments denominated in currencies other than United States dollars. Consequently, quarterly exchange rate fluctuations may have a material impact on our quarterly net income. During 2000, 2001, 2002 and the first three quarters of 2003, the impact on our quarterly pre-tax net income from exchange rate fluctuations ranged from a loss of

\$3.6 million to a gain of \$1.8 million. Further discussion of foreign currency rate risk can be found on pages 60-61 of Everest Group's Annual Report on Form 10-K for the year ended December 31, 2002.

*Risks Relating to Regulation*

**Insurance laws and regulations restrict our ability to operate and any failure to comply with those laws and regulations could have a material adverse effect on our business.**

We are subject to extensive regulation under U.S., state and foreign insurance laws. These laws limit the amount of dividends that can be paid to us by our operating subsidiaries, impose restrictions on the amount and type of investments that they can hold, prescribe solvency standards that must be met and maintained by them and require them to maintain reserves. These laws also require disclosure of material intercompany transactions

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and require prior approval of extraordinary transactions. These extraordinary transactions include declaring dividends from operating subsidiaries that exceed statutory thresholds. These laws also generally require approval of changes of control of insurance companies. The application of these laws could affect our liquidity and ability to pay dividends, interest and other payments on our securities, as applicable, and could restrict our ability to expand our business operations through acquisitions of new insurance subsidiaries. In addition, we cannot assure you that we have or can maintain all required licenses and approvals or that our business fully complies with the wide variety of applicable laws and regulations or the relevant authority's interpretation of the laws and regulations. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or monetarily penalize us. These types of actions could have a material adverse effect on our business. To date, no material fine, penalty or restriction has been imposed on us for failure to comply with any insurance law or regulation.

### **Regulatory challenges in the United States could adversely affect the ability of Everest Bermuda to conduct business.**

Everest Bermuda does not intend to be licensed or admitted as an insurer or reinsurer in any U.S. jurisdiction. Under current law, Everest Bermuda generally will be permitted to reinsure U.S. risks from its office in Bermuda without obtaining those licenses. However, the insurance and reinsurance regulatory framework has become subject to increased scrutiny. In the past, there have been congressional and other initiatives in the United States regarding increased supervision and regulation of the insurance industry, including proposals to supervise and regulate reinsurers domiciled outside the United States. If Everest Bermuda were to become subject to any insurance laws of the United States or any U.S. state at any time in the future, it might be required to post deposits or maintain minimum surplus levels and might be prohibited from engaging in lines of business or from writing types of policies. Complying with those laws could have a material adverse effect on our ability to conduct business in the Bermuda market.

### **Everest Bermuda may need to be licensed or admitted in additional jurisdictions to develop its business.**

As Everest Bermuda's business develops, it will monitor the need to obtain licenses in jurisdictions other than Bermuda in order to comply with applicable law or to be able to engage in additional insurance-related activities. In addition, Everest Bermuda may be at a competitive disadvantage in jurisdictions where it is not licensed or does not enjoy an exemption from licensing relative to competitors that are so licensed or exempt from licensing. Everest Bermuda may not be able to obtain any additional licenses that it determines are necessary or desirable. Furthermore, the process of obtaining those licenses is often costly and may take a long time.

### **Everest Bermuda's ability to write reinsurance may be severely limited if it is unable to arrange for security to back its reinsurance.**

Many jurisdictions do not permit insurance companies to take credit for reinsurance obtained from unlicensed or non-admitted insurers on their statutory financial statements without appropriate security. Everest Bermuda's reinsurance clients typically require it to post a letter of credit or enter into other security arrangements. If Everest Bermuda is unable to obtain or maintain a letter of credit facility on commercially acceptable terms or is unable to arrange for other types of security, its ability to operate its business may be severely limited. If Everest Bermuda defaults on any letter of credit that it obtains, it may be required to prematurely liquidate a substantial portion of its investment portfolio and other assets pledged as collateral.



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*Risks Relating to This Offering*

**Because of our holding company structure, our ability to pay dividends, interest and principal is dependent on our receipt of dividends, loan payments and other funds from our subsidiaries.**

Everest Group and Everest Holdings are holding companies, each of whose most