EVEREST RE GROUP LTD
Form 10-K/A
March 22, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No.2 on FORM 10-K/A to Annual Report on FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003 Commission file number 1-15731

EVEREST RE GROUP, LTD.
(Exact name of registrant as specified in its charter)

Bermuda	98-0365432
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

c/o ABG Financial & Management Services, Inc.
Parker House
Wildey Business Park, Wildey Road
St. Michael, Barbados
(246) 228-7398

(Address, including zip code, and telephone number, including area code, of registrant s principal executive office)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, $.01 par value per share	New York Stock Exchange

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Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes X No___

The aggregate market value on June 30, 2003, the last business day of the registrant s most recently completed second quarter, of the voting stock held by non-affiliates of the registrant was $4,242.5 million.

At March 1, 2004, the number of shares outstanding of the registrant s common shares was 55,917,734.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Items 10, 11, 12, 13 and 14 of Form 10-K is incorporated by reference into Part III hereof from the registrant s proxy statement for the 2004 Annual General Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days of the close of the registrant s fiscal year ended December 31, 2003.

Explanatory Note

This Amendment No. 2 on Form 10-K/A to the Annual Report on Form 10-K is being filed to amend the following disclosures:

- o The table captioned Effect of Reserve Re-estimate on Calendar Year Operations in Part I, Item 1, Business Changes in Historical Reserves has been reformatted for clarity.

- o In Schedule III, Supplemental Insurance Information , Column C and Column F have been revised for 2003 to reflect the proper amounts by Geographic Area.

- o Minor typographical and formatting corrections have been made to several tables including numerical corrections in the following tables: (i) Part I, Item 1, Business Investments, table of fixed maturities, Unrealized Appreciation column; (ii)Part I, Item 7, Financial Condition, table of Net Asbestos Exposures, 2003 column subtotal; and (iii) Part IV, Item 15, Note 18 of Notes to Consolidated Financial Statements (Segment Reporting), table of underwriting results for the U.S. Insurance segment, Underwriting gain for 2001.

PART I

Unless otherwise indicated, all financial data in this document have been prepared using generally accepted accounting principles (GAAP) in the United States of America. As used in this document, Group means Everest Re Group, Ltd. (formerly Everest Group, Ltd.); Holdings means Everest Reinsurance Holdings, Inc.; Everest Re means Everest Reinsurance Company and its subsidiaries (unless the context otherwise requires); Capital Trust means Everest Re Capital Trust; and the Company means Group and its subsidiaries, except when referring to periods prior to February 24, 2000, when it means Holdings and its subsidiaries.

ITEM 1. Business

The Company

Group, a Bermuda company, with its principal executive office in Barbados, was established in 1999 as a wholly-owned subsidiary of Holdings. On February 24, 2000, a corporate restructuring was completed and Group became the new parent holding company of Holdings, which remains the holding company for the Company s U.S. based operations. Holders of shares of common stock of Holdings automatically became holders of the same number of common shares of Group. Prior to the restructuring, Group had no significant assets or capitalization and had not engaged in any business or prior activities other than in connection with the restructuring. The Company had gross written premiums in 2003 of $4.6 billion and shareholders equity at December 31, 2003 of $3.2 billion.

In connection with the restructuring, Group established a Bermuda-based reinsurance subsidiary, Everest Reinsurance (Bermuda), Ltd. (Bermuda Re), which commenced business in the second half of 2000. Group also formed Everest Global Services, Inc., a Delaware subsidiary, to perform administrative and back-office functions for Group and its U.S.-based and non-U.S. based subsidiaries.

Holdings, a Delaware corporation, was established in 1993 to serve as the parent holding company of Everest Re, a Delaware property and casualty reinsurer formed in 1973. Until October 6, 1995, Holdings was an indirect wholly-owned subsidiary of The Prudential Insurance Company of America (The Prudential). On October 6, 1995, The Prudential sold its entire interest in the shares of common stock of Holdings in an initial public offering (the IPO).

The Company s principal business, conducted through its operating subsidiaries, is the underwriting of reinsurance and insurance in the U.S., Bermuda and international markets. The Company underwrites reinsurance both through brokers and directly with ceding companies, giving it the flexibility to pursue business regardless of the ceding company s preferred reinsurance purchasing method. The Company underwrites insurance principally through general agent relationships and surplus lines brokers. Group s operating subsidiaries, excluding Mt. McKinley Insurance Company (Mt. McKinley), which is in run-off, and Everest International Reinsurance, Ltd. (Everest International), which has limited business activity, are each rated A+ (Superior) by A.M. Best Company (A.M. Best), an independent insurance industry rating organization that rates insurance companies on factors of concern to policyholders.

Following is a summary of the Company s operating subsidiaries:

- o Bermuda Re, a Bermuda insurance company and a direct subsidiary of Group, is registered in Bermuda as a Class 4 insurer and long-term insurer and is authorized to write property and casualty business and life and annuity business. Bermuda Re commenced business in the second half of 2000. In December 2000, Bermuda Re acquired all of the issued and outstanding shares of AFC Re Ltd. (AFC Re), a Bermuda long-term insurance company. AFC Re wrote annuity reinsurance business, which business has been assumed by Bermuda Re. In

September 2001, AFC Re was sold to Group and renamed Everest International. Bermuda Re had shareholders equity at December 31, 2003 of $1.3 billion based on U.S. GAAP.

- Everest International, a Bermuda insurance company and a direct subsidiary of Group, is registered in Bermuda as a Class 4 insurer and is authorized to write property and casualty business. Everest International had shareholders equity at December 31, 2003 of $120 million based on U.S. GAAP.

- Everest Re, a Delaware insurance company and a direct subsidiary of Holdings, is a licensed property and casualty insurer and/or reinsurer in all states (except Nevada and Wyoming), the District of Columbia and Puerto Rico and is authorized to conduct reinsurance business in the United Kingdom, Canada and Singapore. Everest Re underwrites property and casualty reinsurance for insurance and reinsurance companies in the U.S. and international markets. Everest Re had statutory surplus at December 31, 2003 of $1.7 billion.

- Everest National Insurance Company (Everest National), an Arizona insurance company and a direct subsidiary of Everest Re, is licensed in 47 states and the District of Columbia and is authorized to write property and casualty insurance in the jurisdictions in which it is licensed. This is called writing insurance on an admitted basis. The majority of Everest National s business is reinsured by its parent, Everest Re.

- Everest Indemnity Insurance Company (Everest Indemnity), a Delaware insurance company and a direct subsidiary of Everest Re, engages in the excess and surplus lines insurance business in the U.S. Excess and surplus lines insurance is specialty property and liability coverage that an insurer not licensed to write insurance in a particular jurisdiction is permitted to provide to insureds when the specific specialty coverage is unavailable from admitted insurers. This is called writing insurance on a non-admitted basis. Everest Indemnity is licensed in Delaware and is eligible to write business on a non-admitted basis in 49 states, the District of Columbia and Puerto Rico. The majority of Everest Indemnity s business is reinsured by its parent, Everest Re.

- Everest Security Insurance Company (Everest Security), formerly Southeastern Security Insurance Company, a Georgia insurance company and a direct subsidiary of Everest Re, was acquired in January 2000 and writes property and casualty insurance on an admitted basis in Georgia and Alabama. The majority of Everest Security s business is reinsured by its parent, Everest Re.

- Mt. McKinley Managers, L.L.C. (Managers), a New Jersey limited liability company and a direct subsidiary of Holdings, is licensed in New Jersey as an insurance producer. An insurance producer is any intermediary, such as an agent or broker, which acts as the conduit between an insurance company and an insured. Managers, which is licensed to act in New Jersey as an insurance producer in connection with policies written on both an admitted and a non-admitted basis, is the underwriting manager for Everest Indemnity.

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- Mt. McKinley (f/k/a Gibraltar Casualty Company, Gibraltar), a Delaware insurance company and a direct subsidiary of Holdings, was acquired by Holdings in September 2000 from The Prudential. Mt. McKinley was formed by Everest Re in 1978 to engage in the excess and surplus lines insurance business in the U.S. In 1985, Mt. McKinley ceased writing new and renewal insurance and now its ongoing operations relate to servicing claims arising from its previously written business. Mt. McKinley was a subsidiary of Everest Re until 1991 when Everest Re distributed the stock of Mt. McKinley to a wholly-owned subsidiary of The Prudential.

- Everest Re Holdings, Ltd. ("Everest Ltd."), a Bermuda company and a direct subsidiary of Everest Re, was formed in 1998 and owned Everest Re Ltd., a United Kingdom company that was dissolved after its reinsurance operations were converted into branch operations of Everest Re. Everest Ltd. holds $80.3 million of investments and cash, the management of which constitutes its principal operations.

Reinsurance Industry Overview

Reinsurance is an arrangement in which an insurance company, the reinsurer, agrees to indemnify another insurance company, the ceding company, against all or a portion of the insurance risks underwritten by the ceding company under one or more insurance contracts. Reinsurance can provide a ceding company with several benefits, including a reduction in net liability on individual or classes of risks, catastrophe protection from large or multiple losses and assistance in maintaining acceptable financial ratios. Reinsurance also provides a ceding company with additional underwriting capacity by permitting it to accept larger risks and write more business than would be possible without a concomitant increase in capital and surplus. Reinsurance, however, does not discharge the ceding company from its liability to policyholders.

There are two basic types of reinsurance arrangements: treaty and facultative reinsurance. In treaty reinsurance, the ceding company is obligated to cede and the reinsurer is obligated to assume a specified portion of a type or category of risks insured by the ceding company. Treaty reinsurers do not separately evaluate each of the individual risks assumed under their treaties and, consequently, after a review of the ceding company s underwriting practices, are largely dependent on the original risk underwriting decisions made by the ceding company. In facultative reinsurance, the ceding company cedes and the reinsurer assumes all or part of the risk under a single insurance contract. Facultative reinsurance is negotiated separately for each insurance contract that is reinsured. Facultative reinsurance normally is purchased by ceding companies for individual risks not covered by their reinsurance treaties, for amounts in excess of the dollar limits of their reinsurance treaties and for unusual risks.

Both treaty and facultative reinsurance can be written on either a pro rata basis or an excess of loss basis. Under pro rata reinsurance, the ceding company and the reinsurer share the premiums as well as the losses and expenses in an agreed proportion. Under excess of loss reinsurance, the reinsurer indemnifies the ceding company against all or a specified portion of losses and expenses in excess of a specified dollar amount, known as the ceding company s retention or reinsurer s attachment point, generally subject to a negotiated reinsurance contract limit.

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In pro rata reinsurance, the reinsurer generally pays the ceding company a ceding commission. The ceding commission generally is based on the ceding company s cost of acquiring the business being reinsured (commissions, premium taxes, assessments and miscellaneous administrative expense). Premiums paid by the ceding company to a reinsurer for excess of loss reinsurance are not directly proportional to the premiums that the ceding company receives because the reinsurer does not assume a proportionate risk. There is usually no ceding commission on excess of loss reinsurance.

Reinsurers may purchase reinsurance to cover their own risk exposure. Reinsurance of a reinsurer s business is called a retrocession. Reinsurance companies cede risks under retrocessional agreements to other reinsurers, known as retrocessionaires, for reasons similar to those that cause insurers to purchase reinsurance: to reduce net liability on individual or classes of risks, protect against catastrophic losses, stabilize financial ratios and obtain additional underwriting capacity.

Reinsurance can be written through intermediaries, generally professional reinsurance brokers, or directly with ceding companies. From a ceding company s perspective, both the broker and the direct distribution channels have advantages and disadvantages. A ceding company s decision to select one distribution channel over the other will be influenced by its perception of such advantages and disadvantages relative to the reinsurance coverage being placed.

Business Strategy

The Company s underwriting strategies seek to capitalize on its financial strength and capacity, its employee expertise and its flexibility to offer multiple products through multiple distribution channels. The Company s strategies include effective management of the property and casualty underwriting cycle, which refers to the tendency of insurance premiums, profits and the demand for and availability of coverage to rise and fall over time. The Company also seeks to manage its catastrophe exposures and retrocessional costs. Efforts to control expenses and to operate in a cost-efficient manner are also a continuing focus for the Company.

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The Company s products include: (1) the full range of property and casualty reinsurance and insurance coverages, including marine, aviation, surety, errors and omissions liability (E&O), directors and officers liability (D&O), medical malpractice, other specialty lines, accident and health (A&H), workers compensation and (2) reinsurance of life and annuity business. The Company s product distribution includes direct and broker reinsurance channels; U.S., Bermuda and international markets; treaty and facultative reinsurance and admitted and non-admitted insurance.

The Company s underwriting strategy emphasizes underwriting profitability rather than premium volume, writing specialized property and casualty risks and integration of underwriting expertise across all underwriting units. Key elements of this strategy are prudent risk selection, appropriate pricing through strict underwriting discipline and continuous adjustment of the Company s business mix to respond to changing market conditions. The Company focuses on reinsuring companies that effectively manage the underwriting cycle through proper analysis and pricing of underlying risks and whose underwriting guidelines and performance are compatible with its objectives.

The Company s underwriting strategy also emphasizes flexibility and responsiveness to changing market conditions, such as increased demand or favorable pricing trends. The Company believes that its existing strengths, including its broad underwriting expertise, U.S., Bermuda and international presence, strong financial ratings and substantial capital, facilitate adjustments to its mix of business geographically, by line of business and by type of coverage, allowing it to capitalize on those market opportunities that provide the greatest potential for underwriting profitability. The Company s insurance operations complement these strategies by allowing the Company access to business that would not likely be available to it on a reinsurance basis. The Company carefully monitors its mix of business across all operations to avoid inappropriate concentrations of geographic or other risk.

Marketing

The Company writes business on a worldwide basis for many different customers and for many lines of business, providing a broad array of coverages. The Company is not materially dependent on any single customer, small group of customers, line of business or geographical area. For the 2003 calendar year, no single customer (ceding company or insured) generated more than 6.8% of the Company s gross written premiums. The Company does not believe that a reduction of business from any one customer would have a material adverse effect on its future financial condition or results of operations due to the Company s competitive position in the marketplace and the continuing availability of other sources of business.

Approximately 59.0%, 15.7% and 25.3% of the Company s 2003 gross written premiums were written in the broker reinsurance, direct reinsurance and insurance markets, respectively. The Company s ability to write reinsurance both through brokers and directly with ceding companies gives it the flexibility to pursue business regardless of the ceding company s preferred reinsurance purchasing method.

The reinsurance broker market consists of several substantial national and international brokers and a number of smaller specialized brokers. Brokers do not have the authority to bind the Company with respect to reinsurance agreements, nor does the Company commit in advance to accept any portion of the business that brokers submit to it. Reinsurance business from any ceding company, whether new or renewal, is subject to acceptance by the Company. Brokerage fees are generally paid by reinsurers. The Company s ten largest brokers accounted for an aggregate of approximately 49.5% of gross written premiums in 2003, with the two largest brokers accounting for approximately 17.4% (Marsh & McLennan Companies, Inc.) and 14.2% (AON Risk Services) of gross written premiums, respectively. The Company does not believe that a reduction of business assumed from any one broker would have a materially adverse effect on the Company due to its competitive position in the market place, relationships with ceding companies and the continuing availability of other sources of business.

The direct market remains an important distribution system for reinsurance business written by the Company. Direct placement of reinsurance enables the Company to access clients who prefer to place their reinsurance directly with reinsurers based upon the reinsurer s in-depth understanding of the ceding company s needs. The Company s insurance business is written principally through general agent relationships and surplus lines brokers. The Company s largest agency relationship American All-Risk Services, LLC, accounted for approximately 12.7% of gross written premiums, which consists of approximately 24,000 individual workers compensation policies.

The Company continually evaluates each business relationship, including the underwriting expertise and experience of each distribution channel selected, performs analyses to evaluate financial security, monitors performance and adjusts underwriting decisions accordingly.

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Segment Information

The Company, through its subsidiaries, operates in five segments: U.S. Reinsurance, U.S. Insurance, Specialty Underwriting, International and Bermuda. The U.S. Reinsurance operation writes property and casualty reinsurance on both a treaty and facultative basis through reinsurance brokers as well as directly with ceding companies within the U.S. The U.S. Insurance operation writes property and casualty insurance primarily through general agent relationships and surplus lines brokers within the U.S. The Specialty Underwriting operation writes A&H, marine, aviation and surety business within the U.S. and worldwide through brokers and directly with ceding companies. The International operation writes property and casualty reinsurance through Everest Re s branches in London, Canada and Singapore, in addition to foreign business written through the Company s Miami and New Jersey offices. The Bermuda operation writes property, casualty, life and annuity business through brokers and directly with ceding companies.

These segments are managed in a carefully coordinated fashion with strong elements of central control, including with respect to capital, investments and support operations. As a result, management monitors and evaluates the financial performance of these operating segments principally based upon their underwriting results. The Company utilizes inter-affiliate reinsurance but such reinsurance does not impact segment results, since business is generally reported within the segment in which the business was first produced. For selected financial information regarding these segments, see Note 18 of Notes to Consolidated Financial Statements.

The Company has recently announced that one of its subsidiaries, Everest Re, has reached agreement, subject to regulatory approval, to sell its United Kingdom branch to another of the Company s subsidiaries, Bermuda Re. Business for this branch is currently reported through the International segment; however, upon completion of the transaction, the business of this branch will be included in the Bermuda segment. Appropriate disclosures will be made in future filings to address the segment financial result fluctuations caused by the transfer.

The Company has also recently announced that another subsidiary, Everest National, has opened a regional office in California to better serve its western U.S. Insurance business. The additional office will not affect segment reporting.

Underwriting Operations

The following table presents the distribution of the Company s gross written premiums by its U.S. Reinsurance, U.S. Insurance, Specialty Underwriting, International and Bermuda operations for the years ended December 31, 2003, 2002, 2001, 2000, and 1999, classified according to whether the premium is derived from property or casualty business and, for reinsurance business, whether it represents pro rata or excess of loss business:

Gross Written Premiums by Operation

	Years Ended December 31,									
(Dollars in millions)	2003		2002		2001		2000		1999	
U.S. Reinsurance										
Property										
Pro Rata (1)	$ 357.8	7.8%	$ 148.7	5.2%	$ 62.9	3.4%	$ 60.2	4.3%	$ 48.6	4.3%
Excess	241.0	5.3	177.8	6.2	104.0	5.5	75.6	5.5	67.0	5.9
Casualty										
Pro Rata (1)	625.7	13.7	219.2	7.7	191.2	10.2	151.1	10.9	152.9	13.4
Excess	527.8	11.5	348.9	12.3	252.3	13.5	194.7	14.1	222.1	19.5
Total (2)	1,752.3	38.3	894.6	31.4	610.4	32.6	481.6	34.8	490.6	43.0
U.S. Insurance										
Property										
Pro Rata (1)	42.9	0.9	6.5	0.2	6.2	0.3	9.3	0.7	3.8	0.3
Excess	--	0.0	--	0.0	--	0.0	--	0.0	--	0.0
Casualty										
Pro Rata (1)	1,026.6	22.5	815.0	28.6	496.1	26.5	241.2	17.4	66.6	5.8
Excess	--	0.0	--	0.0	--	0.0	--	0.0	--	0.0
Total (2)	1,069.5	23.4	821.5	28.9	502.4	26.8	250.5	18.1	70.4	6.2
Specialty Underwriting										
Property										
Pro Rata (1)	396.7	8.7	397.5	14.0	356.3	19.0	274.0	19.8	213.6	18.7
Excess	64.3	1.4	43.8	1.5	35.0	1.9	19.3	1.4	19.7	1.7
Casualty										
Pro Rata (1)	28.1	0.6	41.9	1.5	18.4	1.0	21.4	1.5	32.3	2.8
Excess	13.8	0.3	5.3	0.2	4.3	0.2	3.6	0.3	2.9	0.3
Total (2)	502.9	11.0	488.5	17.2	414.0	22.1	318.3	23.0	268.5	23.5
Total U.S.										
Property										
Pro Rata (1)	797.4	17.4	552.7	19.4	425.5	22.7	343.4	24.8	266.0	23.3
Excess	305.3	6.7	221.6	7.8	139.0	7.4	94.9	6.9	86.7	7.6
Casualty										
Pro Rata (1)	1,680.4	36.8	1,076.1	37.8	705.8	37.6	413.8	29.9	251.8	22.1
Excess	541.6	11.8	354.2	12.4	256.7	13.7	198.3	14.3	225.1	19.7
Total (2)	3,324.7	72.7	2,204.6	77.4	1,526.8	81.4	1,050.4	75.9	829.5	72.7
International										
Property										
Pro Rata (1)	471.7	10.3	328.4	11.5	171.0	9.1	143.4	10.3	124.6	10.9

Excess	218.8	4.8	122.9	4.3	60.0	3.2	55.6	4.0	54.8	4.8
Casualty										
Pro Rata (1)	172.8	3.8	35.3	1.2	54.3	2.9	78.4	5.7	84.4	7.4
Excess	101.0	2.2	54.3	1.9	37.5	2.0	46.2	3.3	48.5	4.3
Total (2)	964.3	21.1	540.9	19.0	322.8	17.2	323.6	23.4	312.3	27.4
Bermuda Operations										
Property										
Pro Rata (1)	86.8	1.9	37.1	1.3	6.2	0.3	--	0.0	--	0.0
Excess	139.3	3.0	36.0	1.3	0.6	0.0	--	0.0	--	0.0
Casualty										
Pro Rata (1)	34.0	0.7	15.1	0.5	18.1	1.0	11.6	0.8	--	0.0
Excess	24.7	0.6	12.8	0.4	0.1	0.0	--	0.0	--	0.0
Total (2) (3)	284.8	6.2	101.0	3.5	25.0	1.3	11.6	0.8	--	0.0
Total Company										
Property										
Pro Rata (1)	1,355.9	29.6	918.2	32.3	602.6	32.1	486.8	35.1	390.6	34.2
Excess	663.4	14.5	380.5	13.4	199.6	10.6	150.5	10.9	141.4	12.4
Casualty										
Pro Rata (1)	1,887.2	41.3	1,126.5	39.6	778.1	41.5	503.8	36.4	336.2	29.4
Excess	667.3	14.6	421.3	14.8	294.3	15.7	244.5	17.6	273.6	24.0
Total (2)	$ 4,573.8	100.0%	$ 2,846.5	100.0%	$ 1,874.6	100.0%	$ 1,385.6	100.0%	$ 1,141.8	100.0%

(1) For purposes of the presentation above, pro rata includes reinsurance attaching to the first dollar of loss incurred by the ceding company and insurance.
(2) Certain totals and subtotals may not reconcile due to rounding.
(3) Includes immaterial amounts of life and annuity premium.

U.S. Reinsurance Operation. The Company s U.S. Reinsurance operation writes property and casualty reinsurance, both treaty and facultative, through reinsurance brokers as well as directly with ceding companies within the U.S. The Company targets certain brokers and, through the broker market, specialty companies and small to medium sized standard lines companies. On a direct basis, the Company targets companies that place their business predominantly in the direct market, including small to medium sized regional ceding companies, and seeks to develop long-term relationships with those companies. In addition, the U.S. Reinsurance operation writes portions of reinsurance programs for larger, national insurance companies.

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In 2003, $484.7 million of gross written premiums were attributable to U.S. treaty property business, of which 26.2% was written on an excess of loss basis and 73.8% was written on a pro rata basis. The Company s property underwriters utilize sophisticated underwriting methods which management believes are necessary to analyze and price property business, particularly that segment of the property market which has catastrophe exposure.

U.S. treaty casualty business accounted for $959.3 million of gross written premiums in 2003, of which 34.8% was written on an excess of loss basis and 65.2% was written on a pro rata basis. The treaty casualty portfolio consists of professional liability, D&O liability, workers compensation, excess and surplus lines and other liability coverages. As a result of the complex technical nature of most of these risks, the Company s casualty underwriters tend to specialize by line of business and work closely with the Company s pricing actuaries.

The Company s facultative unit conducts business both through brokers and directly with ceding companies, and consists of four underwriting units representing property, casualty, specialty and national brokerage lines of business. Business is written from a facultative headquarters office in New York and satellite offices in Chicago and Oakland. In 2003, $80.7 million, $167.2 million, $27.0 million and $33.4 million of gross written premiums were attributable to the property, casualty, specialty and national brokerage lines of business, respectively.

In 2003, 86.0% and 14.0% of the U.S. Reinsurance operation s gross written premiums were written in the broker and direct reinsurance markets, respectively.

U.S. Insurance Operation. In 2003, the Company s U.S. Insurance operation wrote $1,069.5 million of gross premiums, of which 96.0% was casualty, predominantly workers compensation insurance, and 4.0% was property. Of the total business written, Everest National wrote $876.5 million and Everest Re wrote $13.8 million, with both principally targeting commercial property and casualty business written through general agency relationships with program administrators. Everest Indemnity wrote $152.8 million, principally targeting excess and surplus lines insurance business written through surplus lines brokers. Everest Security wrote $26.4 million, principally targeting non-standard auto business written through retail agency relationships. With respect to insurance written through general agents and surplus lines brokers, the Company supplements the initial underwriting process with periodic claims, underwriting and operational reviews and ongoing monitoring.

Specialty Underwriting Operation. The Company s Specialty Underwriting operation writes A&H, marine, aviation and surety reinsurance. The A&H unit primarily focuses on health reinsurance of traditional indemnity plans, self-insured health plans, accident coverages and specialty medical plans. The marine and aviation unit focuses on ceding companies with a particular expertise in marine and aviation business. The marine and aviation business is written primarily through brokers and contains a significant international component written primarily in the London market. Surety business underwritten by the Company consists mainly of reinsurance of contract surety bonds.

Gross written premiums by the A&H unit in 2003 totaled $352.3 million, of which 39.3% was written through the broker market and 60.7% was written through the direct market.

Gross written premiums by the marine and aviation unit in 2003 totaled $75.1 million, substantially all of which was written on a treaty basis and 95.6% of which was sourced through reinsurance brokers. Marine treaties represented 44.2% of marine and aviation gross written premiums in 2003 and consisted mainly of hull and liability coverage. Approximately 27.1% of the marine unit premiums in 2003 were written on a pro rata basis and 72.9% as excess of loss. Aviation premiums accounted for 55.8% of marine and aviation gross written premiums in 2003 and included reinsurance for airlines and general aviation. Approximately 67.2% of the aviation unit s premiums in 2003 were written on a pro rata basis and 32.8% as excess of loss.

In 2003, gross written premiums by the surety unit totaled $75.5 million. Approximately 79.9% of the surety unit premiums in 2003 were written on a pro rata basis and 20.1% on an excess of loss basis. Most of the portfolio is reinsurance of contract surety bonds written directly with ceding companies, with the remainder being credit reinsurance, mostly in international markets.

International Operation. The Company s International operation is designed to enable it to capitalize on the growth opportunities in the international reinsurance markets. The Company targets several international markets, including: Europe and the London markets, which are serviced by a branch in London, (which has been sold to Bermuda Re subject to required regulatory approval); Canada, with a branch in Toronto; Asia, with a branch in Singapore; and Latin America, Africa and the Middle East, which business is serviced from Everest Re s Miami and New Jersey offices. The Company also writes home-foreign business, which provides reinsurance on the international portfolios of U.S. insurers, from New Jersey. Approximately 71.6% of the gross written premiums by the Company s international underwriters in 2003 represented property business, while 28.4% represented casualty business. As with its U.S. operations, the Company s International operation focuses on financially sound companies that have strong management and underwriting discipline and expertise. Approximately 76.0% of the Company s international business was written through brokers, with 24.0% written directly with ceding companies.

In 2003, the Company s gross written premiums by its London branch totaled $443.5 million and consisted of pro rata property (32.3%), excess property (22.6%), pro rata casualty (31.9%) and excess casualty (13.2%). Substantially all of the London premiums consisted of treaty reinsurance.

Gross written premiums by the Company s Canadian office totaled $141.4 million in 2003 and consisted of pro rata property (52.0%), excess property (19.8%), pro rata multi-line (4.1%) and excess casualty (24.1%). Approximately 75.2% of the Canadian premiums consisted of treaty reinsurance, while 24.8% was facultative reinsurance.

The Company s Singapore branch covers the Asian markets and accounted for $44.9 million of gross written premiums in 2003. This business consisted of pro rata property (50.4%), excess property (36.4%), pro rata casualty (12.1%) and excess casualty (1.1%).

International business written out of Everest Re s Miami and New Jersey offices accounted for $334.5 million of gross written premiums in 2003 and consisted of pro rata treaty property (69.4%), pro rata treaty casualty (6.0%), excess treaty property (13.7%), excess treaty casualty (2.2%) and excess facultative property and casualty (8.7%). Of this international business, 66.6% was sourced from Latin America, 22.3% was sourced from the Middle East, 8.9% was sourced from Africa and 2.2% was home-foreign business.

Bermuda Operation. The Company s Bermuda operation writes property, casualty, life and annuity business through Bermuda Re. In 2003, the Bermuda operation continued to scale up and had gross property and casualty written premiums of $284.8 million, of which $145.6 million or 51.1% was facultative reinsurance or individual risk insurance and $139.2 million or 48.9% was treaty reinsurance.

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Geographic Areas

The Company conducts its business in Bermuda, the U.S. and a number of foreign countries. For select financial information about geographic areas, see Note 18 of Notes to the Consolidated Financial Statements. Risks attendant to the foreign operations of the Company parallel those attendant to the U.S. operations of the Company, with the primary exception of foreign exchange risks. For more information about the risks, see ITEM 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Safe Harbor Disclosure .

Underwriting Process

The Company offers ceding companies full service capability, including actuarial, claims, accounting and systems support, either directly or through the broker community. The Company s capacity for both property and casualty risks allows it to underwrite entire contracts or major portions thereof that might otherwise need to be syndicated among several reinsurers. The Company s strategy is to act as lead reinsurer in many of the reinsurance treaties it underwrites. The lead reinsurer on a treaty generally accepts one of the largest percentage shares of the treaty and is in a stronger position to negotiate price, terms and conditions than is a reinsurer that takes a smaller position. Management believes this strategy enables it to more effectively influence the terms and conditions of the treaties on which it participates. When the Company does not lead the treaty, it may still suggest changes to any aspect of the treaty. The Company may decline to participate in a treaty based upon its assessment of all relevant factors.

The Company s treaty underwriting process emphasizes a team approach among the Company s underwriters, actuaries and claim staff. Treaties are reviewed for compliance with the Company s general underwriting standards and certain larger treaties are evaluated in part based upon actuarial analyses by the Company. The actuarial models used in such analyses are tailored in each case to the exposures and experience underlying the specific treaty and the loss experience for the risks covered by such treaties. The Company does not separately evaluate each of the individual risks assumed under its treaties. The Company does, however, generally evaluate the underwriting guidelines of its ceding companies to determine their adequacy prior to entering into a treaty. The Company, when appropriate, also conducts underwriting, operational and claim audits at the offices of ceding companies to ensure that the ceding companies operate within such guidelines. Underwriting audits focus on the quality of the underwriting staff, the selection and pricing of risks and the capability of monitoring price levels over time. Claim audits, when appropriate, are performed in order to evaluate the client s claims handling abilities and practices.

The Company s facultative underwriters operate within guidelines specifying acceptable types of risks, limits and maximum risk exposures. Specified classes of U.S. risks and large premium risks are referred to Everest Re s New York facultative headquarters for specific review before premium quotations are given to clients. In addition, the Company s guidelines require certain types of risks to be submitted for review because of their aggregate limits, complexity or volatility, regardless of premium amount on the underlying contract. Non-U.S. risks exhibiting similar characteristics are reviewed by senior managers within the involved operations.

The Company s insurance operations principally write property and casualty coverages for homogeneous risks through select program managers. These programs are evaluated based upon actuarial analysis and the program manager s capabilities. The Company s rates, forms and underwriting guidelines are tailored to specific risk types. The Company s underwriting, actuarial, claim and financial functions work closely with its program managers to establish appropriate underwriting and processing guidelines as well as appropriate monitoring mechanisms.

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Risk Management and Retrocession Arrangements

The Company manages its risk of loss through a combination of aggregate exposure limits, underwriting guidelines that take into account risks, prices and coverage, and retrocessional arrangements.

The Company is exposed to multiple insured losses arising out of a single occurrence, whether a natural event, such as a hurricane or an earthquake, or other catastrophe, such as an explosion at a major factory. Any such catastrophic event could generate insured losses in one, several or many of the Company s treaties or lines of business, including property and/or casualty exposures. The Company employs various techniques, including licensed software modeling, to assess its accumulated exposure. Such techniques are inherently more difficult to apply to non-property exposures. Accumulated exposures with respect to catastrophe losses are generally summarized in terms of the probable maximum loss (PML). The Company defines PML as its anticipated maximum loss, taking into account contract limits, caused by a single catastrophe affecting a broad contiguous geographic area, such as that caused by a hurricane or earthquake, of such a magnitude that it is expected to occur once in every 100 years.

Management believes that the Company s greatest catastrophe exposure world wide from any single event is to a European windstorm where the Company estimates it has a pre-tax PML exposure of $430 million. The Company further estimates that its greatest pre-tax U.S. PML exposure, which relates to an earthquake affecting the west coast including workers compensation exposure is $404 million. The second largest U.S. exposure relates to a hurricane affecting the east coast with a PML of $302 million. There can be no assurance that the Company will not experience losses from one or more catastrophic events that exceed, perhaps by a substantial amount, its estimated PML.

The U.S. Terrorism Risk Insurance Act of 2002 was signed into law in November 2002. This legislation provides Federal reimbursement of 90% of insured losses, in excess of statutory retention levels, due to acts of terrorism carried out by foreign powers on U.S. soil or against U.S. air carriers, vessels or foreign missions. This coverage does not apply to reinsurance. Reinsurance contracts generally exclude losses arising from terrorist events, except where such coverage has been specifically included in the underwriting and pricing of the involved reinsurance. The Company does not believe that this legislation has had a significant impact on its operations.

Underwriting guidelines have been established for each business unit. These guidelines place dollar limits on the amount of business that can be written based on a variety of factors, including ceding company, line of business, geographical location and risk hazards. In each case, those guidelines permit limited exceptions, which must be authorized by the Company s senior management.

The Company employs a retrocessional approach under which the Company may purchase reinsurance to cover specific business written or exposure accumulations or as a corporate level retrocessional program covering the potential accumulation or aggregation of exposures across some or all of the Company s operations. All reinsurance purchasing decisions consider both the potential coverage and market conditions with respect to the pricing, terms, conditions and availability of such coverage, with the aim of securing cost-effective protection. The level of reinsurance coverage varies over time, reflecting the underwriter s and/or Company s view of the changing dynamics of both the underlying exposure and the reinsurance markets.

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The Company does not typically purchase significant amounts of reinsurance to cover specific reinsurance business written, but it does from time to time purchase retrocessional protections where underwriting management deems it to be prudent and/or cost-effective to reinsure a portion of the specific risks being assumed. The Company purchased an excess property facultative retrocessional program in 2002 and 2001 as well as an excess workers compensation retrocessional program in 2001. In addition, the Company purchased an excess property catastrophe retrocessional program for losses incurred outside of the U.S. in 2002 and 2001. The 2002 program, which expired on June 5, 2003, was not renewed. The Company also participates in common account retrocessional arrangements for certain reinsurance treaties. Common account reinsurance arrangements are arrangements whereby the ceding company purchases reinsurance for the benefit of itself and its reinsurers on one or more of its reinsurance treaties. Common account retrocessional arrangements reduce the effect of individual or aggregate losses to all participating companies, including the ceding company, with respect to the involved treaties.

The Company typically considers the purchase of reinsurance to cover insurance programs written by the U.S. Insurance operation. Such consideration includes balancing the underlying exposures against the availability of cost-effective reinsurance protection. For policies incepting during or after November 1998, the Company purchased a workers compensation reinsurance program that provided for statutory limits coverage in excess of $75,000 of losses per occurrence on the Company s workers compensation insurance business written prior to November 1, 2000. Effective November 2000, this primary workers compensation reinsurance program provided statutory limits coverage in excess of $250,000 of losses per occurrence for business written prior to December 31, 2001. The Company has not purchased such coverage for the period subsequent to December 31, 2001. In addition, for the twelve-month period commencing July 31, 2000, the Company purchased reinsurance for a specific program of business. The reinsurance, subject to certain aggregate limits, covered U.S. Longshore and Harbor Workers Compensation Act and state act workers compensation business for 100% of loss occurrences up to $100 million. Consistent with the $1 million limits of the underlying policies in the program, reinsurance for 100% of Maritime Employers Liability and Employers Liability was also provided. This program was not renewed after its 2001 expiration.

The Company also considers purchasing corporate level retrocessional protection covering the potential accumulation of exposures. Such consideration includes balancing the underlying exposures against the availability of cost-effective retrocessional protection. For years ended December 31, 1999, 2000 and 2001, the Company purchased accident year aggregate excess of loss retrocession coverage that provided up to $175.0 million of coverage for each year. These excess of loss policies provided coverage if Everest Re s consolidated statutory basis accident year loss ratio exceeded a loss ratio attachment point for each year of coverage. The attachment point was net of inuring reinsurance and included adjustable premium provisions that effectively caused the Company to offset, on a pre-tax income basis, up to approximately 57% of such ceded losses. The maximum recovery for each year is $175.0 million before giving effect to the adjustable premium. As of December 31, 2003, the Company has ceded the maximum limits under all three contracts. The Company did not purchase similar coverage subsequent to December 31, 2001.

Although certain of the Company s catastrophe and aggregate excess of loss retrocessions have terms which provide for additional premiums to be paid to the retrocessionaire in the event that losses are ceded, all aspects of the Company s retrocessional program have been structured to permit these agreements to be accounted for as reinsurance under Statement of Financial Accounting Standards No. 113, Accounting and

Reporting for Reinsurance of Short Duration and Long Duration Contracts .

If a single catastrophe were to occur that resulted in $430 million of gross losses and loss adjustment expenses (LAE) in 2004 (an amount equivalent to the Company s PML), management estimates that the effect on the Company s income would be approximately $430 million and $335 million before and after taxes, respectively. There can be no assurance that the Company will not experience one or more catastrophic events that could cause these estimates to be exceeded, perhaps by a substantial amount.

In connection with the Company s acquisition of Mt. McKinley in September 2000, the Company had coverage under an aggregate excess of loss reinsurance agreement provided by Prudential Property and Casualty Insurance Company of Indiana (Prupac), a wholly-owned subsidiary of The Prudential. This agreement covers 80% or $160 million of the first $200 million of any adverse loss reserve development on the carried reserves of Mt. McKinley at the date of acquisition and reimburses the Company as such losses are paid by the Company. Cessions under this reinsurance were $81 million, $57 million and $22 million for the years ended December 31, 2003, 2002 and 2001, respectively, exhausting the limit available under the contract at December 31, 2003.

Also in connection with the Mt. McKinley acquisition, Prupac provided excess of loss reinsurance for 100% of the first $8.5 million of loss with respect to certain of Mt. McKinley s retrocessions and potentially uncollectible reinsurance coverage. There were no cessions under this reinsurance during the years ended December 31, 2003 and 2002, maintaining the limit available under the contract at $2.4 million. There was $3.6 million of cessions under this reinsurance for the year ended December 31, 2001.

As of December 31, 2003, the Company carried as an asset $1,284.1 million in reinsurance receivables with respect to losses ceded. Of this amount, $494.5 million, or 38.5%, was receivable from subsidiaries of London Reinsurance Group (London Life), $160.0 million, or 12.5%, was receivable from Prupac and $145.0 million, or 11.3%, was receivable from Continental Insurance Company (Continental) and $96.7 million, or 7.5% was receivable from Tranatlantic Reinsurance Company. No other retrocessionaire accounted for more than 5% of the Company s receivables. See ITEM 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition .

The Company s arrangements with both London Life and Continental are managed on a funds held basis, which means that the Company has not released premium payments to the retrocessionaire but rather retains such payments to secure obligations of the retrocessionaire, records them as a liability, credits interest on the balances and reduces the liability account as payments become due. As of December 31, 2003, such funds had reduced the Company s net exposure to London Life to $204.9 million, effectively 100% of which has been secured by letters of credit, and its exposure to Continental to $53.3 million. Prupac s obligations are guaranteed by The Prudential.

No assurance can be given that the Company will seek or be able to obtain retrocessional coverage in the future similar to that in place currently or in the past. The Company continuously evaluates its exposures and risk capacities in the context of reinsurance market conditions, at both the specific and corporate level. Although management carefully selects its reinsurers, the Company is subject to credit risk with respect to its reinsurance because the ceding of risk to reinsurers does not relieve the Company of its liability to insureds or ceding companies.

Mt. McKinley - Acquisition

The Company completed its acquisition of Gibraltar, subsequently renamed Mt. McKinley, in September 2000. In connection with the acquisition, the seller provided the reinsurance described above and the Company terminated certain relationships between Mt. McKinley and its former parent, The Prudential, and its affiliates. Mt. McKinley s ongoing operations relate to servicing claims arising from (1) insurance written by Mt. McKinley or Everest Re prior to 1985, (2) reinsurance of insurance business and certain Everest Re reinsurance business written prior to 1991 which had previously been reinsured with third parties and commuted with those third parties into Mt. McKinley and (3) exposure to adverse loss reserve development on Everest Re s reserves as of June 30, 1995, which exposure was assumed by Mt. McKinley at the time of the Company s initial public offering. Effective September 19, 2000, Mt. McKinley and Bermuda Re entered into a loss portfolio transfer reinsurance agreement, whereby Mt. McKinley transferred, for what management believes to be arm s-length consideration, all of its net insurance exposures and reserves to Bermuda Re.

Claims

Reinsurance claims are managed by the Company s professional claims staff whose responsibilities include reviewing initial loss reports and coverage issues, monitoring claims handling activities of ceding companies, establishing and adjusting proper case reserves and approving payment of claims. In addition to claims assessment, processing and payment, the claims staff selectively conducts comprehensive claim audits of both specific claims and overall claim procedures at the offices of selected ceding companies. Insurance claims, except those relating to Mt. McKinley s business, are generally handled by third party claims services providers who have limited authority and are subject to oversight by the Company s professional claims staff.

The Company intensively manages its asbestos and environmental (A&E) exposures through dedicated, centrally managed claim staffs for Mt. McKinley and Everest Re. Both are staffed with experienced claim and legal professionals that specialize in the handling of such exposures. These units actively manage each individual insured and reinsured account, responding to claim developments with evaluations of the involved exposures and adjustment of reserves as appropriate. Specific or general claim developments that may have material implications for the Company are regularly communicated to senior management, actuarial, legal and financial areas. Meetings among these areas, claim management and senior management are held at least quarterly to review the Company s overall reserve positions and make changes, if appropriate. The Company continually reviews its internal processing, communications and analytics, seeking to enhance the management of it s A&E exposures, in particular in the context of changes in the landscape of asbestos claims and litigation.

Reserves for Unpaid Property and Casualty Losses and Loss Adjustment Expenses

Significant periods of time may elapse between the occurrence of an insured loss, the reporting of the loss to the insurer and the reinsurer and the payment of that loss by the insurer and subsequent payments to the insurer by the reinsurer. To recognize liabilities for unpaid losses and LAE, insurers and reinsurers establish reserves, which are balance sheet liabilities representing estimates of future amounts needed to pay reported and unreported claims and related expenses on losses that have already occurred. Actual losses and LAE paid may deviate, perhaps substantially, from such reserves. To the extent reserves prove to be insufficient to cover actual losses and LAE after taking into account available reinsurance coverage, the Company would have to augment such reserves and incur a charge to earnings, which could be material in the period such augmentation takes place. See ITEM 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Loss and LAE Reserves .

While the reserving process is difficult and subjective for insurance companies, the inherent uncertainties of estimating such reserves are even greater for the reinsurer, due primarily to the longer time between the date of an occurrence and the reporting of any attendant claims to the reinsurer, the diversity of development patterns among different types of reinsurance treaties or facultative contracts, the necessary reliance on the ceding companies for information regarding reported claims and differing reserving practices among ceding companies. In addition, trends that have affected development of liabilities in the past may not necessarily occur or affect liability development to the same degree in the future. As a result, actual losses and LAE may deviate, perhaps substantially, from estimates of reserves reflected in the Company s consolidated financial statements.

Like many other property and casualty insurance and reinsurance companies, the Company has experienced adverse loss development for prior accident years, which has led to adjustments in losses and LAE reserves. The increase in net reserves for prior accident years reduced net income for the periods in which the adjustments were made. There can be no assurance that adverse development from prior years will not continue in the future or that such adverse development will not have a material adverse effect on net income.

Changes in Historical Reserves

The following table shows changes in historical loss reserves for the Company for 1993 and subsequent years. The table is presented on a GAAP basis except that the Company s loss reserves for its Canadian branch operations are presented in Canadian dollars, the impact of which is not material. The top line of the table shows the estimated reserves for unpaid losses and LAE recorded at each year end date. Each amount in the top line represents the estimated amount of future payments for losses and LAE on claims occurring in that year and in all prior years. The upper (paid) portion of the table presents the cumulative amounts paid through each subsequent year on those claims for which reserves were carried as of each specific year end. The lower (liability re-estimated) portion shows the re-estimated amount of the previously recorded reserves based on experience as of the end of each succeeding year. The reserve estimates change as more information becomes known about the actual claims for which the initial reserves were carried. The cumulative redundancy/deficiency line represents the cumulative change in estimates since the initial reserve was established. It is equal to the latest liability re-estimated amount less the initial reserve.

Each amount other than the original reserves in the top half of the table below includes the effects of all changes in amounts for prior periods. For example, if a loss settled in 1996 for $100,000 was first reserved in 1993 at $60,000 and remained unchanged until settlement, the $40,000 deficiency (actual loss minus original estimate) would be included in the cumulative redundancy (deficiency) in each of the years in the period 1993 through 1995 shown below. Conditions and trends that have affected development of liability in the past are not indicative of future developments. Accordingly, it is not appropriate to extrapolate future redundancies or deficiencies based on this table.

Ten Year GAAP Loss Development Table Presented Net of Reinsurance with Supplemental Gross Data (1) (2) (3)

	Years Ended December 31,										
(Dollars in millions)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Reserves for unpaid loss and LAE	$ 1,934.2	$ 2,104.2	$ 2,316.1	$ 2,551.6	$ 2,810.0	$ 2,953.5	$ 2,977.4	$ 3,364.9	$ 3,472.5	$ 3,895.8	$ 5,158.4
Paid (cumulative) as of:											
One year later	403.5	359.5	270.4	331.2	450.8	484.3	673.4	718.1	892.7	902.6	
Two years later	627.7	638.0	502.8	619.2	747.9	955.3	1,159.1	1,264.2	1,517.9		
Three years later	820.5	828.0	682.0	813.7	1,101.5	1,295.5	1,548.3	1,637.5			
Four years later	953.0	983.6	806.3	1,055.9	1,363.1	1,575.9	1,737.8				
Five years later	1,071.5	1,143.4	990.9	1,253.0	1,592.5	1,693.3					
Six years later	1,202.2	1,294.8	1,131.5	1,450.2	1,673.4						
Seven years later	1,324.0	1,412.2	1,300.0	1,510.2							
Eight years later	1,421.1	1,538.6	1,347.0								
Nine years later	1,528.2	1,579.2									
Ten years later	1,565.1										
Liability re-estimated as of:											
One year later	2,008.5	2,120.8	2,286.5	2,548.4	2,836.2	2,918.1	2,985.2	3,364.9	3,612.6	4,152.7	
Two years later	2,015.4	2,233.7	2,264.5	2,575.9	2,802.2	2,921.6	2,977.2	3,484.6	3,901.8		
Three years later	2,119.0	2,271.2	2,285.1	2,546.0	2,794.7	2,910.3	3,070.5	3,688.6			
Four years later	2,164.5	2,452.3	2,260.7	2,528.0	2,773.5	2,924.5	3,202.6				
Five years later	2,344.9	2,381.7	2,254.5	2,515.7	2,765.2	3,002.2					
Six years later	2,278.3	2,382.0	2,247.3	2,507.9	2,778.9						
Seven years later	2,279.1	2,380.8	2,243.9	2,510.1							
Eight years later	2,277.3	2,367.3	2,248.4								
Nine years later	2,265.6	2,381.4									
Ten years later	2,287.0										
Cumulative (deficiency)/ redundancy	$ (352.8)	$ (277.2)	$ 67.7	$ 41.5	$ 31.1	$ (48.7)	$ (225.2)	$ (323.7)	$ (429.3)	$ (256.9)	
Gross liability-end of year	$ 2,576.0	$ 2,752.7	$ 3,017.0	$ 3,298.2	$ 3,498.7	$ 3,869.2	$ 3,705.2	$ 3,853.7	$ 4,356.0	$ 4,985.8	$ 6,424.7
Reinsurance receivable	641.8	648.5	700.9	746.6	688.7	915.7	727.8	488.8	883.5	1,090.0	1,266.3
Net liability-end of year	1,934.2	2,104.2	2,316.1	2,551.6	2,810.0	2,953.5	2,977.4	3,364.9	3,472.5	3,895.8	5,158.4
Gross re-estimated liability at at December 31, 2003	3,410.3	3,426.6	3,511.9	3,635.4	3,771.5	3,954.6	4,181.4	4,708.0	5,179.9	5,386.2	
Re-estimated receivable at December 31, 2003	1,123.3	1,045.2	1,263.6	1,125.3	992.6	952.4	978.8	1,019.4	1,278.1	1,233.5	
Net re-estimated liability at December 31, 2003	2,287.0	2,381.4	2,248.4	2,510.1	2,778.9	3,002.2	3,202.6	3,688.6	3,901.8	4,152.7	
Gross cumulative (deficiency)/redundancy	$ (834.3)	$ (673.9)	$ (494.9)	$ (337.2)	$ (272.8)	$ (85.4)	$ (476.2)	$ (854.3)	$ (823.9)	$ (400.4)	

(1) Includes $480.9 million relating to Mt. McKinley at December 31, 2000, principally reflecting $491.1 million of Mt. McKinley reserves at the acquisition date.
(2) The Canadian Branch reserves are reflected in Canadian dollars.
(3) Some totals may not reconcile due to rounding.

The most recent five years on the above table reflect cumulative deficiencies, also referred to as adverse development, with the largest indicated deficiency in 2001. Three active classes of business are the principal contributors to those deficiencies: professional liability reinsurance, general casualty reinsurance and workers compensation insurance. In addition to these active business classes, there continues to be adverse experience on A&E reserves.

In the professional liability reinsurance class, the late 1990s and early 2000s saw a proliferation of claims relating to bankruptcies and other corporate, financial and/or management improprieties. This resulted in an increase in the frequency and severity of claims on the professional liability policies reinsured by the Company. In the general casualty area, the Company continues to experience claim frequency and severity greater than expected in the Company s pricing and reserving assumptions, particularly for accident years 1998 through 2001. These losses reflect unfavorable trends in litigation and economic variability. With respect to both of these classes, another factor was the increasingly competitive conditions in insurance and reinsurance markets during this period. While the Company seeks to manage the impact of competitive condition changes on its results, it is generally unable to divorce itself entirely from the underlying industry cycles of its principal business. See ITEM 1, Business Competition .

In the workers compensation insurance class, the majority of which was written in California, the Company has experienced adverse development primarily for accident years 2001 and 2002. As a result of significant growth in this book of business in a challenging business environment, the Company s writings in this class were relatively more subject to variability than are some of its more established and/or stable lines of business. Although cumulative results through 2003 continue to be profitable for this book of business, there has been some deterioration in claim frequency and severity related to accident years 2001 and 2002, which the Company generally attributes to the growth of this portfolio of business.

With respect to active business classes, the Company actively manages the collection, auditing and analysis of loss data and factors the resulting information into both its reserving processes and its prospective underwriting and pricing activities on as timely a basis as possible.

For years 1994 and prior, management believes that two factors had the most significant impact on loss development. First, through the 1980s, a number of industry and external factors, such as the propensity of courts to award large damage awards in liability cases, combined to increase loss frequency and severity to unexpectedly high levels. Second, contracts written prior to 1986 contained coverage terms which, for the Company and the industry in general, have been interpreted by courts to provide coverage for A&E exposures not contemplated by either the pricing or the initial reserving of the contracts. Legal developments during the 1980s and continuing to date have necessitated additional reserving for such exposures on both a case basis and an incurred but not reported (IBNR) basis. These factors were the primary reasons for the cumulative adverse development on the 1994 and 1993 calendar year reserves. See ITEM 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Asbestos and Environmental Exposures .

The change between 1994 and 1995 reflects the impact of a stop loss reinsurance agreement with Mt. McKinley, which was then a subsidiary of The Prudential. This stop loss agreement commenced in 1995 when The Prudential sold the stock of the Company in an initial public offering and hence recoveries under this coverage are attributed to the 1995 accident year. As a result of this agreement, reserve development arising from claims incurred prior to July 1, 1995 (January 1, 1995 as respects catastrophe losses) was ceded under the agreement with no impact on net development, except for a modest retention, when the adverse development reflected for accident year 1993 and prior is considered in the context of the mitigating favorable development attributed to the 1995 accident year. This coverage became an inter-affiliate reinsurance transaction with the acquisition of Mt. McKinley in 2000, which eliminated any subsequent impact on net reserve development.

Management believes that adequate provision has been made for the Company s loss and LAE reserves. While there can be no assurance that reserves for and losses from these claims will not increase in the future, management believes that the Company s existing reserves, reserving methodologies and retrocessional arrangements lessen the probability that any such increases would have a material adverse effect on the Company s financial condition, results of operations or cash flows. These statements regarding the Company s loss reserves are forward looking statements within the meaning of the U.S. federal securities laws and are intended to be covered by the safe harbor provisions contained therein. See ITEM 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Safe Harbor Disclosure .

The following table is derived from the Ten Year GAAP Loss Development Table above and summarizes the effect of reserve re-estimates, net of reinsurance, on calendar year operations by accident year for the same ten year period ended December 31, 2003. Each column represents the amount of reserve re-estimates made in the indicated calendar year and shows the accident years to which the re-estimates are applicable. The amounts in the total accident year column on the far right represent the cumulative reserve re-estimates for the indicated accident years.

Effect of Reserve Re-estimates on Calendar Year Operations (1)

Calendar Year Ended December 31,	Cumulative Re-estimates

(Dollars in millions)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	for each Accident year
Accident years 1993 & prior	$ (74.3)	$ (6.9)	$ (103.6)	$ (45.5)	$ (180.4)	$ 66.5	$ (0.8)	$ 1.8	$ 11.6	$ (21.3)	$ (352.8)
1994		(9.8)	(9.3)	8.0	(0.7)	4.1	0.4	(0.6)	1.9	7.3	1.3
1995			142.4	59.6	160.4	(46.2)	6.5	6.1	(10.2)	9.6	328.3
1996				(18.9)	(6.8)	5.5	11.8	5.0	4.5	2.2	3.3
1997					1.3	4.1	(10.4)	8.9	0.4	(11.5)	(7.2)
1998						1.4	(11.0)	(9.8)	(22.5)	(64.0)	(106.0)
1999							(4.3)	(3.3)	(79.1)	(54.4)	(141.2)
2000								(7.9)	(26.4)	(71.9)	(106.3)
2001									(20.4)	(85.2)	(105.6)
2002										32.3	32.3
Total calender year effect	$ (74.3)	$ (16.7)	$ 29.6	$ 3.2	$ (26.2)	$ 35.4	$ (7.8)	$ 0.0	$ (140.1)	$ (256.9)	$ (453.8)

(1) Some totals may not reconcile due to rounding.

The reserve development by accident year reflected in the above table was generally the result of the same factors discussed above that caused the deficiencies shown in the Ten Year GAAP Loss Development Table. Development in accident years 1993 and prior principally reflect the impact of A&E exposures discussed above. The favorable development experienced for the 1995 accident year is due to stop loss reinsurance provided to the Company at the time of its initial public offering, which, when established, was specifically intended to mitigate the impact of development on reserves at June 30, 1995. The adverse development experienced in the 1998 through 2001 accident years relates principally to casualty reinsurance, including professional liability classes and workers compensation insurance where, in retrospect, the Company s initial estimates of losses were underestimated principally as the result of unanticipated variability in the underlying exposures.

The favorable development for accident year 2002 relates primarily to favorable experience with respect to property reinsurance business.

The Company s loss reserving methodologies continuously monitor the emergence of loss and loss development trends, seeking, on a timely basis, to both adjust reserves for the impact of trend shifts and to factor the impact of such shifts into its underwriting and pricing on a prospective basis.

The following table presents a reconciliation of beginning and ending reserve balances for the years indicated on a GAAP basis:

Reconciliation of Reserves for Losses and LAE

	Years Ended December 31,		
(Dollars in millions)	2003	2002	2001
Reserves at beginning of period	$ 4,905.6	$ 4,278.3	$ 3,786.2
Incurred related to:			
Current year	2,343.3	1,489.3	1,209.5
Prior years	256.9	140.1	--
Total incurred losses	2,600.2	1,629.4	1,209.5
Paid related to:			
Current year	414.5	314.5	393.9
Prior years	902.6	892.7	718.1
Total paid losses	1,317.1	1,207.2	1,112.0

Change in reinsurance receivables on unpaid losses and LAE	172.5	205.1	394.6
Reserves at end of period	$ 6,361.2	$ 4,905.6	$ 4,278.3

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Prior year incurred losses were $256.9 million in 2003 and $140.1 million in 2002. Such losses were the result of the reserve development noted above, as well as inherent uncertainty in establishing loss and LAE reserves.

Reserves for Asbestos and Environmental Losses and Loss Adjustment Expenses

The Company s reserves include an estimate of the Company s ultimate liability for A&E claims for which ultimate value cannot be estimated using traditional reserving techniques. There are significant uncertainties in estimating the amount of the Company s potential losses from A&E claims. See ITEM 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Asbestos and Environmental Exposures and Note 3 of Notes to Consolidated Financial Statements.

Mt. McKinley s book of direct A&E exposed insurance is relatively small and homogenous. The book is based, principally on excess liability policies; thus the claim/legal staff does not have to analyze exposure under many different policy forms, but rather can focus on a limited number of policies and policy forms. As a result of this focused structure, the Company believes that it is able to comprehensively analyze its exposures, allowing it to identify and analyze those claims on which it has unusual exposure, such as policies in which it may be exposed to pay expenses in addition to policy limits or non-products asbestos claims, for concentrated ongoing attention.

The Company aims to be actively engaged with every insured account posing significant potential asbestos exposure to Mt. McKinley. Such engagement can take the form of pursuing a final settlement, negotiation, litigation, or the monitoring of claim activity under Coverage in Place (CIP) agreements. CIP agreements generally condition an insurer s payment upon the actual claim experience of the insured and may have annual payment caps or other measures to control the insurer s payments. The Company s Mt. McKinley operation is currently managing six CIP agreements, five of which were executed prior to the acquisition of Mt. McKinley in 2000. The Company s preference with respect to coverage settlements is to execute settlements that call for a fixed schedule of payments, because such settlements eliminate future uncertainty.

The Company has significantly enhanced its classification of insureds by exposure characteristics, as well as its analysis by insured for those it considers to be more exposed or active. Those insureds identified as relatively less exposed or active are subject to less rigorous, but still active management, with an emphasis on monitoring those characteristics, which may indicate an increasing exposure or levels of activity. The Company continually focuses on further enhancement of the detailed estimation processes used to evaluate potential exposure of policyholders, including those that may not have reported significant A&E losses.

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Everest Re s book of assumed reinsurance is relatively concentrated within a modest number of A&E exposed relationships. Because the book of business is relatively concentrated and the Company has been managing the A&E exposures for many years, its claim staff is familiar with the ceding companies that have generated most of these liabilities in the past and which are therefore most likely to generate future liabilities. The Company s claim staff has developed familiarity both with the nature of the business written by its ceding companies and the claims handling and reserving practices of those companies. This level of familiarity enhances the quality of the Company s analysis of its exposure through those companies. As a result, the Company believes that it can identify those claims on which it has unusual exposure, such as non-products asbestos claims, for concentrated attention. However, in setting reserves for its reinsurance liabilities, the Company relies on claims data supplied by its ceding companies and brokers. This information is not always timely or accurate and can impact the accuracy and timeliness of ultimate loss projections.

The following table summarizes the composition of the Company s total reserves for A&E losses, gross and net of reinsurance, for the years ended December 31, 2003, 2002 and 2001.

	Years Ended December 31,		
(Dollars in millions)	2003	2002	2001
Case reserves reported by ceding companies	$ 123.1	$ 112.5	$ 107.1
Additional reserves established by the Company (assumed reinsurance)	109.1	55.5	59.5

Case reserves established by the Company	251.3	262.1	154.1
IBNR reserves	281.8	237.8	323.7
Gross reserves	765.3	667.9	644.4
Reinsurance receivable	(230.9)	(140.4)	(75.8)
Net reserves	$ 534.4	$ 527.5	$ 568.6

Additional losses, including those relating to latent injuries and other exposures, which are as yet unrecognized, the type or magnitude of which cannot be foreseen by either the Company or the industry, may emerge in the future. Such future emergence could have material adverse effects on the Company s future financial condition, results of operations and cash flows.

Future Policy Benefit Reserves

Future policy benefit liabilities for annuities are reported at the accumulated fund balance of these contracts. Reserves for those liabilities include both mortality and morbidity provisions with respect to life and annuity claims, both reported and unreported. Actual experience in a particular period may be worse than assumed experience and, consequently, may adversely affect the Company s operating results for the period. See Note 1F of Notes to Consolidated Financial Statements.

Investments

The Company s overall financial strength and results of operations are, in part, dependent on the quality and performance of its investment portfolio. Net investment income and net realized capital gains (losses) on the Company s invested assets constituted 8.9%, 11.8%, and 17.7% of the Company s revenues for the years ended December 31, 2003, 2002 and 2001, respectively. The Company s cash and invested assets totaled $9.3 billion at December 31, 2003, of which 91.8% were cash, short-term investments and investment-grade fixed maturities.

The Company s current investment strategy seeks to maximize after-tax income, through a high quality, diversified, taxable bond and tax-preferenced fixed maturity portfolio, while maintaining an adequate level of liquidity. The Company s mix of taxable and tax-preferenced investments is adjusted continuously, consistent with the Company s current and projected operating results, market conditions and tax position. Additionally, the Company invests in equity securities, which it believes will enhance the risk-adjusted total return of the investment portfolio.

The board of directors of each of the Company s operating subsidiaries is responsible for establishing investment policy and guidelines and, together with senior management, for overseeing their execution. The Company s investment portfolio is in compliance with the insurance laws of the jurisdictions in which its subsidiaries are regulated. Generally, an independent investment advisor is utilized to manage the Company s investment portfolio within the established guidelines and is required to report activities on a current basis and to meet with the Company periodically to review and discuss the portfolio structure, securities selection and performance results.

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The Company s investment guidelines include a general duration guideline of five to six years. The duration of an investment is based on the maturity of the security but also reflects the payment of interest and the possibility of early prepayment of such security. This investment duration guideline is established and periodically revised by management, which considers economic and business factors. An important factor considered by management is the Company s average duration of potential liabilities, which, at December 31, 2003, is estimated at approximately five years based on the estimated payouts of underwriting liabilities using standard duration calculations.

The duration of the fixed income portfolio at December 31, 2003 was 4.2 years compared with the general guideline of five to six years. The Company made a decision to shorten the duration during the second half of 2003 by purchasing interest only strips of mortgaged-back securities (interest only strips). The interest only strips give the holder the right to receive interest payments at a stated coupon rate on an underlying pool of mortgages. The interest payments on the outstanding mortgages are guaranteed by entities generally rated AAA. The ultimate cash flow from these investments is primarily dependent upon the average life of the underlying mortgage pool. Generally, as market interest rates and more specifically market mortgage rates decline, mortgagees tend to refinance, which will decrease the average life of a mortgage pool and decrease expected cash flows. Conversely, as market interest rates and more specifically market mortgage rates rise, repayments will slow and the ultimate cash flows will tend to rise. Accordingly, the market value of these investments tends to increase as general interest rates rise and decline as general interest rates fall. These characteristics contribute to interest only strips generally having a significantly negative duration, estimated at (32) for the end of year portfolio. These movements are generally counter to the impact of interest rate movements on the Company s other fixed income investments. The market value of interest only strips in the Company s portfolio was $310.2 million at December 31, 2003.

Shortening the duration of the Company s portfolio of fixed income securities makes the overall investment portfolio value less susceptible to valuation variability arising from movement in market interest rates. With interest rates near record lows, the Company decided to shorten the duration of its fixed income portfolio. The Company views this action as a temporary defensive measure to mitigate the potential adverse impact on bond market values, and accordingly shareholders equity, from increasing interest rates.

For each currency in which the Company has established substantial reserves, the Company seeks to maintain invested assets denominated in such currency in an amount approximately comparable to the estimated liabilities. Approximately 7.7% of the Company s consolidated reserves for losses and LAE and unearned premiums represent estimated amounts payable in foreign currencies.

As of December 31, 2003, 97.3% of the Company s total investments and cash were comprised of fixed maturity investments or cash and 94.1% of the Company s fixed maturities consisted of investment grade securities. The average maturity of fixed maturities was 8.3 years at December 31, 2003, and their overall duration was 4.2 years. The overall duration excluding the impact of the interest only strips was 5.7 years. As of December 31, 2003, the Company did not have any investments in commercial real estate or direct commercial mortgages or any material holdings of derivative investments or securities of issuers that are experiencing cash flow difficulty to an extent that the Company s management believes could threaten the issuer s ability to meet debt service payments, except where other than temporary impairments have been recognized.

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As of December 31, 2003, the Company s common stock portfolio, which is comprised primarily of publicly traded equity index funds, had a market value of $147.9 million, comprising 1.6% of total investments and cash. The common stock portfolio is managed with a growth and value orientation.

The following table reflects investment results for the Company for each of the five years ended December 31:

(Dollars in millions)	Average Investments (1)	Pre-Tax Investment Income (2)	Effective Yield	Pre-Tax Realized Net Capital (Losses) Gains
2003	$ 7,772.6	$ 402.1	5.17%	$ (38.0)
2002	6,064.8	350.6	5.78%	(50.0)
2001	5,374.9	340.4	6.33%	(22.3)
2000	4,824.0	301.5	6.25%	0.8
1999	4,219.4	253.0	6.00%	(16.8)

(1)Average of the beginning and ending carrying values of investments and cash, less net funds held, future policy benefit reserve, and non-interest bearing cash. Bonds, common stock and redeemable and non-redeemable preferred stocks are carried at market value.
(2) After investment expenses, excluding realized net capital gains (losses).

The following table summarizes fixed maturities as of December 31, 2003 and 2002:

(Dollars in millions)	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Market Value
December 31, 2003:				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$ 245.3	$ 7.0	$ 2.4	$ 249.9
Obligations of states and political subdivisions	2,798.4	156.4	3.1	2,951.7
Corporate securities	2,875.9	171.6	23.0	3,024.5
Mortgage-backed securities	1,369.2	26.7	12.6	1,383.3
Foreign government securities	708.1	24.6	2.1	730.6
Foreign corporate securities	360.8	26.5	0.4	386.9
Total	$ 8,357.7	$ 412.8	$ 43.6	$ 8,726.9
December 31, 2002:				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	$ 506.6	$ 10.1	$ 0.5	$ 516.2
Obligations of states and political subdivisions	2,520.6	144.6	2.6	2,662.6

Corporate securities	2,066.0	119.2	31.7	2,153.5
Mortgage-backed securities	839.5	43.0	1.1	881.4
Foreign government securities	312.7	25.2	--	337.9
Foreign corporate securities	215.4	14.3	1.4	228.3
Total	$ 6,460.8	$ 356.4	$ 37.3	$ 6,779.9

The following table presents the credit quality distribution of the Company s fixed maturities as of December 31, 2003:

Rating Agency Credit Quality Distribution (Dollars in millions)	Amount	Percentage of Total
AAA	$ 4,612.6	52.9%
AA	756.9	8.7
A	1,672.9	19.2
BBB	1,171.6	13.4
BB	430.1	4.9
B	52.7	0.6
Other	30.0	0.3
Total (1)	$ 8,726.9	100.0%

(1) Certain totals may not reconcile due to rounding.

The following table summarizes fixed maturities by contractual maturity as of December 31, 2003:

(Dollars in millions)	Amount	Percent of Total
Maturity category:		
Less than one year	$ 98.5	1.1%
1-5 years	1,749.0	20.0
5-10 years	2,130.1	24.4
After 10 years	3,366.0	38.6
Subtotal	7,343.6	84.1
Mortgage-backed securities (1)	1,383.3	15.9
Total	$ 8,726.9	100.0%

(1) Mortgage-backed securities generally are more likely to be prepaid than other fixed maturities. Therefore, contractual maturities are are excluded from this table since they may not be indicative of actual maturities.

Ratings

The following table shows the financial strength ratings of the Company s operating subsidiaries as reported by A.M. Best, Standard & Poor s Rating Services (Standard & Poor s) and Moody s Investors Service, Inc. (Moody s). These ratings are based upon factors of concern to policyholders and should not be considered an indication of the degree or lack of risk involved in an equity investment in an insurance company.

Operating Subsidiary	A.M. Best	Standard & Poor s	Moody s
Everest Re	A+ (Superior)	AA- (Very Strong)	Aa3 (Excellent)
Bermuda Re	A+ (Superior)	AA- (Very Strong)	Aa3 (Excellent)

Everest National	A+ (Superior)	AA- (Very Strong)	Not Rated
Everest Indemnity	A+ (Superior)	Not Rated	Not Rated
Everest Security	A+ (Superior)	Not Rated	Not Rated
Mt. McKinley	Not Rated	Not Rated	Not Rated
Everest International	Not Rated	Not Rated	Not Rated

A.M. Best states that the A+ (Superior) rating is assigned to those companies which, in its opinion, have a superior ability to meet their ongoing obligations to policyholders based on A.M. Best s comprehensive quantitative and qualitative evaluation of a company s balance sheet strength, operating performance and business profile. The A+ (Superior) rating is the second highest of fifteen ratings assigned by A.M. Best, which range from A++ (Superior) to F (In Liquidation). Additionally, A.M. Best has five classifications within the Not Rated category. Standard & Poor states that the AA- rating is assigned to those insurance companies which, in its opinion, have very strong financial security characteristics with respect to their ability to pay under its insurance policies and contracts in accordance with their terms. The AA- rating is the fourth highest of nineteen ratings assigned by Standard & Poor s, which range from AAA to R . Ratings from AA to CCC may be modified by the use of a plus or minus sign to show relative standing of the insurer within those rating categories. Moody s states that insurance companies rated Aa offer excellent financial security. Together with the Aaa rated companies, Aa rated companies constitute what are generally known as high-grade companies, with Aa rated companies generally having somewhat larger long-term risks. Moody s rating gradations are shown through the use of nine distinct symbols, each symbol representing a group of ratings in which the financial security is broadly the same. The Aa3 (Excellent) rating is the fourth highest of ratings assigned by Moody s, which range from Aaa (Exceptional) to C (Lowest). Moody s appends numerical modifiers 1,2 and 3 to each generic rating classification from Aa through Caa. Numeric modifiers are used to refer to the ranking within a group with 1 being the highest and 3 being the lowest.

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Subsidiaries other than Everest Re and Bermuda Re may not be rated by some or any rating agencies because such ratings are not considered essential by the individual subsidiary s customers or because of the limited nature of the subsidiary s operations. In particular, Mt. McKinley is not rated because it is in run-off status. Everest International has had limited business activity through 2003. If it becomes more active, the establishment of a rating will be considered.

The following table shows the debt ratings by A.M. Best, Standard & Poor s and Moody s of the Holdings senior notes due March 15, 2005, Holdings senior notes due March 15, 2010 and Capital Trust s trust preferred securities due November 15, 2032, all of which are considered investment grade. Debt ratings are a current assessment of the credit worthiness of an obligor with respect to a specific obligation.

	A.M. Best	Standard & Poor s	Moody s
Senior Notes	a	A-	A3
Trust Preferred Securities	a-	BBB	Baa1

A debt rating of a or a- is assigned by A.M. Best where the issuer, in A.M. Best s opinion, has a strong ability to meet the terms of the obligation. The a and a- ratings are the sixth and seventh highest of 19 ratings assigned by A.M. Best, which range from aaa to ccc . A debt rating of A- assigned by Standard & Poor s where the obligor has a strong capacity to meet its financial commitment on the obligation, although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. Standard & Poor s assigns a debt rating of BBB to issues that exhibit adequate protection parameters although adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. The A- and BBB ratings from Standard & Poor s are the seventh and ninth highest of 24 ratings assigned by Standard & Poor s, which range from AAA to D . According to Moody s, a debt rating of A3 is assigned to issues that are considered upper-medium-grade obligations and subject to low credit risk. Obligations rated Baa1 are subject to moderate credit risk and are considered medium-grade and as such may possess certain speculative characteristics. The A3 and Baa1 ratings are the seventh and eighth highest of 21 ratings assigned by Moody s, which range from AAA to C .

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All of the above-mentioned ratings are continually monitored and revised, if necessary, by each of the rating agencies.

The Company believes that its ratings, in general, are important to its operations because they provide the Company s customers and investors with an independent assessment of the Company s underlying financial strength using a scale that provides for relative comparisons.

Competition

The worldwide reinsurance and insurance businesses are highly competitive, yet cyclical by product and market. Competition with respect to the types of reinsurance and insurance business in which the Company is engaged is based on many factors, including the perceived overall financial strength of the reinsurer or insurer, A.M. Best s and/or Standard & Poor s rating of the reinsurer or insurer, underwriting expertise, the jurisdictions where the reinsurer or insurer is licensed or otherwise authorized, capacity and coverages offered, premiums charged, other terms and conditions of the reinsurance and insurance business offered, services offered, speed of claims payment and reputation and experience in lines written. The Company competes in the U.S., Bermuda and international reinsurance and insurance markets with numerous international and domestic reinsurance and insurance companies. The Company s competitors include independent reinsurance and insurance companies, subsidiaries or affiliates of established worldwide insurance companies, reinsurance departments of certain insurance companies and domestic and international underwriting operations, including underwriting syndicates at Lloyd s. Some of these competitors have greater financial resources than the Company and have established long-term and continuing business relationships throughout the industry, which can be a significant competitive advantage. In addition, the potential for securitization of reinsurance and insurance risks through capital markets provides an additional source of potential reinsurance and insurance capacity and competition.

In 2003, the improving market trends established in 2000 and 2001 have continued, generally sustaining upward pressure on pricing, continued constriction of terms, conditions and coverages and constrained capacity. There are signs that pressures for incremental firming have abated for property classes, but these are partially offset by signs that pressures for incremental firming continue for casualty classes in general. More broadly, the industry remains exposed to fundamental issues that negatively impacted its aggregate capacity in 2002, including weak investment market conditions and adverse loss emergence, both of which have continued to depress the industry s aggregate financial performance and affect perceptions of the financial strength of industry participants. These factors suggest that the current favorable market conditions are likely to persist until further corrective actions, possibly combined with improving investment market conditions, restore more normal competitive conditions.

These current trends reflect a clear reversal of the general trend from 1987 through 1999 which were characterized by increasingly competitive global market conditions across most lines of business, as reflected by decreasing prices and broadening contract terms. The earlier trend 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, as well as the emergence of new reinsurance and financial products addressing traditional exposures in alternative fashions. Many of these factors continue to operate and may take on additional importance as the result of the firming market conditions that have emerged.

The terrorist attacks on September 11, 2001 (the September 11 attacks) solidified and amplified the trend reversal that began in 2000. These attacks resulted in losses which reduced industry capacity and were of sufficient magnitude to cause most companies 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. The gradual and variable improving trend that had been apparent through 2000 and earlier in 2001 firmed significantly after the September 11 attacks. This firming generally took the form of immediate and significant upward pressure on prices, more restrictive terms and conditions and a reduction of coverage limits and capacity availability. Such pressures were widespread, with variability depending on the product and markets involved, but mainly depending on the characteristics of the underlying risk exposures. The magnitude of the changes was sufficient to create temporary disequilibrium in some markets as individual buyers and sellers adapted to changes in both their internal and market dynamics.

Through 2002 reinsurance and insurance markets generally continued to firm, reflecting the continuing implications of losses arising from the September 11 attacks as well as aggregate company reactions to broad and growing recognition that competition in the late 1990s reached extremes in many classes and markets, which ultimately led to inadequate pricing and overly broad terms, conditions and coverages. The effect of these extremes, which had become apparent through excessive loss emergence, varied widely by company depending on product offerings, markets accessed, underwriting and operating practices, competitive strategies and business volumes. Across all market participants, however, the aggregate general effect was impaired financial results and erosion of the industry capital base. Coupled with deteriorating investment market conditions and results, and renewed concerns regarding longer term industry specific issues, including asbestos exposure and sub-par capital returns, these financial impacts introduced substantial, and in some cases extreme, pressure for the initiation and/or strengthening of corrective action by individual market participants. These pressures, aggregating across industry participants, resulted in firming prices, more restrictive terms and conditions, tightened coverage availability across most classes and markets and increasing concern with respect to the financial security of insurance and reinsurance providers, impacts which set the stage for the 2003 trends discussed above.

The Company is generally encouraged by recent industry developments, which have operated to its advantage, and more broadly, by continued favorable current market conditions. However, the Company cannot predict with any reasonable certainty whether and to what extent these conditions will persist.

Employees

As of March 1, 2004, the Company employed 577 persons. Management believes that its employee relations are good. None of the Company s employees are subject to collective bargaining agreements, and the Company is not aware of any current efforts to implement such agreements.

Regulatory Matters

The Company and its insurance subsidiaries are subject to regulation under the insurance statutes of the various jurisdictions in which they conduct business, including essentially all states of the U.S., Canada, Singapore, the United Kingdom and Bermuda. These regulations vary from jurisdiction to jurisdiction and are generally designed to protect ceding insurance companies and policyholders by regulating the Company s conduct of business, financial integrity and ability to meet its obligations relating to its business transactions and operations. Many of these regulations require reporting of information designed to allow insurance regulators to closely monitor the Company s performance.

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Insurance Holding Company Regulation. Under applicable U.S. laws and regulations, no person, corporation or other entity may acquire a controlling interest in the Company, unless such person, corporation or entity has obtained the prior approval for such acquisition from the Insurance Commissioners of Delaware and the other states in which the Company s insurance subsidiaries are domiciled or deemed domiciled, currently Arizona, California and Georgia. Under these laws, control is presumed when any person acquires, directly or indirectly, 10% or more of the voting securities of an insurance company. To obtain the approval of any change in control, the proposed acquirer must file an application with the relevant insurance commissioner disclosing, among other things, the background of the acquirer and that of its directors and officers, the acquirer s financial condition and its proposed changes in the management and operations of the insurance company. U.S. state regulators also require prior notice or regulatory approval of material inter-affiliate transactions within the holding company structure. See Dividends .

The Insurance Companies Act of Canada also requires prior approval by the Minister of Finance of anyone acquiring a significant interest in an insurance company authorized to do business in Canada. In addition, the Company is subject to regulation by the insurance regulators of other states and foreign jurisdictions in which it is authorized to do business. Certain of these states and foreign jurisdictions impose regulations regulating the ability of any person to acquire control of an insurance company authorized to do business in that jurisdiction without appropriate regulatory approval similar to those described above.

Dividends. Under Bermuda law, Group is prohibited from declaring or paying a dividend if such payment would reduce the realizable value of its assets to an amount less than the aggregate value of its liabilities and its issued share capital and share premium (additional paid-in capital) accounts. Group s ability to pay dividends and its operating expenses is partially dependent upon dividends from its subsidiaries. The payment of dividends by insurance subsidiaries is limited under Bermuda law as well as the laws of the various U.S. states in which Group s insurance and reinsurance subsidiaries are domiciled or deemed domiciled. The limitations are generally based upon net income and compliance with applicable policyholders surplus or minimum solvency margin and liquidity ratio requirements as determined in accordance with the relevant statutory accounting practices. As Holdings has outstanding debt obligations, it is dependent upon dividends and other permissible payments from its operating subsidiaries to enable it to meet its debt and operating expense obligations and to pay dividends to Group.

Under Bermuda law, Bermuda Re is unable to declare or make payment of a dividend if it fails to meet its minimum solvency margin or minimum liquidity ratio. As a long-term insurer, Bermuda Re is also unable to declare or pay a dividend to anyone who is not a policyholder unless, after payment of the dividend, the value of the assets in its long-term business fund, as certified by its approved actuary, exceeds its liabilities for long-term business by at least the $250,000 minimum solvency margin. Prior approval of the Bermuda Monetary Authority is required if Bermuda Re s dividend payments would reduce its prior year end total statutory capital by 15.0% or more. At December 31, 2003, Bermuda Re and Everest International met their solvency and liquidity requirements by a significant margin.

The payment of dividends to Holdings by Everest Re is subject to limitations imposed by Delaware law. Generally, Everest Re may only pay dividends out of its statutory earned surplus, which was $1,139.0 million at December 31, 2003, and only after it has given 10 days prior notice to the Delaware Insurance Commissioner. During this 10-day period, the Commissioner may, by order, limit or disallow the payment of ordinary dividends if the Commissioner finds the insurer to be presently or potentially in financial distress. Further, the maximum amount of dividends that may be paid without the prior approval of the Delaware Insurance Commissioner in any twelve month period is the greater of (1) 10% of an insurer s statutory surplus as of the end of the prior calendar year or (2) the insurer s statutory net income, not including realized capital gains, for the prior calendar year. Under this definition, the maximum amount that will be available for the payment of dividends by Everest Re in 2004 without triggering the requirement for prior approval of regulatory authorities in connection with a dividend is $171.6 million.

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Insurance Regulation. Neither Bermuda Re nor Everest International are admitted to do business in any jurisdiction in the U.S. Both conduct their insurance business from their offices in Bermuda. In Bermuda, Bermuda Re and Everest International are regulated by the Insurance Act 1978 (as amended) and related regulations (the Act). The Act establishes solvency and liquidity standards, auditing and reporting requirements and subjects Bermuda Re and Everest International to the supervision, investigation and intervention powers of the Bermuda Monetary Authority. Under the Act, Bermuda Re and Everest International, as Class 4 insurers, are each required to maintain a principal office in Bermuda, to maintain a minimum of $100 million in statutory capital and surplus, to have an independent auditor approved by the Bermuda Monetary Authority conduct an annual audit and report on their respective statutory financial statements and filings and to have an appointed loss reserve specialist (also approved by the Bermuda Monetary Authority) review and report on their respective loss reserves annually.

Bermuda Re is also registered under the Act as a long-term insurer and is thereby authorized to write life and annuity business. As a long-term insurer, Bermuda Re is required to maintain $250,000 in statutory capital separate from its Class 4 minimum statutory capital and surplus, to maintain a long-term business fund, to separately account for this business and to have an approved actuary prepare a certificate concerning its long-term business assets and liabilities to be filed annually.

U.S. domestic property and casualty insurers, including reinsurers, are subject to regulation by their state of domicile and by those states in which they are licensed. The regulation of reinsurers is typically related to the reinsurer s financial condition, investments, management and operation. The rates and policy terms of reinsurance agreements are generally not subject to direct regulation by any governmental authority.

The operations of Everest Re s foreign branch offices in Canada, Singapore and the United Kingdom are subject to regulation by the insurance regulatory officials of those jurisdictions. Management believes that the Company is in material compliance with applicable laws and regulations pertaining to its business and operations. By March 31, 2004, it is anticipated that Bermuda Re will have obtained permission to effect and carry out contracts of reinsurance in the United Kingdom pursuant to Part IV of the Financial Services and Markets Act of 2000 and that Everest Re will complete the transfer of its United Kingdom operations to Bermuda Re. Through this transaction, Bermuda Re s operations in the United Kingdom will become subject to regulation by the Financial Services Authority (the FSA). The FSA imposes solvency, capital adequacy, audit, financial reporting and other regulatory requirements on insurers transacting business in the United Kingdom. Bermuda Re presently meets or exceeds all of the FSA s solvency and capital requirements.

Everest Indemnity, Everest National, Everest Security and Mt. McKinley are subject to regulations similar to the U.S. regulations applicable to Everest Re. In addition, Everest National and Everest Security must comply with substantial regulatory requirements in each state where they conduct business. These additional requirements include, but are not limited to, rate and policy form requirements, requirements with regard to licensing, agent appointments, participation in residual markets and claim handling procedures. These regulations are primarily designed for the protection of policyholders.

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Licenses. Everest Re is a licensed property and casualty insurer and/or reinsurer in all states (except Nevada and Wyoming), the District of Columbia and Puerto Rico. In New Hampshire and Puerto Rico, Everest Re is licensed for reinsurance only. Such licensing enables U.S. domestic ceding company clients to take credit for reinsurance ceded to Everest Re.

Everest Re is licensed as a property and casualty reinsurer in Canada. It is also authorized to conduct reinsurance business in the United Kingdom and Singapore. Everest Re can also write reinsurance in other foreign countries. Because some jurisdictions require a reinsurer to register in order to be an acceptable market for local insurers, Everest Re is registered as a foreign insurer and/or reinsurer in the following countries: Argentina, Bolivia, Chile, Colombia, Ecuador, El Salvador, Guatemala, Mexico, Peru, Venezuela and the Philippines. Everest National is licensed in 47 states and the District of Columbia. Everest Indemnity is licensed in Delaware and is eligible to write insurance on a surplus lines basis in 49 states, the District of Columbia and Puerto Rico. Everest Security is licensed in Georgia and Alabama. Mt. McKinley is licensed in Delaware and California. Bermuda Re and Everest International are registered as Class 4 insurers in Bermuda. Bermuda Re is also registered as a long-term insurer in Bermuda.

Periodic Examinations. Everest Re, Everest National, Everest Indemnity, Everest Security and Mt. McKinley are subject to periodic financial examination (usually every 3 years) of their affairs by the insurance departments of the states in which they are licensed, authorized or accredited. Everest Re s, Everest Security s, Everest Indemnity s and Mt. McKinley s last examination reports were as of December 31, 2000, while Everest National s last examination was as of December 31, 2001. None of these reports contained any material findings or recommendations. In addition, U.S. insurance companies are subject to examinations by the various state insurance departments where they are licensed concerning compliance with applicable conduct of business regulations.

NAIC Risk-Based Capital Requirements. The U.S. National Association of Insurance Commissioners (NAIC) employs a formula to measure the amount of capital appropriate for a property and casualty insurance company to support its overall business operations in light of its size and risk profile. The major categories of a company s risk profile are its asset risk, credit risk, and underwriting risk. The standards are an effort by the NAIC to prevent insolvencies, to ward off other financial difficulties of insurance companies and to establish uniform regulatory standards among state insurance departments.

Under the approved formula, a company s statutory surplus is compared to its risk based capital (RBC). If this ratio is above a minimum threshold, no action is necessary. Below this threshold are four distinct action levels at which a regulator can intervene with increasing degrees of authority over a domestic insurer as the ratio of surplus to RBC decreases. The mildest intervention requires the company to submit a plan of appropriate corrective actions. The most severe action requires the company to be rehabilitated or liquidated.

Based on their financial positions at December 31, 2003, Everest Re, Everest National, Everest Indemnity and Everest Security exceed the minimum thresholds. Since Mt. McKinley ceased writing new and renewal insurance in 1985, its domiciliary regulator, Delaware, has exempted Mt. McKinley from complying with RBC requirements. Various proposals to change the RBC formula arise from time to time. The Company is unable to predict whether any such proposal will be adopted, the form in which any such proposals would be adopted or the effect, if any, the adoption of any such proposal or change in the RBC calculations would have on the Company.

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Codification of Statutory Accounting Principles. The NAIC has published a codification of statutory accounting principles, which has been adopted by the states of domicile of the Company s U.S. operating subsidiaries with an effective date of January 1, 2001. On January 1, 2001, significant changes to the statutory basis of accounting became effective. The cumulative effect of these changes in 2001 was a $57.1 million increase to Everest Re s statutory surplus.

Tax Matters. The following summary of the taxation of the Company is based on current law. There can be no assurances that legislative, judicial, or administrative changes will not be enacted that materially affect this summary.

Bermuda. Under current Bermuda law, no income, withholding or capital gains taxes are imposed upon Group and its Bermuda subsidiaries. Group and its Bermuda subsidiaries have received an undertaking from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, Group and its Bermuda subsidiaries will be exempt from taxation in Bermuda until March 2016. Non-Bermuda branches of Bermuda subsidiaries are subject to local taxes in the jurisdictions in which they operate.

Barbados. Group, a Bermuda company with its principal office in Barbados, is registered as an external company under the Companies Act, Cap. 308 of Barbados and is licensed as an international business company under the Barbados International Business Companies Act, 1991-24. As a result, Group is subject to a preferred rate of corporation tax on profits and gains in Barbados and is exempt from withholding tax on dividends, interest, royalties, management fees, fees or other income paid or deemed paid to a person who is not resident in Barbados or who, if so resident, carries on an international business. No tax is imposed on capital gains.

United States. Group s U.S. subsidiaries conduct business in and are subject to taxation in the U.S. Non-U.S. branches of U.S. subsidiaries are subject to local taxation in the jurisdictions in which they operate. Should the U.S. subsidiaries distribute current or accumulated earnings and profits in the form of dividends or otherwise to Group, the Company would be subject to withholding taxes. Group and its Bermuda subsidiaries believe that they have operated and will continue to operate their businesses in a manner that will not cause them to generate income treated as effectively connected with the conduct of a trade or business within the U.S. On this basis, Group does not expect that it and its Bermuda subsidiaries will be required to pay U.S. corporate income taxes other than withholding taxes on certain investment income and premium excise taxes. If Group or its Bermuda subsidiaries were subject to U.S. income tax; there could be a material adverse effect on the Company s financial condition, results of operations or cash flows.

Available Information

The Company s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and amendments to those reports are available free of charge through the Company s internet website at http://www.everestre.com as soon as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission (the SEC).

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ITEM 2. Properties

Everest Re s corporate offices are located in approximately 115,000 square feet of leased office space in Liberty Corner, New Jersey. Bermuda Re s corporate offices are located in approximately 3,600 total square feet of leased office space in Hamilton, Bermuda. The Company s other twelve locations occupy a total of approximately 59,000 square feet, all of which are leased. Management believes that the above-described office space is adequate for its current and anticipated needs.

ITEM 3. Legal Proceedings

The Company does not believe that there are any material pending legal proceedings to which it or any of its subsidiaries is a party or of which any of their property is the subject.

In the ordinary course of business, the Company is involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which will determine the Company s rights and obligations under insurance and reinsurance agreements and other more general contracts. In some disputes, the Company seeks to enforce its rights under an agreement or to collect funds owing to it. In other matters, the Company is resisting attempts by others to collect funds or enforce alleged rights. Such disputes are resolved through formal and informal means, including litigation and arbitration.

In all such matters, the Company believes that its positions are legally and commercially reasonable. The Company also regularly evaluates those positions, and where appropriate, establishes or adjusts insurance reserves to reflect its evaluation. The Company s aggregate reserves take into account the possibility that the Company may not ultimately prevail in each and every disputed matter. The Company believes its aggregate reserves reduce the potential that an adverse resolution of one or more of these matters, at any point in time, would have a material impact on the Company s financial condition or results of operations. However, there can be no assurances that adverse resolutions of such matters in any one period or in the aggregate will not result in a material adverse effect on the Company s results of operations.

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

PART II

ITEM 5. Market for Registrant s Common Equity and Related Shareholder Matters

Market Information

The common shares of Group trade on the New York Stock Exchange under the symbol, RE . Quarterly high and low market prices of the Company s common shares in 2003 and 2002 were as follows:

	High	Low
First Quarter 2003:	57.4200	48.1400
Second Quarter 2003:	78.0700	57.3500
Third Quarter 2003:	77.8700	71.7400
Fourth Quarter 2003:	84.6000	76.5100
First Quarter 2002:	75.0000	66.0000
Second Quarter 2002:	71.7000	55.9400
Third Quarter 2002:	57.9700	43.2500
Fourth Quarter 2002:	62.4900	52.1800

Number of Holders of Common Shares

The number of record holders of common shares as of March 1, 2004 was 79. That number excludes the beneficial owners of shares held in street name or held through participants in depositories, such as The Depository Trust Company.

Dividend History and Restrictions

In 1995, the Board of Directors of Holdings established a policy of declaring regular quarterly cash dividends and has paid a regular quarterly dividend in each quarter since the fourth quarter of 1995. The Company declared and paid its regular quarterly cash dividend of $0.08 per share for each quarter of 2002 and $0.09 per share for each quarter of 2003. A committee of the Company s Board of Directors declared a dividend of $0.10 per share, payable on or before March 19, 2004 to shareholders of record on March 1, 2004.

The declaration and payment of future dividends, if any, by the Company will be at the discretion of the Board of Directors and will depend upon many factors, including the Company s earnings, financial condition, business needs and growth objectives, capital and surplus requirements of its operating subsidiaries, regulatory restrictions, rating agency considerations and other factors. As an insurance holding company, the Company is partially dependent on dividends and other permitted payments from its subsidiaries to pay cash dividends to its stockholders. The payment of dividends to Group by Holdings and to Holdings by Everest Re is subject to Delaware regulatory restrictions and the payment of dividends to Group by Bermuda Re will be subject to Bermuda insurance regulatory restrictions. See Regulatory Matters Dividends and Note 14A of Notes to Consolidated Financial Statements.

Recent Sales of Unregistered Securities

None.

ITEM 6. ***Selected Financial Data***

The following selected consolidated GAAP financial data of the Company as of and for the years ended December 31, 2003, 2002, 2001, 2000 and 1999 were derived from the consolidated financial statements of the Company, which were audited by PricewaterhouseCoopers LLP. The following financial data should be read in conjunction with the Consolidated Financial Statements and accompanying notes.

	Years Ended December 31,				
(Dollars in millions, except per share amounts)	2003	2002	2001	2000	1999
Operating data:					
Gross premiums written	$ 4,573.8	$ 2,846.5	$ 1,874.6	$ 1,385.6	$ 1,141.8
Net premiums written	4,315.4	2,637.6	1,560.1	1,218.9	1,095.6
Net premiums earned	3,737.9	2,273.7	1,467.5	1,174.2	1,071.5
Net investment income	402.1	350.6	340.4	301.5	253.0
Net realized capital (losses) gains	(38.0)	(50.0)	(22.3)	0.8	(16.8)
Losses and LAE incurred					
(including catastrophes)	2,600.2	1,629.4	1,209.5	884.6	771.6
Total catastrophe losses (1)	36.8	30.2	222.6	13.9	45.9
Commission, brokerage, taxes and fees	863.9	551.8	396.8	272.4	286.0
Other underwriting expenses	94.6	69.9	58.9	51.6	48.3
Interest expense	40.3	42.4	46.0	39.4	1.5
Distributions related to trust preferred securities	16.5	2.1	--	--	--
Income before taxes	491.2	262.0	90.3	231.7	196.6
Income tax expense (benefit)	65.2	30.7	(8.7)	45.4	38.5
Net income (2)	$ 426.0	$ 231.3	$ 99.0	$ 186.4	$ 158.1
Net income per basic share (3)	$ 7.89	$ 4.60	$ 2.14	$ 4.06	$ 3.26
Net income per diluted share (4)	$ 7.74	$ 4.52	$ 2.10	$ 4.02	$ 3.25
Dividends paid per share	$ 0.36	$ 0.32	$ 0.28	$ 0.24	$ 0.24
Certain GAAP financial ratios: (5)					
Loss and LAE ratio	69.6%	71.7%	82.4%	75.3%	72.0%
Underwriting expense ratio	25.6	27.3	31.1	27.6	31.5
Combined ratio (2)	95.2%	99.0%	113.5%	102.9%	103.5%
Balance sheet data (at end of period):					
Total investments and cash	$ 9,314.8	$ 7,259.1	$ 5,783.5	$ 5,493.0	$ 4,139.2
Total assets	12,683.0	9,864.6	7,796.2	7,013.1	5,704.3
Loss and LAE reserves	6,361.2	4,905.6	4,278.3	3,786.2	3,647.0
Total debt	519.1	518.9	553.8	683.6	59.0
Trust preferred securities	210.0	210.0	--	--	--
Total liabilities	9,518.1	7,496.0	6,075.6	5,429.7	4,376.8
Shareholders' equity	3,164.9	2,368.6	1,720.5	1,583.4	1,327.5

Book value per share (6)	56.8	46.6	37.2	34.4	28.6

(1) Catastrophe losses are net of reinsurance. A catastrophe is defined, for purposes of the Selected Consolidated Financial Data, as an event that causes a pre-tax loss on property exposures before reinsurance of at least $5.0 million and has an event date of January 1, 1988 or later
(2) Some amounts may not reconcile due to rounding.
(3) Based on weighted average basic shares outstanding of 54.0 million, 50.3 million, 46.2 million, 45.9 million and 48.5 million for 2003, 2002, 2001, 2000 and 1999, respectively. for 2003, 2002, 2001, 2000 and 1999, respectively.
(4) Based on weighted average diluted shares outstanding of 55.0 million, 51.1 million, 47.1 million, 46.4 million and 48.7 million for 2003, 2002, 2001, 2000 and 1999, respectively.
(5) Loss ratio is the GAAP losses and LAE incurred as a percentage of GAAP net premiums earned. Underwriting expense ratio is the GAAP commissions, brokerage, taxes, fees and general expenses as a percentage of GAAP net premiums earned. Combined ratio is the sum of the loss ratio and underwriting expense ratio.
(6) Based on 55.7 million, 50.9 million, 46.3 million, 46.0 million and 46.5 million shares outstanding for December 31, 2003, 2002, 2001, 2000 and 1999, respectively.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of the results of operations and financial condition of the Company. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and accompanying notes thereto presented under ITEM 8.

Restructuring

On February 24, 2000, a corporate restructuring was completed and Group became the new parent holding company of Holdings, which remains the holding company for Group s U.S. operations.

Acquisitions

On September 19, 2000, Holdings completed the acquisition of all of the issued and outstanding capital stock of Gibraltar from The Prudential for $51.8 million, which approximated book value. As a result of the acquisition, Gibraltar became a wholly owned subsidiary of Holdings and, immediately following the acquisition, its name was changed to Mt. McKinley. In connection with the acquisition of Mt. McKinley, which has significant exposure to A&E claims, Prupac, a subsidiary of The Prudential, provided reinsurance to Mt. McKinley covering 80% ($160.0 million) of the first $200.0 million of any adverse development of Mt. McKinley s reserves as of September 19, 2000. In addition, The Prudential guaranteed Prupac s obligation to Mt. McKinley. There were $81.1 million, $56.7 million and $22.2 million of cessions under this reinsurance for years ended December 31, 2003, 2002 and 2001, respectively, exhausting the limit available under this contract.

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In connection with the Mt. McKinley acquisition, Prupac also provided excess of loss reinsurance for 100% of the first $8.5 million of loss with respect to certain of Mt. McKinley s retrocessions and potentially uncollectible reinsurance coverage. There were no cessions under this reinsurance for the years ended December 31, 2003 and 2002, maintaining the limit available under the contract at $2.4 mi