

EVEREST RE GROUP LTD  
Form 424B5  
October 07, 2005  
Filed Pursuant to Rule 424(b)(5)

Registration Nos. 333-128869

333-106595

Prospectus Supplement to Prospectus dated December 22, 2003

5,200,000 Shares

## Everest Re Group, Ltd.

### Common Shares

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The common shares are listed on the New York Stock Exchange under the symbol RE . On October 6, 2005, the last reported sale price of our common shares on the NYSE was \$94.02 per share.

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See Risk Factors beginning on page S-3 of this prospectus supplement and on page 4 of the accompanying prospectus to read about factors you should consider before buying the common shares.

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**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved these securities, or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.**

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Per Share

Total

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Initial price to public	\$ 92.50	\$ 481,000,000
Underwriting discount(1)	\$ 1.00	\$ 5,200,000
Proceeds, before expenses, to Everest Re Group	\$ 91.50	\$ 475,800,000

(1) In addition, Goldman, Sachs & Co. may receive from purchasers of the shares normal brokerage commissions in amounts agreed with such purchasers.

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Goldman, Sachs & Co. expects to deliver the shares against payment in New York, New York on October 12, 2005.

**Goldman, Sachs & Co.**

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Prospectus Supplement dated October 6, 2005.

## ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of the offering of common shares and adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to the offering of the common shares. Generally, when we refer to the prospectus, we are referring to both parts combined. You should read this prospectus supplement together with the accompanying prospectus before making a decision to invest in the common shares. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

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

Unless the context otherwise requires, references in this prospectus supplement to we, us and our refer to Everest Re Group, Ltd. and its subsidiaries, collectively. References to Everest Group refer to Everest Re Group, Ltd. References to Everest Bermuda refer to Everest Reinsurance (Bermuda), Ltd. References to the common shares refer to Everest Group's common shares, par value \$0.01 per share. References to \$ are to United States currency, and the terms United States and U.S. mean the United States of America, its states, its territories, its possessions and all areas subject to its jurisdiction.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the information incorporated by reference in this prospectus supplement may contain forward-looking statements within the meaning of the U.S. federal securities laws. These forward-looking statements are intended to be covered by the safe harbor provisions for forward-looking statements in the federal securities laws. In some cases, you can identify these statements by the use of forward-looking words such as may, will, should, anticipate, estimate, expect, plan, believe, predict, potential and intend. You should be aware that these statements and any other forward-looking statements in these documents only reflect expectations and are not guarantees of performance. These statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from expectations. Important factors that could cause actual results to be materially different from expectations include those discussed under the captions Risk Factors on page S-3 of this prospectus supplement and on page 4 of the accompanying prospectus. We do not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

## RECENT DEVELOPMENTS

On September 13, 2005, we announced our initial estimate of losses from Hurricane Katrina, stating that our losses could amount to approximately one percent of the total insurance industry losses.

On October 6, 2005, we further announced that net pre-tax catastrophe loss impacts arising from third quarter events are expected to be significant, with the principal components estimated to be \$638 million attributable to Hurricane Katrina and \$54 million attributable to Hurricane Rita. We also estimated that several events of a lesser magnitude contributed an additional \$58 million of losses in the quarter. On that date, we also estimated the net after-tax impact of all of these events to be approximately \$598 million. All of these estimates include the effects of reinstatement premium.

Our estimate of losses from these events, and in particular Hurricane Katrina and Hurricane Rita, remains preliminary and, as noted in our announcements on September 13 and October 6, 2005, is subject to considerable uncertainty. Focusing on Hurricane Katrina, the unprecedented magnitude and nature of the loss, the continuing lack of precise information from ceding companies regarding exposures, the complexities surrounding claim adjusting and settlement activities and the potential related regulatory and legal issues, all contribute to this uncertainty. Our current estimate for these events is based on underwriter analysis and judgments, client input and discussion, event modeling and profiling of exposed limits. We expect it will be several months before relative clarity emerges with respect to our ceding companies' underlying losses.

We note that although the impact of these catastrophes will be partly mitigated by our underlying non-catastrophe results, we anticipate a significant after-tax loss for the third quarter. We further note that shareholders' equity for the period ending September 30, 2005 will be slightly below that of year end 2004 as a result of this loss. However, barring any further unusual loss activity, we anticipate positive full year earnings.

## RISK FACTORS

Before you invest in our common shares, you should carefully consider the risks involved. You should carefully consider the information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus, including the information set forth below as well as under the heading "Risk Factors" in the accompanying prospectus.

### Risks Relating to Everest Group's Business

**Uncertainty related to estimated losses related to Hurricanes Katrina and Rita may have a further material adverse impact on our financial results.**

Our estimate of losses from Hurricanes Katrina and Rita remains preliminary and, as noted in our announcements on September 13 and October 6, 2005, is subject to considerable uncertainty. Focusing on Hurricane Katrina, the unprecedented magnitude and nature of the loss, the continuing lack of precise information from ceding companies regarding exposures, the complexities surrounding claim adjusting and settlement activities and the potential related regulatory and legal issues, as well as inflation in repair costs due to the limited availability of labor and materials, all contribute to this uncertainty. Our current estimate for these events is based on underwriter analysis and judgments, client input and discussion, event modeling and profiling of exposed limits. We expect it will be several months before relative clarity emerges with respect to our ceding companies' underlying losses. As a result, both industry-wide insured losses and our losses from Hurricanes Katrina and Rita may ultimately be materially greater than our initial estimated losses and any additional losses could have a further material adverse impact on our financial results.

**Our results could be adversely affected by catastrophic events.**

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

<u>Calendar year</u>	<u>Pre-tax catastrophe losses</u>
2004	\$ 403.0 million
2003	\$ 36.8 million
2002	\$ 30.2 million
2001	\$ 222.6 million
2000	\$ 13.9 million

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

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We are required to maintain reserves to cover our estimated ultimate liability of losses and loss adjustment expenses for both reported and unreported claims incurred. These reserves are only estimates of what we believe the settlement and administration of claims will cost based on facts and circumstances known to us. In setting reserves for our reinsurance liabilities, we rely on claim data supplied by our ceding companies and brokers. This information is not always timely or accurate and can result in inaccurate loss projections. Because of the uncertainties that surround estimating loss

S-3

reserves and loss adjustment expenses, we cannot be certain that ultimate losses will not exceed these estimates of losses and loss adjustment reserves. If our reserves are insufficient to cover our actual losses and loss adjustment expenses, we would have to augment our reserves and incur a charge to our earnings. These charges could be material. By way of illustration, during the past five calendar years, the reserve re-estimation process affected our net income in the following manner:

<u>Calendar year</u>	<u>Effect on pre-tax net income</u>
2004	\$312.0 million decrease
2003	\$256.9 million decrease
2002	\$140.1 million decrease
2001	no change
2000	\$7.8 million decrease

The difficulty in estimating our reserves is increased because our loss reserves include reserves for potential asbestos and environmental liabilities. Asbestos and environmental liabilities are especially hard to estimate for many reasons, including the long waiting periods between exposure and manifestation of any bodily injury or property damage, difficulty in identifying the source of the asbestos or environmental contamination, long reporting delays and difficulty in properly allocating liability for the asbestos or environmental damage. Legal tactics and judicial and legislative developments affecting the scope of insurers' liability, which can be difficult to predict, also contribute to uncertainties in estimating reserves for asbestos and environmental liabilities.

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

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

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

We write primarily property and casualty reinsurance and insurance. The worldwide reinsurance and insurance businesses are highly competitive, yet cyclical by product and market. These cycles, as well as other business, economic and societal trends that influence aggregate supply and demand for property and casualty insurance and reinsurance products, are outside of our control.

In 2004, the favorable market conditions, which had developed during 2000 through 2003, generally began to weaken. There were signs that pricing for most property classes declined modestly and that pricing for most casualty classes softened. Competition increased in part due to the relative profitability achieved by many reinsurers over 2002 and 2003 and the attendant buildup of capital in these market participants. However, this profitability and capital buildup varied significantly by participant reflecting the fact that the industry generally still remained exposed to fundamental issues that had negatively impacted its aggregate capacity in 2002 and 2003, including weak investment

S-4

market conditions and adverse loss emergence. Both of these had tended to depress the industry's aggregate financial performance and perceptions of financial strength of industry participants over this period albeit with significant variation by individual market participant. The industry experienced a record level of catastrophe losses during 2004, particularly in the second half of the year, as well as thus far in 2005, and it remains unclear whether the aggregate catastrophe losses experienced by the industry will reverse, stop or even moderate the trends toward market softening, particularly as respects property classes.

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

Our insurance company subsidiaries, other than Mt. McKinley Insurance Company, which is in runoff, currently hold an A+ ( Superior ) financial strength rating from A.M. Best Company. Everest Reinsurance Company, Everest Bermuda and Everest National Insurance Company hold an AA ( Very Strong ) financial strength rating from Standard & Poor's Rating Services. Everest Reinsurance Company and Everest Bermuda hold an Aa3 ( Excellent ) financial strength rating from Moody's Investors Service, Inc. Financial strength ratings are used by insurers and reinsurance and insurance intermediaries as an important means of assessing the financial strength and quality of reinsurers. In addition, an unfavorable rating or the lack of a rating of its reinsurers may adversely affect the rating of a company purchasing reinsurance. A downgrade or withdrawal of any of these ratings might adversely affect our ability to market our insurance products and could have a material and adverse effect on future prospects for growth and profitability. During the last five years, none of our active subsidiaries has experienced a financial strength rating downgrade. However, we cannot give any assurance that a downgrade will not occur in the future. We note that in the aftermath of Hurricane Katrina and the New Orleans flood, A.M. Best Company and Standard & Poor's have each placed a significant number of other insurance companies on credit watch negative or the equivalent. Additionally, we understand that some rating agencies are currently considering modifications to the capital requirements for their insurance company rating methodologies, particularly with respect to property catastrophe exposures. We cannot predict the outcome of that reassessment or its potential impact upon us. Consistent with market practice, much of our treaty reinsurance business allows the ceding company to terminate the contract or seek collateralization of our obligations in the event of a rating downgrade below a certain threshold. The termination provision would generally be triggered only if a rating fell below A.M. Best Company's A- rating level, which is three levels below Everest Reinsurance Company's current rating of A+. Everest Reinsurance Company also has more modest exposure to reinsurance contracts that contain provisions for obligatory funding of outstanding liabilities in the event of a rating agency downgrade. That provision would also generally be triggered only if Everest Reinsurance Company's rating fell below A.M. Best Company's A- rating level.

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

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

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

We are generally less reliant on the purchase of reinsurance than many of our competitors, in part because of our strategic emphasis on underwriting discipline and management of the cycles inherent in our business. We try to separate our risk taking process from our risk mitigation process in order to avoid developing too great a reliance on reinsurance. Thus, we generally evaluate, underwrite,



select and price our products prior to consideration of reinsurance. However, our underwriters generally consider purchasing reinsurance with respect to specific insurance contracts or programs, and our senior management generally considers purchasing reinsurance with respect to our overall operations, where reinsurance is deemed prudent from a risk mitigation perspective or is expected to have a positive cost/benefit relationship. Since we generally purchase reinsurance only when we expect a net benefit, the percentage of business that we reinsure, as indicated in the chart below, varies considerably from year to year, depending on our view of the relationship between cost and expected benefit for the contract period.

	2004	2003	2002	2001	2000
Percentage of ceded written premiums to gross written premiums	3.7%	5.6%	7.3%	16.8%	12.0%

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

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

Our industry is highly competitive and subject to pricing cycles that can be particularly pronounced. The ease of entry for well-capitalized competitors further exacerbates this market cycle. We compete on a global basis in the United States, Bermuda and other international markets. According to Standard & Poor's, we rank among the top ten global reinsurance groups where 80% of the market share is concentrated. The top twenty groups in Everest Group's industry represent 95% of the market's revenues. The leaders in this market are Munich Re, Swiss Re, Berkshire Hathaway, Hannover Re and Employers Re. Relative to us, some of these competitors may have greater financial resources, longer operating histories, and extensive business relationships that transcend the industry, any of which can be a significant competitive advantage. Forces outside the industry can also impact our market, including such factors as economic, regulatory, legal, and geophysical. We may not be able to compete successfully in the future should there be a significant change to the competitive landscape of its market.

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

Our success has been, and will continue to be, dependent on our ability to retain the services of our existing key executive officers and to attract and retain additional qualified personnel in the future. The loss of the services of any key executive officer or the inability to hire and retain other highly qualified personnel in the future could adversely affect our ability to conduct our business. Generally, we consider key executive officers to be those individuals who have the greatest influence in setting overall policy and controlling operations: Chairman and Chief Executive Officer, Joseph V. Taranto (age 56), President and Chief Operating Officer, Thomas J. Gallagher (age 56), and Executive Vice President and Chief Financial Officer, Stephen L. Limauro (age 53). Of those three officers, we only have an employment contract with Mr. Taranto. That contract has been previously filed with the SEC and was most recently amended on August 31, 2005 to extend Mr. Taranto's term of employment from March 31, 2006 until March 31, 2008. We are not aware that any of the above three officers are planning to leave the company or retire in the near future. We do not maintain any key employee insurance on any of our employees.

Special considerations apply to our Bermuda operations. Under Bermuda law, non-Bermudians, other than spouses of Bermudians and individuals holding permanent resident certificates, are not permitted to engage in any gainful occupation in Bermuda without a work permit issued by the

S-6

Bermuda government. A work permit is only granted or extended if the employer can show that, after a proper public advertisement, no Bermudian, spouse of a Bermudian or individual holding a permanent resident certificate is available who meets the minimum standards for the position. The Bermuda government has announced a policy that places a six-year term limit on individuals with work permits, subject to specified exemptions for persons deemed to be key employees. Currently, all six of our Bermuda-based professional employees who require work permits have been granted permits by the Bermuda government that expire at various times between March 2006 and February 2008. This includes Mark de Saram, the chief executive officer of our Bermuda reinsurance operation. In the event his work permit were not renewed, we could lose his services, thereby adversely affecting our ability to conduct our business in Bermuda until we were able to replace him with an individual in Bermuda who did not require a work permit or who was granted the permit.

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

A significant portion of our investment portfolio consists of fixed income securities and smaller portions consist of equity securities and other investments. Both the fair market value of these assets and the investment income from these assets fluctuate depending on general economic and market conditions. For example, the fair market value of our fixed income securities generally increases or decreases in an inverse relationship with fluctuations in interest rates. The fair market value of our fixed income securities can also decrease as a result of any downturn in the business cycle that causes the credit quality of those securities to deteriorate. The net investment income that we realize from future investments in fixed income securities will generally increase or decrease with interest rates. Interest rate fluctuations also can cause net investment income from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, to differ from the income anticipated from those securities at the time of purchase. In addition, if issuers of individual investments are unable to meet their obligations, investment income will be reduced and realized capital losses may arise. Because all of our securities are classified as available for sale, changes in the market value of our securities are reflected in our financial statements. Similar treatment is not available for liabilities. As a result, a decline in the value of the securities in our portfolio could reduce our net income or cause us to incur a loss. The following table quantifies the portion of Everest Group's investment portfolio that consists of fixed income securities, equity securities and investments that carry prepayment risk.

	<b>As of December 31, 2004</b>
<b>(Dollars in thousands)</b>	
<i>Type of Security</i>	
Fixed income:	
Mortgage-backed securities	\$ 1,474,006
Other asset-backed	248,736
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Total asset-backed	1,722,742
Other fixed income	8,224,430
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Total fixed income	9,947,172
Equity securities	650,871
Other invested assets	161,324
Cash and short-term investments	770,805
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Total Investments and Cash	<b>\$ 11,530,172</b>
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**We may experience foreign currency exchange losses.**

Our functional currency is the United States dollar. However, we write a portion of our business in currencies other than U.S. dollars. During the year ended December 31, 2004, we wrote approximately

S-7

23.5% of its reinsurance coverages in currencies other than United States dollars. We also maintain a portion of our investment portfolio in investments denominated in currencies other than United States dollars. As of December 31, 2004, Everest Group maintained approximately 10.7% of its investment portfolio in investments denominated in currencies other than U.S. dollars. Consequently, quarterly exchange rate fluctuations may have a material impact on our quarterly net income. During 2004, 2003, 2002, the impact on our quarterly pre-tax net income from exchange rate fluctuations ranged from a loss of \$3.6 million to a gain of \$7.8 million.

### **Risks Relating to Regulation**

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

We are subject to extensive and increasing regulation under U.S., state and foreign insurance laws. These laws limit the amount of dividends that can be paid to us by our operating subsidiaries, impose restrictions on the amount and type of investments that they can hold, prescribe solvency, accounting and internal control standards that must be met and maintained and require them to maintain reserves. These laws also require disclosure of material intercompany transactions and require prior approval of extraordinary transactions. These extraordinary transactions include declaring dividends from operating subsidiaries that exceed statutory thresholds. These laws also generally require approval of changes of control of insurance companies. The application of these laws could affect our liquidity and ability to pay dividends, interest and other payments on our securities, as applicable, and could restrict our ability to expand our business operations through acquisitions of new insurance subsidiaries. In addition, we cannot assure you that we will have or can maintain all required licenses and approvals or that our business fully complies with the wide variety of applicable laws and regulations or the relevant authority's interpretation of the laws and regulations. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or monetarily penalize us. These types of actions could have a material adverse effect on our business. To date, no material fine, penalty or restriction has been imposed on us for failure to comply with any insurance law or regulation.

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

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

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

As Everest Bermuda's business develops, it will monitor the need to obtain licenses in jurisdictions other than Bermuda and the UK where it has an authorized branch in order to comply with

S-8

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

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

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

### **Risks Relating to the Common Shares**

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

Everest Group is a holding company, whose most significant assets consist of the stock of its operating subsidiaries. As a result, Everest Group's ability to pay dividends on its common shares in the future will depend on the earnings and cash flows of its operating subsidiaries and the ability of the subsidiaries to pay dividends or to advance or repay funds to it. This ability is subject to general economic, financial, competitive, regulatory and other factors beyond our control. Payment of dividends and advances and repayments from some of the operating subsidiaries are regulated by U.S., state and foreign insurance laws and regulatory restrictions, including minimum solvency and liquidity thresholds. Accordingly, the operating subsidiaries may not be able to pay dividends or advance or repay funds to us in the future, which could prevent us from paying dividends on our common shares.

**Provisions in Everest Group's bye-laws could have an anti-takeover effect, which could diminish the value of its common shares.**

Everest Group's bye-laws contain provisions that may entrench directors and make it more difficult for shareholders to replace directors even if the shareholders consider it beneficial to do so. In addition, these provisions could delay or prevent a change of control that a shareholder might consider favorable. The effect of these provisions could be to prevent a shareholder from receiving the benefit from any premium over the market price of our common shares offered by a bidder in a potential takeover. Even in the absence of an attempt to effect a change in management or a takeover attempt, these provisions may adversely affect the prevailing market price of our common shares if they are viewed as discouraging takeover attempts in the future.

For example, Everest Group's bye-laws contain the following provisions that could have an anti-takeover effect:

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election of directors is staggered, meaning that the members of only one of three classes of directors are selected each year;

shareholders have limited ability to remove directors;

S-9

the total voting power of any shareholder owning more than 9.9% of the common shares will be reduced to 9.9% of the total voting power of the common shares;

the board of directors may decline to register any transfer of common shares if it has reason to believe that the transfer would result in:

any person that is not an investment company beneficially owning more than 5.0% of any class of the issued and outstanding share capital of Everest Group;

any person holding controlled shares in excess of 9.9% of any class of the issued and outstanding share capital of Everest Group; or

any adverse tax, regulatory or legal consequences to Everest Group any of its subsidiaries or any of its shareholders;

Everest Group also has the option to redeem or purchase all or part of a shareholder's common shares to the extent the board of directors determines it is necessary or advisable to avoid or cure any adverse or potential adverse consequences if:

any person that is not an investment company beneficially owns more than 5.0% of any class of the issued and outstanding share capital of Everest Group,

any person holds controlled shares in excess of 9.9% of any class of the issued and outstanding share capital of Everest Group, or

share ownership by any person may result in adverse tax, regulatory or legal consequences to Everest Group, any of its subsidiaries or any other shareholder.

The Board of Directors has indicated that it will apply these bye-law provisions in such manner that passive institutional investors will be treated similarly to investment companies. For this purpose, passive institutional investors include all persons who are eligible, pursuant to Rule 13d-1(b)(1) under the U.S. Securities Exchange Act of 1934, to file a short-form statement on Schedule 13G, but excluding any insurance company or any parent holding company or control person of an insurance company.

**Applicable insurance laws may also have an anti-takeover effect.**

Before a person can acquire control of a U.S. insurance company, prior written approval must be obtained from the insurance commissioner of the state where that insurance company is domiciled. Prior to granting approval of an application to acquire control of a domestic insurance company, a state insurance commissioner will consider such factors as the financial strength of the applicant, the integrity and competence of the applicant's board of directors and executive officers, the acquiror's plans for changes to the insurance company's board of directors and executive officers, the acquiror's plans for the future operations of the insurance company and any anti-competitive results that may arise from the consummation of the acquisition of control. Because any person who acquired control of Everest Group would thereby acquire indirect control of our insurance company subsidiaries in the United States, the insurance change of control laws of Delaware, Arizona, California and Georgia would apply to such a transaction. This could have the effect of delaying or even preventing such a change of control.

**Investors in Everest Group may have more difficulty in protecting their interests than investors in a U.S. corporation.**

The Companies Act 1981 of Bermuda differs in material respects from the laws applicable to U.S. corporations and their shareholders. The following is a summary of material differences between the Companies Act, as modified in some instances by provisions of Everest Group's bye-laws, and

S-10

Delaware corporate law that could make it more difficult for investors in Everest Group to protect their interests than investors in a U.S. corporation. Because the following statements are summaries, they do not address all aspects of Bermuda law that may be relevant to Everest Group and its shareholders.

*Alternate Directors.* Everest Group's bye-laws provide, as permitted by Bermuda law, that each director may appoint an alternate director, who shall have the power to attend and vote at any meeting of the board of directors or committee at which that director is not personally present and to sign written consents in place of that director. Delaware law does not provide for alternate directors.

*Committees of the Board of Directors.* Everest Group's bye-laws provide, as permitted by Bermuda law, that the board of directors may delegate any of its powers to committees that the board appoints, and those committees may consist partly or entirely of non-directors. Delaware law allows the board of directors of a corporation to delegate many of its powers to committees, but those committees may consist only of directors.

*Interested Directors.* Bermuda law and Everest Group's bye-laws provide that if a director has a personal interest in a transaction to which the company is also a party and if the director discloses the nature of this personal interest at the first opportunity, either at a meeting of directors or in writing to the directors, then the company will not be able to declare the transaction void solely due to the existence of that personal interest and the director will not be liable to the company for any profit realized from the transaction. In addition, after a director has made the declaration of interest referred to above, he or she is allowed to be counted for purposes of determining whether a quorum is present and to vote on a transaction in which he or she has an interest, unless disqualified from doing so by the chairman of the relevant board meeting. Under Delaware law, an interested director could be held liable for a transaction in which that director derived an improper personal benefit. Additionally, under Delaware law, a corporation may be able to declare a transaction with an interested director to be void unless one of the following conditions is fulfilled:

the material facts as to the interested director's relationship or interests are disclosed or are known to the board of directors and the board in good faith authorizes the transaction by the affirmative vote of a majority of the disinterested directors,

the material facts are disclosed or are known to the shareholders entitled to vote on the transaction and the transaction is specifically approved in good faith by the holders of a majority of the voting shares or

the transaction is fair to the corporation as of the time it is authorized, approved or ratified.

*Transactions with Significant Shareholders.* As a Bermuda company, Everest Group may enter into business transactions with its significant shareholders, including asset sales, in which a significant shareholder receives, or could receive, a financial benefit that is greater than that received, or to be received, by other shareholders with prior approval from Everest Group's board of directors but without obtaining prior approval from the shareholders. In the case of an amalgamation, in which two or more companies join together and continue as a single company, a resolution of shareholders approved by a majority of at least 75% of the votes cast is required in addition to the approval of the board of directors, except in the case of an amalgamation with and between wholly-owned subsidiaries. If Everest Group were a Delaware corporation, any business combination with an interested shareholder (which, for this purpose, would include mergers and asset sales of greater than 10% of Everest Group's assets that would otherwise be considered transactions in the ordinary course of business) within a period of three years from the time the person became an interested shareholder would require prior approval from shareholders holding at least 66 2/3% of Everest Group's outstanding common shares not owned by the interested shareholder, unless the transaction qualified for one of the exemptions in the relevant Delaware statute or Everest Group opted out of the statute. For



purposes of the Delaware statute, an interested shareholder is generally defined as a person who together with that person's affiliates and associates owns, or within the previous three years did own, 15% or more of a corporation's outstanding voting shares.

*Takeovers.* Under Bermuda law, if an acquiror makes an offer for shares of a company and, within four months of the offer, the holders of not less than 90% of the shares that are the subject of the offer tender their shares, the acquiror may give the nontendering shareholders notice requiring them to transfer their shares on the terms of the offer. Within one month of receiving the notice, dissenting shareholders may apply to the court objecting to the transfer. The burden is on the dissenting shareholders to show that the court should exercise its discretion to enjoin the transfer. The court will be unlikely to do this unless there is evidence of fraud or bad faith or collusion between the acquiror and the tendering shareholders aimed at unfairly forcing out minority shareholders. Under another provision of Bermuda law, the holders of 95% of the shares of a company (the acquiring shareholders) may give notice to the remaining shareholders requiring them to sell their shares on the terms described in the notice. Within one month of receiving the notice, dissenting shareholders may apply to the court for an appraisal of their shares. Within one month of the court's appraisal, the acquiring shareholders are entitled either to acquire all shares involved at the price fixed by the court or cancel the notice given to the remaining shareholders. If shares were acquired under the notice at a price below the court's appraisal price, the acquiring shareholders must either pay the difference in price or cancel the notice and return the shares thus acquired to the shareholder, who must then refund the purchase price. There are no comparable provisions under Delaware law.

*Inspection of Corporate Records.* Members of the general public have the right to inspect the public documents of Everest Group available at the office of the Registrar of Companies and Everest Group's registered office, both in Bermuda. These documents include the memorandum of association, which describes the company's permitted purposes and powers, any amendments to the memorandum of association and documents relating to any increase or reduction in the company's authorized share capital. Shareholders of Everest Group have the additional right to inspect the company's bye-laws, minutes of general meetings of shareholders and audited financial statements that must be presented to the annual general meeting of shareholders. The register of shareholders of Everest Group also is open to inspection by shareholders without charge, and to members of the public for a fee. Everest Group is required to maintain its share register at its registered office in Bermuda. Everest Group also maintains a branch register in the offices of its transfer agent in the United States, which is open for public inspection as required under the Companies Act. Everest Group is required to keep at its registered office a register of its directors and officers that is open for inspection by members of the public without charge. However, Bermuda law does not provide a general right for shareholders to inspect or obtain copies of any other corporate records. Under Delaware law, any shareholder may inspect or obtain copies of a corporation's shareholder list and its other books and records for any purpose reasonably related to that person's interest as a shareholder.

*Shareholder's Suits.* The rights of shareholders under Bermuda law are not as extensive as the rights of shareholders under legislation or judicial precedent in many U.S. jurisdictions. Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. However, the Bermuda courts ordinarily would be expected to follow English case law precedent, which would permit a shareholder to bring an action in the name of Everest Group to remedy a wrong done to Everest Group where the act complained of is alleged to be beyond the corporate power of Everest Group or illegal or would result in the violation of Everest Group's memorandum of association or bye-laws. Furthermore, the court would give consideration to acts that are alleged to constitute a fraud against the minority shareholders or where an act requires the approval of a greater percentage of Everest Group's shareholders than actually approved it. The winning party in an action of this type generally would be able to recover a portion of attorneys' fees incurred in connection with the action. Under Delaware law, class actions and derivative actions generally are available to stockholders for

breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law. In these types of actions, the court has discretion to permit the winning party to recover its attorneys' fees.

*Limitation of Liability of Directors and Officers.* Everest Group's bye-laws provide that Everest Group and its shareholders waive all claims or rights of action that they might have, individually or in the right of the company against any director or officer for any act or failure to act in the performance of that director's or officer's duties. However, this waiver does not apply to claims or rights of action that arise out of fraud or dishonesty. This waiver may have the effect of barring claims arising under U.S. federal securities laws. Under Delaware law, a corporation may include in its certificate of incorporation provisions limiting the personal liability of its directors to the corporation or its stockholders for monetary damages for many types of breach of fiduciary duty. However, these provisions may not limit liability for any breach of the duty of loyalty, acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, the authorization of unlawful dividends, stock repurchases or stock redemptions, or any transaction from which a director derived an improper personal benefit. Moreover, these provisions would not be likely to bar claims arising under U.S. federal securities laws.

*Indemnification of Directors and Officers.* Everest Group's bye-laws provide that Everest Group shall indemnify its directors or officers to the full extent permitted by law against all actions, costs, charges, liabilities, loss, damage or expense incurred or suffered by them by reason of any act done, concurred in or omitted in the conduct of Everest Group's business or in the discharge of their duties. Under Bermuda law, this indemnification may not extend to any matter involving fraud or dishonesty of which a director or officer may be guilty in relation to the company, as determined in a final judgment or decree not subject to appeal. Under Delaware law, a corporation may indemnify a director or officer who becomes a party to an action, suit or proceeding because of his position as a director or officer if (1) the director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and (2) if the action or proceeding involves a criminal offense, the director or officer had no reasonable cause to believe his or her conduct was unlawful.

*Enforcement of Civil Liabilities.* Everest Group is organized under the laws of Bermuda. Some of its directors and officers may reside outside the United States. A substantial portion of our and their assets are or may be located in jurisdictions outside the United States. A person may not be able to effect service of process within the United States on directors and officers of Everest Group and those experts who reside outside the United States. A person also may not be able to recover against them or Everest Group on judgments of U.S. courts or to obtain original judgments against them or Everest Group in Bermuda courts, including judgments predicated upon civil liability provisions of the U.S. federal securities laws.

*Dividends.* Bermuda law does not allow a company, such as Everest Group, to declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that the company, after the payment is made, would be unable to pay its liabilities as they become due, or that the realizable value of the company's assets would be less, as a result of the payment, than the aggregate of its liabilities and its issued share capital and share premium accounts. The share capital account represents the aggregate par value of issued shares, and the share premium account represents the aggregate amount paid for issued shares over and above their par value. Under Delaware law, subject to any restrictions contained in a company's certificate of incorporation, a company may pay dividends out of the surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Surplus is the amount by which the net assets of a corporation exceed its stated capital. Delaware law also provides that dividends may not be paid out of net profits at any time when stated capital is less than the capital represented by the outstanding stock of all classes having a preference upon the distribution of assets.

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**Risk Relating to Taxation**

**If U.S. tax law changes, our net income may be reduced.**

In the last few years, some members of Congress have expressed concern about U.S. corporations that move their place of incorporation to low-tax jurisdictions. Also, some members of Congress have expressed concern over a competitive advantage that foreign-controlled insurers and reinsurers may have over U.S. controlled insurers and reinsurers due to the purchase of reinsurance by U.S. insurers from affiliates operating in some foreign jurisdictions, including Bermuda. Although the existing legislation that increases the U.S. tax burden on so-called "inverting" companies does not apply to Everest Group, Everest Group does not know whether any similar legislation disadvantageous to Everest Group's Bermuda insurance subsidiaries will ever be enacted into law. If it were enacted, the U.S. tax burden on our Bermuda operations, or on some business ceded from our licensed U.S. insurance subsidiaries to some offshore reinsurers, could be increased. This could reduce our net income.

**Everest Group and/or Everest Bermuda may be subject to U.S. corporate income tax, which would reduce our net income.**

*Everest Bermuda.* The income of Everest Bermuda is a significant portion of our worldwide income from operations. We have established guidelines for the conduct of our operations that are designed to ensure that Everest Bermuda is not engaged in the conduct of a trade or business in the United States. Based on its compliance with those guidelines, we believe that Everest Bermuda should not be required to pay U.S. corporate income tax, other than withholding tax on U.S. source dividend income. However, if the IRS successfully contended that Everest Bermuda was engaged in a trade or business in the United States, Everest Bermuda would be required to pay U.S. corporate income tax on any income that is subject to the taxing jurisdiction of the United States, and possibly the U.S. branch profits tax. Even if the IRS successfully contended that Everest Bermuda was engaged in a U.S. trade or business, the U.S.-Bermuda tax treaty would preclude the IRS from taxing Everest Bermuda's income except to the extent that its income were attributable to a permanent establishment maintained by that subsidiary. We do not believe that Everest Bermuda has a permanent establishment in the United States. If the IRS successfully contended that Everest Bermuda did have income attributable to a permanent establishment in the United States, Everest Bermuda would be subject to U.S. tax on that income.

*Everest Group.* We conduct our operations in a manner designed to minimize our U.S. tax exposure. Based on our compliance with guidelines designed to ensure that we generate only immaterial amounts, if any, of income that is subject to the taxing jurisdiction of the United States, we believe that we should be required to pay only immaterial amounts, if any, of U.S. corporate income tax, other than withholding tax on U.S. source dividend income. However, if the IRS successfully contended that we had material amounts of income that is subject to the taxing jurisdiction of the United States, we would be required to pay U.S. corporate income tax on that income, and possibly the U.S. branch profits tax. Prior to the current year, our principal executive offices were located in Barbados and, as a result, even if the IRS had successfully contended that we had material amounts of income that was subject to the taxing jurisdiction of the United States, the U.S.-Barbados tax treaty would have precluded the IRS from taxing our income, except to the extent that our income was attributable to a permanent establishment maintained by us in the United States. Since we moved our principal executive offices out of Barbados as of December 31, 2004 and since the United States and Barbados recently made effective a protocol to the U.S.-Barbados tax treaty, which strengthens the limitation of benefits provisions of that treaty, the U.S.-Barbados tax treaty will no longer provide any protection to us. Nevertheless, we do not believe that we have material amounts of income subject to the taxing jurisdiction of the United States. If the IRS successfully contended, however, that we did have income subject to tax in the United States the imposition of tax on that income would reduce our net income.

If Everest Bermuda became subject to U.S. income tax on its income or if we became subject to U.S. income tax on more than immaterial amounts of income, our income could also be subject to the U.S. branch profits tax. In that event, Everest Group and Everest Bermuda would be subject to taxation at a higher combined effective rate than if they were organized as U.S. corporations. The combined effect of the 35% U.S. corporate income tax rate and the 30% branch profits tax rate is a net tax rate of 54.5%. The imposition of these taxes would reduce our net income.

**Everest Group and/or Everest Bermuda may become subject to Bermuda tax, which would reduce our net income.**

Everest Group and Everest Bermuda currently are not subject to income or capital gains taxes in Bermuda. Both companies have received an assurance from the Bermuda Minister of Finance under The Exempted Undertakings Tax Protection Act 1966 of Bermuda to the effect that if any legislation is enacted in Bermuda that imposes any tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then that tax will not apply to us or to any of our operations or our shares, debentures or other obligations until March 28, 2016. This assurance does not prevent the application of any of those taxes to persons ordinarily resident in Bermuda and does not prevent the imposition of any tax payable in accordance with the provisions of The Land Tax Act 1967 of Bermuda or otherwise payable in relation to any land leased to Everest Group or Everest Bermuda. There are currently no procedures for extending these assurances. As a result, Everest Group and Everest Bermuda could be subject to taxes in Bermuda after March 28, 2016, which could reduce our net income.

**Our net income will be reduced if U.S. excise and withholding taxes are increased.**

Everest Bermuda is subject to an excise tax on reinsurance and insurance premiums it collects with respect to risks located in the United States. In addition, Everest Bermuda may be subject to withholding tax on dividend income from United States sources. These taxes could increase and other taxes could be imposed in the future on Everest Bermuda's business, which could reduce our net income.

## USE OF PROCEEDS

We will use the net proceeds we receive from the sale of the common shares, approximately \$475,550,000, for working capital and general corporate purposes. Pending these uses, we may invest the net proceeds in accordance with our normal investment policies and practices.

## MATERIAL TAX CONSIDERATIONS

This discussion covers the principal Bermuda and U.S. federal income taxation of Everest Group and the principal Bermuda and U.S. federal income tax consequences of the ownership and disposition of the common shares. Other tax considerations not discussed below may be applicable to a decision to hold or dispose of the common shares. Unless explicitly noted to the contrary, this discussion applies only to investors who are, as defined below, U.S. holders holding the common shares as capital assets. The tax treatment of any particular shareholder may vary depending on that shareholder's particular tax situation or status. In addition, this discussion is based on current law. Legislative, judicial or administrative changes may be forthcoming that could be retroactive and could affect this discussion. Consequently, you should consult your tax advisors as to the specific tax consequences to you of the ownership and disposition of the common shares, including tax return reporting requirements, the applicability and effect of federal, state, local, foreign and other applicable tax laws and the effect of any proposed changes in the tax laws.

As used in this discussion, the term "U.S. person" means:

a citizen or resident of the United States;

a corporation, partnership or other entity created or organized in the United States or under the laws of the United States or of any of its political subdivisions;

an estate whose income is includible in gross income for U.S. federal income tax purposes regardless of its source; or

any trust if, and only if, a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

As used in this discussion, the term "U.S. holder" means a U.S. person that holds the common shares as "capital assets" within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, referred to as the Code.

This summary of the application of Bermuda and U.S. federal tax laws to Everest Group represents the views of our management as to the application of those laws and does not represent legal opinions of us or our counsel.

## Taxation of Everest Group and Its Subsidiaries

***Bermuda***

Under current Bermuda law, there is no income tax or capital gains tax payable by Everest Group or Everest Bermuda. Everest Group has received an assurance from the Bermuda Minister of Finance under The Exempted Undertakings Tax Protection Act, 1966 of Bermuda that in the event Bermuda enacts any legislation imposing tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then that tax will not apply to Everest Group, or to any of its operations or the shares, debentures or other obligations of Everest Group, until March 28, 2016. This assurance will not prevent the application of any of those

S-16

taxes to persons ordinarily resident in Bermuda or the imposition of any tax payable in accordance with the provisions of The Land Tax Act 1967 of Bermuda or otherwise payable in relation to any property leased to Everest Group. Everest Bermuda has obtained a similar assurance from the Minister of Finance. Everest Group and its Bermuda-domiciled subsidiaries currently pay annual Bermuda government fees totaling \$47,335 and Everest Group's Bermuda-domiciled insurers currently pay annual insurance license fees totaling \$18,375. In addition, all entities employing individuals in Bermuda are required to pay a payroll tax and various other taxes, directly or indirectly, to the Bermuda government.

### ***United States***

In general, a foreign corporation is subject to:

U.S. federal income tax at graduated rates on its taxable income that is treated as effectively connected to its conduct of a trade or business within the United States;

U.S. branch profits tax on its effectively connected earnings and profits deemed repatriated out of the United States; and

U.S. withholding tax on interest, dividends and other similar types of U.S. source income not effectively connected with a U.S. trade or business.

In addition, the United States imposes an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the United States.

### ***Corporate Income Tax and Branch Profits Tax***

We believe that we should not be subject to material amounts of U.S. federal income tax, other than withholding tax on U.S. source dividend income. However, if Everest Group were subject to U.S. federal income tax, it would be taxed at regular corporate rates on all of its income that is effectively connected with the conduct of its U.S. business and may also be subject to the branch profits tax. Absent the benefit of the U.S.-Bermuda tax treaty, the same would apply to Everest Bermuda if it were subject to U.S. federal income tax. The corporate income tax, if imposed, would be computed in a manner generally analogous to that applied to the income of a domestic corporation, except that a foreign corporation is allowed deductions and credits only if it files a U.S. income tax return. Therefore, Everest Group and Everest Bermuda file protective U.S. income tax returns on a timely basis in order to preserve their right to claim tax deductions and credits if either company subsequently is determined to be subject to U.S. tax on a net basis. The branch profits tax is imposed each year on a corporation's effectively connected earnings and profits, with some adjustments, deemed repatriated out of the United States, which in Everest Group's or Everest Bermuda's case could subject all of its net profits to U.S. federal income tax. The highest marginal federal income tax rates currently are 35% for a corporation's effectively connected income and 30% for the branch profits tax, resulting in an effective maximum U.S. federal income tax rate of 54.5%.

The determination of whether activities constitute being engaged in the conduct of a trade or business and whether income is effectively connected to a U.S. trade or business is essentially factual in nature. There are no definitive standards provided by the Code, regulations or court decisions. As a result, the IRS could contend that Everest Bermuda is engaged in the conduct of a trade or business in the United States and/or that Everest Group has material amounts of income effectively connected to the conduct of a trade or business in the United States. Any income of Everest Bermuda or Everest Group effectively connected to the conduct of

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trade or business in the United States would be subject to corporate income tax and possibly the U.S. branch profits tax.

The United States and Bermuda have entered into a tax treaty, which provides some relief from U.S. income tax on effectively connected income and the U.S. branch profits tax for some insurance

S-17

enterprises. Under the treaty, business profits earned by an operating insurance company that is a resident of Bermuda, such as Everest Bermuda, may be taxed in the United States only if those profits are attributable to the conduct of a trade or business carried on through a permanent establishment in the United States. For purposes of the U.S.-Bermuda tax treaty, a permanent establishment generally is defined to include a branch, office or other fixed place of business through which the business of the enterprise is carried on, or an agent of dependent status that has, and habitually exercises in the United States, authority to conclude contracts in the name of the corporation. An insurance enterprise resident in Bermuda will be entitled to the benefits of the treaty only if its stock is traded in the public market or Bermuda residents or U.S. citizens or residents own more than 50% of its equity and the enterprise does not use its income in substantial part, directly or indirectly, to make disproportionate distributions to, or to meet liabilities to, persons who are not Bermuda residents or U.S. citizens or residents.

It is uncertain whether Everest Bermuda is entitled to relief under the permanent establishment provisions of the treaty because it is the subsidiary of a publicly-traded company rather than a publicly-traded company itself. No regulations interpreting the treaty have been issued. As a result, the IRS could contend that Everest Bermuda is not entitled to the benefits of the treaty.

Even if Everest Bermuda is entitled to the benefits of the treaty, the determination of whether a permanent establishment in the United States exists is essentially factual in nature. As a result, the IRS could contend that Everest Bermuda has a permanent establishment in the United States and is subject to U.S. federal income tax as well as the branch profits tax. See *Risk Factors* Everest Group and/or Everest Bermuda may be subject to U.S. corporate income tax, which would reduce our net income. If Everest Bermuda is entitled to the benefits of the treaty and has a U.S. permanent establishment, it would be taxed at regular corporate rates on all of its income that is attributable to its U.S. permanent establishment. It could also be subject to the branch profits tax on that income. If Everest Bermuda qualified for treaty benefits and did not have a permanent establishment in the U.S. but was nonetheless found to be engaged in business in the United States, there is an argument that its premium income would be exempt from U.S. tax but that its investment income effectively connected with its U.S. business would be subject to U.S. income taxes on a net basis, and that the branch profits tax may be applicable to that investment income.

### ***Withholding Tax***

Foreign corporations are subject to U.S. income tax on specified fixed or determinable annual or periodical gains, profits and income derived from sources within the United States, such as dividends and some interest on investments. This tax generally is imposed at a rate of 30% on the gross income subject to the tax. The tax is eliminated with respect to some types of U.S. source income, such as portfolio interest, and with respect to income that is effectively connected with the foreign corporation's conduct of a U.S. trade or business.

The rate of withholding tax may be reduced by applicable treaties. The U.S.-Bermuda tax treaty, the benefits of which Everest Bermuda may be entitled to, contains no provision reducing the rate of withholding tax.

### ***Insurance Excise Tax***

The United States also imposes an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the United States. The rates of tax applicable to premiums paid to Everest Bermuda are 4% for direct casualty insurance and indemnity bonds and 1% for reinsurance premiums and direct insurance of life, sickness and accident policies and annuity contracts.

