

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q/A

EVEREST REINSURANCE HOLDINGS INC  
Form 10-Q/A  
November 05, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q/A

QUARTERLY REPORT UNDER SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended:  
SEPTEMBER 30, 2002

Commission File Number:  
1-13816

EVEREST REINSURANCE HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE

22-3263609

(State or other juris-  
diction of incorporation  
or organization)

(IRS Employer Identification  
Number)

477 MARTINSVILLE ROAD  
POST OFFICE BOX 830  
LIBERTY CORNER, NEW JERSEY 07938-0830  
(908) 604-3000

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

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 the filing requirements for at least the past 90 days.

YES      X                                      NO  
-----

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

| Class                              | Number of Shares Outstanding<br>at November 5, 2002 |
|------------------------------------|---|
| -----                              | -----   |
| COMMON STOCK,      \$.01 PAR VALUE | 1,000   |

The registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format permitted by General Instruction H of Form 10-Q.

EVEREST REINSURANCE HOLDINGS, INC.

# Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q/A

## INDEX TO FORM 10-Q/A

### PART I

#### FINANCIAL INFORMATION

|   | PAGE |
|---|------|
|   | ---- |
| ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS    |      |
| -----   |      |
| OF FINANCIAL CONDITION AND RESULTS OF OPERATION | 1    |
| -----   |      |

### PART II

#### OTHER INFORMATION

|  |    |
|--|----|
| ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K | 12 |
| -----                                    |    |

PART I - ITEM 2

#### EVEREST REINSURANCE HOLDINGS, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### RESULTS OF OPERATIONS

##### INDUSTRY CONDITIONS

The worldwide reinsurance and insurance businesses are highly competitive yet cyclical by product and market. The terrorist attacks on September 11, 2001 resulted in losses which reduced industry capacity and were of sufficient magnitude to cause most individual 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. 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.

Thus far in 2002, our markets, and reinsurance and insurance markets in general, have continued to firm. This firming reflects 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 1990's 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 is only now becoming apparent through excessive loss emergence, varies widely by company depending on product offerings, markets accessed, underwriting and operating practices, competitive strategies and business

## Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q/A

volumes. Across all market participants, however, the aggregate effect has been 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 have 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, have resulted in firming prices, terms and conditions and tightened coverage availability across most classes and markets.

These changes reflect a clear reversal of the general trend from 1987 through 1999 toward 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 Lloyds 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 exist and may take on additional importance as the result of the firming conditions which have emerged. As a result, although the Company is

1

encouraged by the recent improvements, and more generally, current market conditions, the Company cannot predict with any reasonable certainty whether and to what extent these improvements will persist.

### SEGMENT INFORMATION

The Company, through its subsidiaries, operates in four segments: U.S. Reinsurance, U.S. Insurance, Specialty Reinsurance and International Reinsurance. The U.S. Reinsurance operation writes property and casualty treaty reinsurance through reinsurance brokers as well as directly with ceding companies within the United States, in addition to property, casualty and specialty facultative reinsurance through brokers and directly with ceding companies within the United States. The U.S. Insurance operation writes property and casualty insurance primarily through general agent relationships and surplus lines brokers within the United States. The Specialty Reinsurance operation writes accident and health, marine, aviation and surety business within the United States and worldwide through brokers and directly with ceding companies. The International Reinsurance operation writes property and casualty reinsurance through the Company's branches in London, Canada, and Singapore, in addition to foreign "home-office" business.

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 and such reinsurance does not impact segment results as business is reported in the unit responsible for the business as initially written with third parties, generally within the segment in which the business was first produced.

THREE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2001

PREMIUMS. Gross premiums written increased 42.6% to \$693.5 million in the three months ended September 30, 2002 from \$486.3 million in the three months ended September 30, 2001 as the Company took advantage of selected growth

## Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q/A

opportunities, while continuing to maintain a disciplined underwriting approach. Premium growth areas included a 65.2% (\$100.2 million) increase in the U.S. Reinsurance operation principally attributable to growth across property and casualty lines, a 60.4% (\$50.3 million) increase in the International Reinsurance operation, mainly attributable to growth in the London, Canada and Latin American markets and a 41.6% (\$57.7 million) increase in the U.S. Insurance operation, principally attributable to growth in workers' compensation insurance. These increases were partially offset by a 0.9% (\$1.0 million) decrease in the Specialty Reinsurance operation. The Company continued to decline business that did not meet its objectives regarding underwriting profitability.

Ceded premiums increased to \$169.9 million in the three months ended September 30, 2002 from \$123.1 million in the three months ended September 30, 2001. This increase was principally attributable to \$100.2 million of ceded premiums relating to a Quota Share Reinsurance Agreement between Everest Re and Bermuda Re, whereby Everest Re cedes 20% of its net retained liability on all new and renewal policies written during the term of this agreement, and an Excess of Loss Agreement between Everest Re, Everest National Insurance Company and Everest Security Insurance Company and Bermuda Re, whereby Bermuda Re assumes

2

liability for primary insurance workers' compensation losses exceeding \$100,000 per occurrence, with its liability not to exceed \$150,000 per occurrence. Ceded premiums for the three months ended September 30, 2002 included \$4.5 million and \$11.9 million in adjustment premiums relating to claims made under the 2001 and 2000 accident year aggregate excess of loss elements of the Company's corporate retrocessional program, respectively. Ceded premiums for the three months ended September 30, 2001 included \$59.9 million and \$10.9 million in adjustment premiums relating to claims made under the 2001 and 1999 accident year aggregate excess of loss elements of the Company's corporate retrocessional program, respectively, with the 2001 accident year cessions relating to losses incurred as a result of the September 11 attacks.

Net premiums written increased by 44.2% to \$523.6 million in the three months ended September 30, 2002 from \$363.2 million in the three months ended September 30, 2001. This increase reflects the increase in gross premiums written, partially offset by the increase in ceded premiums.

PREMIUM REVENUES. Net premiums earned increased by 33.0% to \$456.4 million in the three months ended September 30, 2002 from \$343.0 million in the three months ended September 30, 2001. Contributing to this increase was a 69.2% (\$63.0 million) increase in the U.S. Reinsurance operation, a 43.9% (\$28.9 million) increase in the International Reinsurance operation and a 42.8% (\$35.5 million) increase in the U.S. Insurance operation. These increases were partially offset by a 13.6% (\$14.0 million) decrease in the Specialty Reinsurance operation. All of these changes reflect period to period changes in net written premiums and business mix together with normal variability in earnings patterns. Business mix changes occur not only as the Company shifts emphasis between products, lines of business, distribution channels and markets but also as individual contracts renew or non-renew, almost always with changes in coverage, structure, prices and/or terms, and as new contracts are accepted with coverages, structures, prices and/or terms different from those of expiring contracts. As premium reporting and earnings and loss and commission characteristics derive from the provisions of individual contracts, the continuous turnover of individual contracts, arising from both strategic shifts and day to day underwriting, can and does introduce appreciable background variability in various underwriting line items.

EXPENSES. Incurred loss and loss adjustment expenses ("LAE") decreased by 8.3%

## Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q/A

to \$328.8 million in the three months ended September 30, 2002 from \$358.5 million in the three months ended September 30, 2001. The decrease in incurred losses and LAE was principally attributable to the decrease in catastrophe losses, partially offset by the increase in net premiums earned and also reflects the impact of changes in the Company's mix of business. Incurred losses and LAE include catastrophe losses, which include the impact of both current period events and favorable and unfavorable development on prior period events, and are net of reinsurance. A catastrophe is an event that causes a pre-tax loss on property exposures of at least \$5.0 million and has an event date of January 1, 1988 or later. Catastrophe losses, net of contract specific cessions but before cessions under the corporate retrocessional program, were \$10.2 million in the three months ended September 30, 2002, principally relating to European flood losses, compared to net catastrophe losses of \$192.8 million in the three months ended September 30, 2001, which was principally related to the September 11 attacks. Incurred losses and LAE for the three months ended September 30, 2002 reflected ceded losses and LAE of \$130.4 million compared to ceded losses and LAE in the three months ended September 30, 2001 of \$227.8 million. Ceded losses and LAE in the three months ended September 30, 2002 include \$55.6 million of ceded losses relating to the reinsurance transactions noted earlier between the Company and Bermuda Re. The ceded losses and LAE for the three months ended September 30, 2002 included \$9.6 million and \$22.0 million of

3

losses ceded under the 2001 and 2000 accident year aggregate excess of loss component of the Company's corporate retrocessional program, respectively. The ceded losses and LAE for the three months ended September 30, 2001 included \$130.0 million and \$20.0 million of losses ceded under the 2001 and 1999 accident year aggregate excess of loss component of the Company's corporate retrocessional program, respectively, with the 2001 accident year cessions relating to losses incurred as a result of the September 11 attacks.

Contributing to the decrease in incurred losses and LAE in the three months ended September 30, 2002 from the three months ended September 30, 2001 were a 32.8% (\$55.2 million) decrease in the U.S. Reinsurance operation principally reflecting decreased catastrophe losses, partially offset by increased premium volume and a 20.6% (\$18.5 million) decrease in the Specialty Reinsurance operation principally attributable to decreased catastrophe losses, partially offset by increased premium volume in A&H business. These decreases were partially offset by a 49.0% (\$28.8 million) increase in the U.S. Insurance operation and a 37.1% (\$15.2 million) increase in the International operation; both increases principally reflect increased premium volume. Incurred losses and LAE for each operation were also impacted by variability relating to changes in the level of premium volume and mix of business by class and type.

The Company's loss and LAE ratio ("loss ratio"), which is calculated by dividing incurred losses and LAE by premiums earned, decreased by 32.4 percentage points to 72.1% in the three months ended September 30, 2002 from 104.5% in the three months ended September 30, 2001 reflecting the incurred losses and LAE discussed above. The following table shows the loss ratios for each of the Company's operating segments for the three months ended September 30, 2002 and 2001. The loss ratios for all operations were impacted by the factors noted above.

### Operating Segment Loss Ratios

| Segment          | 2002  | 2001   |
|------------------|-------|--------|
| U.S. Reinsurance | 73.6% | 185.2% |

## Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q/A

|                           |       |       |
|---------------------------|-------|-------|
| U.S. Insurance            | 74.2% | 71.1% |
| Specialty Reinsurance     | 80.1% | 87.2% |
| International Reinsurance | 59.4% | 62.3% |

Underwriting expenses increased by 0.3% to \$124.5 million in the three months ended September 30, 2002 from \$124.1 million in the three months ended September 30, 2001. Commission, brokerage, taxes and fees decreased by \$1.6 million, principally reflecting \$18.2 million of ceded commissions relating to the reinsurance transactions noted earlier between the Company and Bermuda Re, partially offset by increases in premium volume and changes in the mix of business. Other underwriting expenses increased by \$1.9 million as the Company expanded its operations to support its increased business volume. Contributing to these underwriting expense increases were a 55.2% (\$13.1 million) increase in the U.S. Insurance operation and a 2.7% (\$0.6 million) increase in the International operation. These increases were partially offset by a 20.0% (\$9.3 million) decrease in the U.S. Reinsurance operation and a 17.2% (\$5.2 million) decrease in the Specialty Reinsurance operation. The changes for each operation's expenses principally resulted from changes in commission expenses related to changes in premium volume and business mix by class and type and, in some cases, changes in the use of reinsurance, including with Bermuda Re, and the underwriting performance of the underlying business. The Company's expense ratio, which is calculated by dividing underwriting expenses by premiums earned, was 27.3% for the three months ended September 30, 2002 compared to 36.2% for the three months ended September 30, 2001.

4

The Company's combined ratio, which is the sum of the loss and expense ratios, decreased by 41.4 percentage points to 99.3% in the three months ended September 30, 2002 compared to 140.7% in the three months ended September 30, 2001. The following table shows the combined ratios for each of the Company's operating segments for the three months ended September 30, 2002 and 2001. The combined ratios for all operations were impacted by the loss and expense ratio variability noted above, and for certain operations, by the impact of adjustment premiums ceded under the accident year aggregate excess of loss element of the Company's retrocessional program, principally relating to losses incurred as the result of the September 11 attacks.

### Operating Segment Combined Ratios

| Segment                   | 2002   | 2001   |
|---------------------------|--------|--------|
| U.S. Reinsurance          | 97.8%  | 236.5% |
| U.S. Insurance            | 105.2% | 99.6%  |
| Specialty Reinsurance     | 108.1% | 116.4% |
| International Reinsurance | 84.6%  | 97.6%  |

INVESTMENT RESULTS. Net investment income decreased 1.4% to \$64.4 million in the three months ended September 30, 2002 from \$65.3 million in the three months ended September 30, 2001, principally reflecting the effects of the lower interest rate environment, partially offset by the effect of investing the \$413.0 million of cash flow from operations in the twelve months ended September 30, 2002. The following table shows a comparison of various investment yields as of September 30, 2002 and December 31, 2001, respectively, and for the periods ended September 30, 2002 and 2001, respectively.

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q/A

|   | 2002  | 2001  |
|---|-------|-------|
|   | ----- | ----- |
| Imbedded pre-tax yield of cash and invested assets at September 30, 2002 and December 31, 2001                        | 5.6%  | 6.1%  |
| Imbedded after-tax yield of cash and invested assets at September 30, 2002 and December 31, 2001                      | 4.4%  | 4.9%  |
| Annualized pre-tax yield on average cash and invested assets for the three months ended September 30, 2002 and 2001   | 5.6%  | 6.1%  |
| Annualized after-tax yield on average cash and invested assets for the three months ended September 30, 2002 and 2001 | 4.4%  | 4.9%  |

Net realized capital loss was \$7.1 million in the three months ended September 30, 2002, reflecting realized capital losses on the Company's investments of \$18.4 million which included \$8.7 million relating to write-downs in the value of securities deemed to be impaired on an other than temporary basis, partially offset by \$11.3 million of realized capital gains, compared to net realized capital losses of \$1.0 million in the three months ended September 30, 2001. The net realized capital losses in the three months ended September 30, 2001 reflected realized capital losses of \$4.7 million, which included \$0.0 million relating to write-downs in the value of securities deemed to be impaired on an other than temporary basis, partially offset by \$3.7 million of realized capital gains.

5

Interest expense for the three months ended September 30, 2002 was \$10.7 million compared to \$11.3 million for the three months ended September 30, 2001. Interest expense for the three months ended September 30, 2002 reflects \$9.7 million relating to the Company's issuance of senior notes and \$1.0 million relating to the Company's borrowings under its revolving credit facility. Interest expense for the three months ended September 30, 2001 reflects \$9.7 million relating to the Company's issuance of senior notes and \$1.6 million relating to the Company's borrowings under its revolving credit facility.

Other income for the three months ended September 30, 2002 was \$0.5 million compared to other expense of \$1.6 million for the three months ended September 30, 2001. Significant contributors to other income for the three months ended September 30, 2002 were normal provision for uncollectible audit premium in the U.S. Insurance operation and the amortization of deferred expenses relating to the Company's issuance of senior notes in 2000, partially offset by foreign exchange gains and fee income. Other expense for the three months ended September 30, 2001 principally included the amortization of deferred expenses relating to the Company's issuance of senior notes in 2000 and foreign exchange losses, partially offset by fee income. The foreign exchange gains and losses for both periods are attributable to fluctuations in foreign currency exchange rates.

The Company has in its product portfolio a credit default swap contract, which it no longer offers. This contract meets the definition of a derivative under FAS 133. Net derivative expense, essentially reflecting changes in fair value, from this credit default transaction for the three months ended September 30, 2002 was \$1.0 million compared to \$0.0 million for the three months ended September 30, 2001.

INCOME TAXES. The Company recognized income tax expense of \$14.5 million in the

## Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q/A

three months ended September 30, 2002 compared to an income tax benefit of \$35.1 million in the three months ended September 30, 2001. The tax benefit in the three months ended September 30, 2001 resulted primarily from the losses relating to the September 11 attacks, for which the benefit was calculated based on the specific impacts of the event.

NET INCOME. Net income was \$34.8 million in the three months ended September 30, 2002 compared to a net loss of \$53.1 million in the three months ended September 30, 2001. The net loss in the three months ended September 30, 2001 resulted primarily from the losses relating to the September 11 attacks.

NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2001

PREMIUMS. Gross premiums written increased 37.9% to \$1,911.1 million in the nine months ended September 30, 2002 from \$1,386.1 million in the nine months ended September 30, 2001 as the Company took advantage of selected growth opportunities, while continuing to maintain a disciplined underwriting approach. Premium growth areas included a 58.0% (\$226.4 million) increase in the U.S. Insurance operation, principally attributable to growth in workers' compensation insurance, a 44.8% (\$110.9 million) increase in the International Reinsurance operation, mainly attributable to growth in the London, Canada and Latin American markets, a 34.5% (\$151.3 million) increase in the U.S. Reinsurance operation primarily reflecting growth across property and casualty lines and an 11.8% (\$36.5 million) increase in the Specialty Reinsurance operation,

6

principally attributable to growth in marine and aviation business. The Company continued to decline business that did not meet its objectives regarding underwriting profitability.

Ceded premiums increased to \$354.0 million in the nine months ended September 30, 2002 from \$221.1 million in the nine months ended September 30, 2001. This increase was principally attributable to \$214.4 million of ceded premiums relating to a Quota Share Reinsurance Agreement between Everest Re and Bermuda Re, whereby Everest Re cedes 20% of its net retained liability on all new and renewal policies written during the term of this agreement, and an Excess of Loss Agreement between Everest Re, Everest National Insurance Company and Everest Security Insurance Company and Bermuda Re, whereby Bermuda Re assumes liability for primary insurance workers' compensation losses exceeding \$100,000 per occurrence, with its liability not to exceed \$150,000 per occurrence. Ceded premiums for the nine months ended September 30, 2002 included \$5.1 million and \$11.9 million in adjustment premiums relating to claims made under the 2001 and 2000 accident year aggregate excess of loss elements of the Company's corporate retrocessional program, respectively. Ceded premiums for the nine months ended September 30, 2001 included \$59.9 million and \$26.3 million in adjustment premiums relating to claims made under the 2001 and 1999 accident year aggregate excess of loss elements of the Company's corporate retrocessional program, respectively, with the 2001 accident year cessions relating to losses incurred as a result of the September 11 attacks.

Net premiums written increased by 33.6% to \$1,557.0 million in the nine months ended September 30, 2002 from \$1,165.0 million in the nine months ended September 30, 2001. This increase reflects the increase in gross premiums written, partially offset by the increase in ceded premiums.

PREMIUM REVENUES. Net premiums earned increased by 28.8% to \$1,366.1 million in the nine months ended September 30, 2002 from \$1,060.4 million in the nine months ended September 30, 2001. Contributing to this increase was a 59.7%



## Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q/A

(\$121.4 million) increase in the U.S. Insurance operation, a 35.4% (\$120.0 million) increase in the U.S. Reinsurance operation, a 23.6% (\$52.6 million) increase in the International Reinsurance operation and a 4.0% (\$11.7 million) increase in the Specialty Reinsurance operation. All of these changes reflect period to period changes in net written premiums and business mix together with normal variability in earnings patterns.

EXPENSES. Incurred loss and LAE increased by 8.7% to \$967.0 million in the nine months ended September 30, 2002 from \$889.5 million in the nine months ended September 30, 2001. The increase in incurred losses and LAE was principally attributable to the increase in net premiums earned and lower catastrophe losses and also reflects the impact of changes in the Company's mix of business. Incurred losses and LAE include catastrophe losses, which include the impact of both current period events, and favorable and unfavorable development on prior period events and are net of reinsurance. A catastrophe is an event that causes a pre-tax loss on property exposures of at least \$5.0 million and has an event date of January 1, 1988 or later. Catastrophe losses, net of contract specific cessions but before cessions under the corporate retrocessional program, were \$11.9 million in the nine months ended September 30, 2002, principally relating to European flood losses, compared to net catastrophe losses of \$222.1 million in the nine months ended September 30, 2001, which was principally related to the September 11 attacks. Incurred losses and LAE for the nine months ended September 30, 2002 reflected ceded losses and LAE of \$263.7 million compared to

7

ceded losses and LAE in the nine months ended September 30, 2001 of \$337.5 million. Ceded losses and LAE in the nine months ended September 30, 2002 include \$115.7 million of ceded losses relating to the reinsurance transactions noted earlier between the Company and Bermuda Re. The ceded losses and LAE for the nine months ended September 30, 2002 included \$11.0 million and \$22.0 million of losses ceded under the 2001 and 2000 accident year aggregate excess of loss component of the Company's corporate retrocessional program, respectively. The ceded losses and LAE for the nine months ended September 30, 2001 included \$130.0 million and \$49.0 million of losses ceded under the 2001 and 1999 accident year aggregate excess of loss component of the Company's corporate retrocessional program, respectively, with the 2001 accident year cessions relating to losses incurred as a result of the September 11 attacks.

Contributing to the increase in incurred losses and LAE in the nine months ended September 30, 2002 from the nine months ended September 30, 2001 were a 58.9% (\$85.1 million) increase in the U.S. Insurance operation principally reflecting increased premium volume coupled with changes in this segments specific reinsurance programs and an 11.0% (\$16.9 million) increase in the International Reinsurance operation. These increases were partially offset by a 6.9% (\$24.4 million) decrease in the U.S. Reinsurance operation. Incurred losses and LAE for each operation were also impacted by variability relating to changes in the level of premium volume and mix of business by class and type.

The Company's loss ratio, decreased by 13.1 percentage points to 70.8% in the nine months ended September 30, 2002 from 83.9% in the nine months ended September 30, 2001 reflecting the incurred losses and LAE discussed above. The following table shows the loss ratios for each of the Company's operating segments for the nine months ended September 30, 2002 and 2001. The loss ratios for all operations were impacted by the factors noted above.

### Operating Segment Loss Ratios

| Segment | 2002 | 2001 |
|---------|------|------|
|---------|------|------|

## Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q/A

|                           |       |        |
|---------------------------|-------|--------|
| U.S. Reinsurance          | 71.4% | 103.9% |
| U.S. Insurance            | 70.9% | 71.4%  |
| Specialty Reinsurance     | 77.4% | 80.4%  |
| International Reinsurance | 62.3% | 69.4%  |

Underwriting expenses increased by 15.2% to \$379.1 million in the nine months ended September 30, 2002 from \$329.0 million in the nine months ended September 30, 2001. Commission, brokerage, taxes and fees increased by \$45.0 million, principally reflecting increases in premium volume and changes in the mix of business, partially offset by \$31.3 million of ceded commissions relating to the reinsurance transactions noted earlier between the Company and Bermuda Re. Other underwriting expenses increased by \$5.1 million as the Company expanded its operations to support its increased business volume. Contributing to these underwriting expense increases were a 61.9% (\$36.6 million) increase in the U.S. Insurance operation, a 13.1% (\$10.5 million) increase in the Specialty Reinsurance operation and a 7.4% (\$8.7 million) increase in the U.S. Reinsurance operation. These increases were partially offset by a 7.8% (\$5.4 million) decrease in the International Reinsurance operation. The changes for each operation's expenses principally resulted from changes in commission expenses related to changes in premium volume and business mix by class and type and, in some cases, changes in the use of reinsurance and the underwriting performance of the underlying business. The Company's expense ratio was 27.7% for the nine months ended September 30, 2002 compared to 31.0% for the nine months ended September 30, 2001.

8

The Company's combined ratio decreased by 16.4 percentage points to 98.5% in the nine months ended September 30, 2002 compared to 114.9% in the nine months ended September 30, 2001. The following table shows the combined ratios for each of the Company's operating segments for the nine months ended September 30, 2002 and 2001. The combined ratios for all operations were impacted by the loss and expense ratio variability noted above, and for certain operations, by the impact of adjustment premiums ceded under the accident year aggregate excess of loss element of the Company's retrocessional program, principally relating to losses incurred as the result of the September 11 attacks.

### Operating Segment Combined Ratios

| Segment                   | 2002   | 2001   |
|---------------------------|--------|--------|
| U.S. Reinsurance          | 99.0%  | 138.7% |
| U.S. Insurance            | 100.3% | 100.4% |
| Specialty Reinsurance     | 107.0% | 107.7% |
| International Reinsurance | 85.6%  | 100.7% |

INVESTMENT RESULTS. Net investment income decreased 3.4% to \$194.7 million in the nine months ended September 30, 2002 from \$201.4 million in the nine months ended September 30, 2001, principally reflecting the effects of the lower interest rate environment, partially offset by the effect of investing the \$413.0 million of cash flow from operations in the twelve months ended September 30, 2002. The following table shows a comparison of various investment yields as of September 30, 2002 and December 31, 2001, respectively, and for the periods ended September 30, 2002 and 2001, respectively.

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q/A

|  | 2002  | 2001  |
|--|-------|-------|
|  | ----- | ----- |
| Imbedded pre-tax yield of cash and invested assets at September 30, 2002 and December 31, 2001                       | 5.6%  | 6.0%  |
| Imbedded after-tax yield of cash and invested assets at September 30, 2002 and December 31, 2001                     | 4.4%  | 4.4%  |
| Annualized pre-tax yield on average cash and invested assets for the nine months ended September 30, 2002 and 2001   | 5.8%  | 6.0%  |
| Annualized after-tax yield on average cash and invested assets for the nine months ended September 30, 2002 and 2001 | 4.5%  | 4.4%  |

Net realized capital losses were \$45.9 million in the nine months ended September 30, 2002, reflecting realized capital losses on the Company's investments of \$79.8 million, which included \$65.6 million relating to write-downs in the value of securities deemed to be impaired on an other than temporary basis, of which \$25.7 million related to WorldCom, partially offset by \$33.9 million of realized capital gains, compared to net realized capital losses of \$1.7 million in the nine months ended September 30, 2001. The net realized capital losses in the nine months ended September 30, 2001 reflected realized capital losses of \$26.0 million, which included \$16.7 million relating to write-downs in the value of securities deemed to be impaired on an other than temporary basis, partially offset by \$24.3 million of realized capital gains.

9

Interest expense for the nine months ended September 30, 2002 was \$31.9 million compared to \$35.3 million for the nine months ended September 30, 2001. Interest expense for the nine months ended September 30, 2002 reflects \$29.2 million relating to the Company's issuance of senior notes and \$2.7 million relating to the Company's borrowings under its revolving credit facility. Interest expense for the nine months ended September 30, 2001 reflects \$29.2 million relating to the Company's issuance of senior notes and \$6.1 million relating to the Company's borrowings under its revolving credit facility.

Other expenses for the nine months ended September 30, 2002 were \$3.9 million compared to other expenses of \$0.1 million for the nine months ended September 30, 2001. Significant contributors to other expense for the nine months ended September 30, 2002 were an increase in other liabilities related to deferred recognition of reinsurance recoveries under retroactive reinsurance between the Company and Bermuda Re, the normal provision for uncollectible audit premium in the U.S. Insurance operation and the amortization of deferred expenses relating to the Company's issuance of senior notes in 2000, partially offset by fee income and foreign exchange gains. Other expense for the nine months ended September 30, 2001 principally included the amortization of deferred expenses relating to Company's issuance of senior notes in 2000, partially offset by foreign exchange gains and fee income. The foreign exchange gains for both periods are attributable to fluctuations in foreign currency exchange rates.

INCOME TAXES. The Company recognized income tax expense of \$28.0 million in the nine months ended September 30, 2002 compared to a tax benefit of \$14.1 million in the nine months ended September 30, 2001. The tax benefit in the nine months ended September 30, 2001 resulted primarily from the losses relating to the September 11 attacks, for which the benefit was calculated based on the specific

## Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q/A

impacts of the event.

NET INCOME. Net income was \$103.7 million in the nine months ended September 30, 2002 compared to \$20.3 million in the nine months ended September 30, 2001. This increase generally reflects the improved underwriting results and decreased interest expense, partially offset by increased tax expense and realized capital losses.

MARKET SENSITIVE INSTRUMENTS. The Company's risks associated with market sensitive instruments have not changed materially since the period ended December 31, 2001.

SAFE HARBOR DISCLOSURE. This report contains forward-looking statements within the meaning of the U.S. federal securities laws. The Company intends these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the federal securities laws. In some cases, these statements can be identified by the use of forward-looking words such as "may", "will", "should", "could", "anticipate", "estimate", "expect", "plan", "believe", "predict", "potential" and "intend". Forward-looking statements contained in this report include information regarding the Company's reserves for losses and LAE, including estimates of the Company's catastrophe exposure. Forward-looking statements only reflect the Company's expectations and are not guarantees of performance. These statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from the Company's expectations. Important factors that could cause the Company's actual results to be materially different from its expectations include the uncertainties that surround the estimating of reserves for losses and LAE, those discussed in Note 2 to the Financial Statements included in this report and the risks described under the caption "Risk Factors" in the Company's most recent Report on Form 10-K. The Company undertakes no obligation to update or revise publicly any

10

forward-looking statements, whether as a result of new information, future events or otherwise.

11

EVEREST REINSURANCE HOLDINGS, INC.

### Other Information

#### PART II - ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibit Index:

| Exhibit No. | Description                              | Location       |
|-------------|--|----------------|
| -----       | -----                                    | -----          |
| 99.1        | CEO and CFO certification of Form 10-Q/A | Filed herewith |

b) A report on Form 8-K dated August 13, 2002 was filed on August 13, 2002, reporting the voluntary certification by Joseph V. Taranto, the Company's Chief Executive Officer, and Stephen L. Limauro, the Company's Chief Financial Officer, of the Company's 2001 annual report on Form 10-K and all subsequent reports filed prior to such date.

Omitted from this Part II are items which are inapplicable or to which the

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q/A

answer is negative for the period covered.

28

EVEREST REINSURANCE HOLDINGS, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Everest Reinsurance Holdings, Inc.  
(Registrant)

/S/ STEPHEN L. LIMAURO

-----  
Stephen L. Limauro  
Executive Vice President and Chief  
Financial Officer

(Duly Authorized Officer,  
Executive Vice President and Chief  
Financial Officer)

Dated: November 5, 2002

I, Joseph V. Taranto, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Everest Reinsurance Holdings, Inc;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

## Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q/A

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have;
  - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 5, 2002  
-----

/s/ JOSEPH V. TARANTO  
-----

Joseph V. Taranto  
Chairman and Chief  
Executive Officer

I, Stephen L. Limauro, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Everest Reinsurance Holdings, Inc;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all

Edgar Filing: EVEREST REINSURANCE HOLDINGS INC - Form 10-Q/A

material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have;
  - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 5, 2002  
-----

/S/ STEPHEN L. LIMAURO  
-----

Stephen L. Limauro  
Executive Vice President and  
Chief Financial Officer

