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RE.N - Q4 2020 Everest Re Group Ltd Earnings Call

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OVERVIEW:

Co. reported 2020 net income of \$514m. Also reported 4Q20 net income of \$64m.

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PRESENTATION

Operator

Welcome to the Everest Re Group earnings conference call. This call is being webcast and will also be available for replay on the Everest website later today.

I'd now like to turn the call over to Jon Levenson, Head of Investor Relations.

Jon Levenson - Everest Re Group, Ltd. - Head of IR

Good morning, and welcome to the Everest Re Group, Ltd. 2020 Fourth Quarter and Year-end Earnings Conference Call. The Everest executives leading today's call are Juan Andrade, President and Chief Executive Officer; Mark Kociancic, Executive Vice President and Chief Financial Officer. We are also joined by other members of the Everest management team.

Before we begin, I will preface the comments on today's call by noting that Everest's SEC filings include extensive disclosures with respect to forward-looking statements. Management comments regarding estimates, projections and similar are subject to the risks, uncertainties and assumptions as noted in these filings. Management may also refer to certain non-GAAP financial measures. These items are reconciled in our earnings release and financial supplement.

With that, I turn the call over to Juan Andrade.

Juan Carlos Andrade - Everest Re Group, Ltd. - President, CEO & Director

Thank you, Jon. Good morning, everyone, and thank you for joining the call.

2020 had its share of global challenges, but COVID-19 leads any discussion of the year. The pandemic affected all our communities, our way of life and resulted in an unimaginable death toll. It affected all aspects of the world's economies, including the insurance and reinsurance industry.

Despite unprecedented challenges and through the resilience and dedication of our team, Everest delivered solid 2020 results with excellent growth and improved underlying profitability. Key steps we took last year include adding to our deep and talented management team, strengthening our balance sheet, enhancing our enterprise risk management and operational discipline and further diversifying our business. Most importantly, we have been a valued partner to our distributors and customers during a very perilous time.

With a strong foundation in place, we remain confident in continued operational and financial success across our business. We are bullish about 2021. We will continue to profitably grow the Insurance segment while continuing to grow and strengthen our position as a global and leading P&C reinsurer.

As we think about our positioning in the market amongst our clients, partners and investors, we are guided by the following principles by which Everest will seize opportunities and increase the value of our company. First, we will deliver superior growth in book value per share over the cycle.

Second, we are an underwriting company. One of our core competencies is the identification, underwriting, pricing and management of risk. Diversification by line of business and geography is critical. We have clearly defined and quantified risk appetites, and we maintain strong enterprise risk management and performance monitoring.

Third, investment returns are a critical value driver and investment management is also a core competency. We are further optimizing our invested assets via portfolio management strategy that is complementary to our underwriting risk. With a sizable invested asset base and significant cash flow, we seek to add value and diversify the sources of income to the company.

Fourth, we manage our capital to fuel long-term profitable growth while continuing to expand our third-party capital capabilities. And fifth, we will maintain our industry-leading financial strength. We complement our core strengths with a low-cost expense base in a flat entrepreneurial and responsive organization. Our diversified reinsurance and insurance franchise, financial strength, deep distribution relationships and leading customer solutions enable our continued performance in today's market. We have robust momentum coming into 2021, and we are well positioned to continue diversifying our business for sustained profitable growth.

I will now discuss our group reinsurance and insurance results, starting with the fourth quarter, followed by our full year 2020 and how these results position us well for 2021. Starting with group results. In the fourth quarter, we grew gross written premiums by 13% and net written premiums by 16% with strong growth across both segments. Our growth stems from a combination of new business opportunities, improved terms and conditions and rate levels, expanded shares on attractive renewals and high retention rates on our existing book.

Our underlying combined ratio was 86.3%, a 4-point improvement over the fourth quarter of 2019, with both segments showing significant improvement in loss and expense ratios. Net investment income was very strong at \$222 million compared to \$146 million in the prior year quarter.

For 2020, Everest grew gross written premiums 15% and net written premiums 17% year-over-year. We delivered \$514 million in net income and \$300 million in operating income despite the COVID-19 loss provision, the prior year reserve strengthening and an active cat year. Our dividend-adjusted book value per share grew over 11%. We are focused on delivering superior growth and book value per share over the market cycle.

The underlying combined ratio improved almost a point to 87.5% year-over-year, with our Insurance segment improving 2.3 points to 94.2%. Net investment income was in line with prior year despite the market volatility. These results demonstrate the earnings power of Everest and our ability to thrive in any market.

We continue to diligently manage our portfolios to improve returns with a broad array of underwriting actions, including managing attachment points, limits, terms and conditions, targeted nonrenewals and many other actions. This is the hard work of building and sustaining a profitable book. Underwriting profitability remains at the core of everything that we do.

As previously announced, in the fourth quarter, we strengthened prior accident year reserves in our Reinsurance segment by \$400 million. The reserve strengthening does not change our view of current accident year loss picks as we had already selected more conservative loss picks in response to general loss trends. We are confident of the prior year reserving actions we took in the quarter and the quality of the in-force portfolio. These decisive actions will serve us well.

In the fourth quarter, we also added \$76 million, primarily for third-party lines, to our COVID-19 loss provision. Despite a high frequency of storms in the fourth quarter, our manageable catastrophe losses of \$70 million resulted from disciplined underwriting and the purposeful reduction of volatility over the last 2 years in our reinsurance portfolio. Mark Kociancic and Jim Williamson are on this call and can provide more detail on these actions during Q&A.

For our Reinsurance division, the fourth quarter continued our strong growth. Gross written premiums grew 12% in the quarter and 15% in 2020. The attritional combined ratio ex COVID was 83.9%, an improvement from 87.4% in the prior fourth quarter.

January 1 is our largest renewal date, and this one was one of the strongest in many years. The rate environment improved across most territories and lines of business with loss impacted business seeing material increases.

Capacity is abundant, but reinsurers remain disciplined on pricing and terms and conditions. There is a flight to quality where Everest's strong balance sheet and highly rated financial strength set us apart. Customer and broker demand for adverse capacity is strong, as highlighted by our increased shares and preferential signings on treaties, Counterparties actively want to do more business with Everest.

Our responsiveness, ability to deploy significant capital and reputation as problem solvers in the market were critical to a successful renewal season. We saw outstanding results in Latin America, in the U.S. and Canada as well as meaningful growth in Continental Europe. We had notable wins on large deals and increased our share with core customers and in territories and classes we found the most attractive, including Facultative business.

We continue to expand and diversify the portfolio as we execute to achieve a stronger, more diversified and more profitable book. Specific to our January 1 property book, total limit outstanding increased with an increase in rate online and significant improvements in the combined ratio, ROE, risk-adjusted return and increased dollars of expected margin. We have a stronger and more profitable portfolio. John Doucette is available to provide additional details during the Q&A.

Our Insurance division continued its solid execution as evidenced by our results in both the fourth quarter and the full year of 2020. Gross written premiums grew 15% or 18% excluding terminated programs, with gross written premium of \$872 million in the quarter and over \$3.2 billion for 2020. Both fourth quarter and full year 2020 revenues are milestones for the Insurance division. This growth is driven by disciplined cycle management, strong rate in target classes and improving activity in certain lines of business such as transactional liability that was partially offset by reductions in economically impacted areas such as energy, sports, leisure and entertainment.

Everest Insurance delivered an improved attritional combined ratio of 93.8% for the fourth quarter, a 4.3-point improvement over the fourth quarter of 2019; and 94.2% for the full year 2020, a 2.3-point improvement over 2019. These results are driven by portfolio and expense management and are consistent with expanding insurance margins.

We achieved record renewal rate increases of 21% in the fourth quarter excluding workers' compensation and up 14% including workers' compensation, where we are seeing rates flatten. Rate is outpacing our expected loss trend, and renewal retention across the entire portfolio is strong. The rate we achieved is a function of market conditions and disciplined proactive underwriting actions across our businesses.

After years of soft pricing and rising loss costs, pricing adjustments are necessary, and we expect they will continue throughout 2021. Consistent with prior quarters, these increases are led by property, up 21%; Excess Casualty, up 50%; D&O, up 35%; and commercial auto, up 17%. We are also seeing widespread increases in other lines of business which have been slower to turn, most notably general liability, now up 9%.

We are managing the insurance portfolio to build a diversified business and steer our mix toward product lines that earn higher long-term margins. Our position in both the E&S and retail channels give us access to a wide set of opportunities. Mike Karmilowicz is available to provide additional details during the Q&A.

We have a vibrant and well-diversified Reinsurance and Insurance business with experienced teams providing industry-leading solutions to our customers. Building on the achievements of 2020, we will continue diversifying our business for profitable growth and sustained momentum throughout 2021.

The company is on solid ground with excellent financial strength ratings, top talent and a prudent capital management philosophy. We are focused on sustained profitable growth, a more diversified mix of business and superior risk-adjusted returns. The relentless execution of our strategies result in maximizing shareholder returns. I am confident in Everest's future and on our ability to deliver the commitments to our customers, shareholders and the marketplace. 2020 showed us all just how resilient we truly are.

Now let me turn the call over to Mark Kociancic for additional details on the financials. Mark?

Mark Kociancic - Everest Re Group, Ltd. - Executive VP & Group CFO

Thank you, Juan, and good morning, everyone. As Juan discussed in our pre-release outline, Everest had strong underlying results for the quarter and the year with positive net income in Q4, improving underlying margin, continued growth and an excellent capital position. I'll touch on these over the next few minutes.

The positive quarterly net income result was achieved despite a prior year reserve strengthening charge of \$400 million, a COVID provision of \$76 million and catastrophe losses of \$70 million. This clearly demonstrates the diversification and earnings power of Everest.

Everest reported net income of \$64 million for the quarter and \$514 million for the year, resulting in a return on equity of 5.8% for 2020. We had a \$44 million operating loss for Q4 given the charges and generated an operating income of \$300 million for the year. Our net income in the quarter reflects strong investment income performance and improved attritional loss and combined ratios, offset by cat, COVID and reserve charges.

The catastrophe losses of \$70 million are pretax and net of reinsurance, with \$60 million from reinsurance and \$10 million from insurance driven by Hurricanes Delta, Zeta and the Australian Queensland hail storm. The estimate implied market share of industry losses is just over 60 basis points for Everest. This is an excellent result, reflecting the underwriting and risk management initiatives of the past 2 years. There was also no development from prior cats in the Q4 charge.

Year-to-date, the results include catastrophe losses of \$425 million compared to \$576 million during 2019. All amounts are pretax and net of reinstatement premiums.

In the fourth quarter, we added \$76 million to our COVID loss provision, reflecting the ongoing nature of this event and our consistent reserving philosophy. This additional provision is predominantly IBNR for third-party lines. This amount includes \$56 million in the Reinsurance segment and \$20 million in the Insurance segment and is in addition to the \$435 million of pandemic losses estimated in the first 9 months of 2020. Our fourth quarter estimates were not impacted by the recent U.K. Supreme Court ruling as we had taken a prudent approach to loss assessment leading up to that ruling. For the full year 2020, the total pandemic loss provision is \$511 million, of which more than 80% is classified as IBNR.

Everest had an underwriting loss in Q4 of \$219 million due to the prior year reserve adjustment charge as compared to an underwriting loss of \$29 million for Q4 2019. As Juan mentioned, we booked a \$400 million prior year reserve strengthening in the fourth quarter exclusively for the Reinsurance division, primarily within long-tail casualty segments such as GL, auto liability and professional lines for accident years 2015 through

2018. The reserve charge also includes actions on non-cat property lines primarily for the 2017 through 2019 accident years, driven by a few large losses to aggregate programs.

Our reserve studies indicate that the Insurance division overall has strong and adequate reserve levels. At a granular level, we address some redundancies and deficiencies with no overall financial impact. The lines we strengthened included professional liability in the 2015 through 2018 accident years. This was offset by releases in other lines.

Turning to Everest's market position and growth. On a year-to-date basis, gross written premium was \$10.5 billion, up \$1.3 billion or 15% compared to 2019. This reflects strong and diversified growth in both segments, with Reinsurance up 15% and Insurance up 15% compared to 2019.

Our underlying attritional loss and combined ratios are strong and improving. Excluding the catastrophe losses and impact from the COVID-19 pandemic, the attritional combined ratio was 87.5% for 2020 compared to 88.4% for 2019. Excluding the pandemic loss estimate, the group attritional loss ratio for 2020 was 60.1%, down from 60.2% for 2019, with Insurance improving from 66% to 64.8%.

For Reinsurance, the 2020 attritional combined ratio excluding the pandemic loss estimate and prior year reserve charge was 85.2%, down from 85.5% in 2019. For Insurance, the 2020 attritional combined ratio excluding the pandemic loss estimate was 94.2% compared to 96.5% in 2019. Our U.S. franchise, which makes up the majority of our Insurance business, continues to run at an attritional combined ratio in the low 90s excluding the pandemic loss estimate.

The group commission ratio of 21.6% year-to-date was down from 23% in 2019, largely due to business mix, a onetime significant contingent commission in the Reinsurance segment during 2019 and higher ceding commission in the Insurance segment. The group expense ratio remains low at 5.8% for 2020 versus 6% for 2019 as we benefited from premium growth and continued focus on expense management.

Q4 investment income had a strong performance of \$222 million compared to \$146 million for Q4 2019. For the full year, pretax investment income was \$642 million versus \$647 million for 2019.

The fixed income portfolio generated \$542 million of investment income year-to-date compared to \$520 million for the same period last year. Limited partnerships recorded \$91 million of income quarter to date largely due to fair market value adjustments. The limited partnership result was due to the continued improvement of the economy and financial markets. As a reminder, we report our limited partnership income 1 quarter in arrears.

Invested assets grew 23% to \$25.4 billion versus \$20.7 billion last year-end. This strong invested asset growth was due to \$2.9 billion of operating cash flow and the proceeds of our debt issue. Pretax yield to maturity on the investment portfolio was just under 3%, down from 3.4% 1 year ago. Approximately 80% of our invested assets are comprised of a well-diversified, high credit quality bond portfolio with duration of 3.6 years. The remaining portfolio is allocated to equities and other invested assets, which are largely private equity investments, with the residual amount in short-term investments and cash.

Our effective tax rate on operating income for 2020 was 7.7% and 12.1% on net income. For 2021, we expect our tax rate to be approximately 12%, which reflects an annual cat load of about 6 points of loss ratio.

Everest generated record operating cash flows of \$2.9 billion compared to \$1.9 billion in 2019, reflecting the strength of our growing premiums in 2020 year-over-year and a more modest level of claims paid. Everest enjoys very strong financial strength with ample capacity to execute on market opportunities. Shareholders' equity was \$9.7 billion at year-end 2020, up from \$9.1 billion at year-end 2019. Net book value per share stood at \$243.25, up 11.4% versus year-end 2019, adjusted for dividends.

Everest's strong balance sheet was further strengthened by the 30-year \$1 billion senior notes offering completed in early October 2020. This is long-term capital for Everest and enhances the efficiency of our capital structure, with our debt leverage now standing at 16.4%.

And with that, I'll now turn it back to Jon.

Jon Levenson - Everest Re Group, Ltd. - Head of IR

Thanks, Mark. Operator, we are now ready to open the line for questions. (Operator Instructions)

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan - Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst

My first question on -- I want to touch on the reinsurance reserve charge. So Juan, I think in your opening remarks, you said that you guys had already selected more conservative loss picks. Can you just -- it would be helpful if you could provide more color there on the more recent accident years, just given, right, that there was strengthening of some of these long-tail lines going up to accident year 2018. So can you just provide a little bit more color on what loss trend you're booking to in some of these lines within your reinsurance book and how we could think about confidence in the more recent accident years?

Juan Carlos Andrade - Everest Re Group, Ltd. - President, CEO & Director

Yes. Thank you, Elyse. We go through a pretty detailed review of each of our segments. And frankly, one of the things that this new management team has done really in the past year is really look at our carried reserves at a level of granularity that is pretty detailed.

So we basically look at the accident years, underwriting years. We're using the latest information to better understand trends, predict ultimate loss ratios and frankly, try to figure out in a more detailed way the direction of travel for the underwriting portfolios. So I start there by giving you a sense of the detail of granularity that we go through and basically coming up with the strengthening that we did in the quarter.

Now that being said, as we set the accident years really beginning at the end of 2019 and as we set the 2020 accident year, as we've set the 2021 accident year, we were already looking at some of the loss trends that are impacting the industry. And so we bake those in when we made those loss picks. That's also one of the reasons why you don't see us taking up current accident year loss picks as a result of the reserve charge.

Elyse Beth Greenspan - Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst

Okay. But can you give us a sense, I guess -- I know there's many different business lines, but what kind of loss trend you're booking to within Reinsurance?

Juan Carlos Andrade - Everest Re Group, Ltd. - President, CEO & Director

I don't know if we specifically disclosed the loss trends that we booked to, but what I can tell you though is that we are booking our current accident year loss ratios very prudently. And we have been -- again, starting at the end of 2020 and going into 2021, we have not seen a significant impact on severity in the most recent accident years. And we're very confident in where we are at this point in time, both for the prior reserve actions that we took as well as the current year reserve loss picks that we have in place.

Elyse Beth Greenspan - Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst

Okay. And then my follow-up question is on the Insurance, on the reserve there as well. So I think, Mark, you mentioned there was no overall financial impact from the review, but I believe you mentioned strengthening of professional lines for 2015 to '18 and there being releases in other lines.

Can you give us a sense of the magnitude of the professional lines strengthening? And then what were some of the other lines? I'm assuming maybe workers' comp where you saw reserve releases.

Mark Kociancic - Everest Re Group, Ltd. - Executive VP & Group CFO

Yes. The magnitude is relatively muted. You're looking at overall \$3.2 billion of net reserves in the Insurance segment for the group.

And so the types of adjustments we're talking about are in the teens. It's quite small. And the offsets are coming from other lines. Workers' comp would be an example of one. But again, very modest movements relative to the overall reserve level of the segment.

Operator

Mike Phillips with Morgan Stanley.

Michael Wayne Phillips - Morgan Stanley, Research Division - Equity Analyst

I guess first on Insurance. So looking at your core loss ratio ex the COVID losses, really, really good improvement there, 3 points or so this quarter, increasing the last couple of quarters. I guess how should we think about the margins there, I guess, in the near term, just this year, as you focus on growth there and we've got industry concerns on COVID and loss trends and everything else in the casualty lines?

Juan Carlos Andrade - Everest Re Group, Ltd. - President, CEO & Director

Yes. Sure thing, Mike. This is Juan Andrade.

Look, I think we are building meaningful margin momentum, and you can see that by our numbers for the fourth quarter and the full year underwriting results. That improvement both in Insurance and Reinsurance is really driven by portfolio management, decisive underwriting actions and intentional shifts in our portfolio mix. If we exclude workers' compensation, we're also seeing the rates are outpacing our expected loss cost. And as that rate is being earned on a growing premium base, that's also going to have a positive impact on expected margin going forward.

But also -- and I would point this out because this is a very important point in addition to rate. We're also taking a broad array of underwriting actions, including more granular segmentation in the in-force book, management of attachment points, limits, terms and conditions. We're doing targeted nonrenewals and many other actions. So we're doing a number of things that you're starting to see show up in the underlying profitability of both Insurance and Reinsurance that are by design and that are very proactive. It's not just all about rate, but it's also about all the other tools that we have in our kit about improving underlying margins.

But all of that being said, and I think this goes to your question, Mike, it's important to keep in mind that some lines do require more rate than others. It also depends on the starting point. It depends on the loss cost trends. And we also have to recognize that we're in an environment where the impact of COVID and the time that it will take for some of these claims to emerge, there's some uncertainty, right? We also have to think about the underlying social inflation costs.

So overall, I feel very good about the margin momentum that we're creating in this business. It's not just about rate, but it's also about all the underlying levers that we're pulling forth. And I feel very good and very comfortable with both books of business going into 2021.

Michael Wayne Phillips - *Morgan Stanley, Research Division - Equity Analyst*

Okay. Appreciate that.

I guess second question specifically on your comp book. You guys have a pretty sizable concentration in one state, and I'm curious to hear what you are seeing in California in comps, given coming back from a shutdown and there's been some concerns on loss trends kind of rising there in the state. So anything you can share with what you're seeing in that book?

Juan Carlos Andrade - *Everest Re Group, Ltd. - President, CEO & Director*

Sure, Mike. Let me start, and then I'll ask Mike Karmilowicz to jump in as well.

I would say, overall in the comp book, a couple of key things to keep in mind is we have reduced the percentage of comp in our book of business over the last year, 18 months. It's now roughly down to about 16% of our mix, down from about 24%. And again, this has been done in a purposeful way, right? As you would have seen less attractive pricing in the comp book, we have diversified into [other] lines of business. And so you see our growth in lines like casualty property, D&O, et cetera.

The other thing that we have done in our comp book is we have also moved more towards loss-sensitive business, loss rated business on the comp side, and we've done less, basically, guaranteed comp business at that point in time. So we're actively managing the trends. We're actively managing what we're seeing in the environment and obviously, trying to continue to drive a lot of profit in that comp book.

But let me ask Mike Karm to jump in specifically on your question about California.

Michael Karmilowicz - *Everest Re Group, Ltd. - President & CEO of the Everest Insurance® Division*

Thanks, Juan. Thanks, Mike.

Yes. Look, it's a continuation of what we've said and shared in prior quarters about starting to see it bounce on the bottom. We are seeing some pockets of some momentum upward, but in general, it's still slightly on the negative side. That's why we're taking the actions we have and just managing through the cycle. But we're hopefully cautiously optimistic of what we foresee possibly towards '21, towards the second half of the year.

Operator

Yaron Kinar with Goldman Sachs.

Yaron Joseph Kinar - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

First question goes back to the reserve strengthening. Can you maybe talk about loss picks for '19, '20, '21 accident years relative to where they currently are for the '15 to '18 accident years in GL, commercial auto and professional lines?

Juan Carlos Andrade - *Everest Re Group, Ltd. - President, CEO & Director*

Yes. Thanks, Yaron. I'll start with that, and then I'll ask Jim Williamson, who's our new Chief Operating Officer, to add some color on this as well.

As I mentioned before to Elyse's question, particularly when we set the accident year loss picks for 2020 and 2021, we were more conservative than the picks that had been in place for the 2015 through 2019 accident years. And that was really a reflection of what we saw in the environment, some of the industry trends that we were seeing, et cetera. So we took a more prudent approach in being able to set those.

So I would tell you that as I sit here today, looking at 2020, 2021, they're stronger than the picks that we had in place for '15 to '18. But I would ask Jim Williamson to add some color on that as well.

James A. Williamson - *Everest Re Group, Ltd. - Executive VP & Group COO*

Yes, sure. Yaron, just in terms of a little bit more detail, I mean, I think one thing to keep in mind is we're performing this analysis at a very detailed and granular level. And so there's a lot of moving parts in terms of picks that have come up over that period, where we're now at a higher level. And then other areas where we've taken so much rate, some of the underwriting actions and the picks have come down.

I think the key thing to keep in mind though is that, as Juan had indicated, we took a very conservative approach to the setting of the loss picks for the 2020 accident year, the 2021 accident year. And those picks are consistent with the level of ultimate loss ratio that's coming out of the reserve studies. And that gives us confidence that our starting point is the right one.

We're taking rate in excess of our loss trend, right? So those things give you confidence that moving forward, we're positioned in the right way in the portfolio.

Yaron Joseph Kinar - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. That's helpful. I appreciate that.

And then my second question actually goes to top line growth. Juan, in your opening comments, did I get the -- or I got the feeling from the opening comments that maybe you're deemphasizing growth in Reinsurance over Insurance in the foreseeable future. Is that correct?

Juan Carlos Andrade - *Everest Re Group, Ltd. - President, CEO & Director*

No, no, not at all, Yaron. What I was saying in my opening remarks is that we have a very good market right now in both insurance and reinsurance, and our intent is very much to continue growing as long as the opportunities are there for us to be able to do this profitably.

We have a leading franchise in P&C reinsurance. We're the seventh largest in the world. We are aiming to continue to grow that presence, continue to take advantage of those opportunities. So absolutely not.

As a matter of fact, I would also point you to my comments around our January 1 renewals and the fact that we had one of the strongest renewals we have seen in a number of years. And so look, as long as the market opportunity is there, as long as we can underwrite profitably, we're taking advantage of that. We are very well positioned, whether it's from a capital standpoint, a distribution standpoint, a talent standpoint, to be able to continue moving forward in this market with a lot of momentum.

Operator

Josh Shanker with Bank of America.

Joshua David Shanker - *BofA Securities, Research Division - MD*

My first question -- I know you can't speak to others' books, but we see something in your book that looks similar to what we've seen in others. Most of the improvement during this year has come on the expense ratio side of the combined ratio despite very, very strong rate increases already coming through in earned rates.

I'm wondering if you can talk about why we're seeing such large expense ratio improvements and whether it's sustainable. And just given your many, many years of working in the industry, what's going on here? This is not just an Everest phenomenon.

Juan Carlos Andrade - *Everest Re Group, Ltd. - President, CEO & Director*

Yes. Sure thing, Josh. So I would say a couple of things. We certainly have seen an improvement in the expense ratio, and that's really coming from 2 areas. One is on the commission side, and I think there's different factors there.

I think if you look at insurance first, part of that is that we're writing more direct business through our brokers and less DUA business overall. And so I think that's part of what you're seeing there. We also in our insurance business, because of mix, get the benefit of improved cede commissions. I think our team has done a very good job in setting up their external reinsurance program so you see some of that coming through on the commissions.

On the reinsurance side, I think it's also pointed to mix, at the same time, on the commission line. But more importantly, to me, it's really the operating expense ratio. One of the hallmarks of our company has been that we are lean. We're disciplined on how we manage expenses. We invest where we need to invest in technology and people and infrastructure, but we're also very disciplined about how we do that. And that's something that you saw us continue to accomplish in 2020 and onto 2021. That actually drives that expense ratio to where you see it today.

We also experienced loss ratio improvement, and you see that particularly in the Insurance business for 2020. And that is really related to all of those actions that I mentioned in my opening remarks, what I term is really the hard work of running a profitable book of business, right? This is managing attachment points and limits and running off programs and books of business that you're not comfortable with and always seeking out the best economic opportunities to continue to improve the profitability of that business. So to me, those are all the actions that one has to take to continue to improve underwriting profitability and sustain a profitable book going forward.

Joshua David Shanker - *BofA Securities, Research Division - MD*

And like my second question, maybe I'll try to get back in line then. The 6% expected normalized cat load for the coming year, it's obviously materially lower than where Everest has been in the past, although that's where it's been trending. Given the property cat renewals, which weren't as good as some were hoping, it's certainly better than they've been, do we expect that long-term adverse volatility is going to stay low or we're just at a place right now in pricing where it just doesn't make sense to take on a lot of cat risk?

Juan Carlos Andrade - *Everest Re Group, Ltd. - President, CEO & Director*

Yes. So let me start with that, and then I'll ask John Doucette to jump in and add additional color to all of this. Josh, as you heard in my opening remarks, particularly at January 1, we did increase the amount of limit that we deployed on the cat side. And we did that and feel very comfortable with it because of the pricing, the terms and conditions that we're getting.

Look, at the end of the day, volatility in and of itself is not a bad thing as long as you're getting paid for it. And from our perspective, we were getting paid for it in January 1. We were getting paid for it throughout 2020.

Now that being said, our goal is to build a diversified book of business. It's not just to ride 1 pony, if you will. And so if the opportunities are there on cat to be able to do it profitably, to get a good risk-adjusted return, improve our ROEs, et cetera, we're going to do it, and you saw us do that in the renewal seasons of last year and really going into January 1.

So the appetite is there, but it's there at a price and it's there at a point that makes sense to us economically. So with that, let me turn it over to John Doucette and have him add some color as well.

John Paul Doucette - *Everest Re Group, Ltd. - Executive VP, President & CEO of the Reinsurance Division*

Yes. Thanks, Juan. Josh, yes. Look, we had a very good 1/1 with significant rate increase. We saw double-digit growth across many, many lines of business.

And in terms of property, we did see rate increases in the U.S., 5% to 10%; in retro, 10% to 15%. And really, it was a question of how we allocated the book and where we decided to deploy the capacity. And so number one, where do we decide to deploy the capacity? We also saw very good opportunities in the primary property space. So we deployed more capacity into both cat and to primary property quota share, which we like the risk/return on that opportunity. So that's number one.

Number two, as noted, we have increased the AUM in Logan and continue to look for ways to increase that and look to have that continue to be a very strategic part of our volatility management, capital management. And that will help decrease the volatility that you're seeing.

And then number three, as Juan said, a lot of this is about diversification, diversification within the reinsurance, diversification by growing the insurance operations, so it's different lines, territories, products. And that will result in just a lower -- dollars may be flat but -- or even up a little bit, but as a percentage of overall gross premium, the percentage of our cat load could be lower.

Operator

Mike Zaremski with Crédit Suisse.

Michael David Zaremski - *Crédit Suisse AG, Research Division - Research Analyst*

First, as a follow-up to Josh's question, so I think a lot of us look at the historical cat load and we listen to your guidance. And obviously, you have a lot more info than us on the cat load being 6 points.

So to the answer to the last question, is Mt. Logan taking a portion of the historical cat load, right, so it's kind of -- it's going to other investors that aren't equity investors? And is that maybe the piece that we as investors don't fully appreciate, that you're ceding it to kind of a new set of investors versus pre Mt. Logan that it was all going to Everest?

Juan Carlos Andrade - *Everest Re Group, Ltd. - President, CEO & Director*

Yes. Thanks, Mike. This is Juan. And again, let me start, and then I'll ask John Doucette to jump in as well. I would say that on that 6% cat load that Mark was referring to, it's really a question of how we manage our exposure in the reinsurance book and really, what we have been doing, frankly, over the last 18 months or so, to make sure that we're in a better place, more profitable place, more sustainable place from a catastrophe standpoint.

Again, I go back to what I said earlier. We like cat, but it has to be priced right, has to be managed correctly. You've seen a lot of things that we have done that have been frankly reflected in some of the catastrophe loss numbers that we've put out in the third quarter and the fourth quarter.

We have moved up the higher attachment points. We're writing less aggregate programs. We're frankly writing a more profitable book, a more sustainable book. And so that's part of what you see there.

The other part of that is our capital shield, our hedging strategy for the company. Logan certainly plays a role there. Our Kilimanjaro bonds certainly play a role there. And there's other things that we're doing at the same time.

You will see that we grew AUM in our Logan book -- in our Logan vehicle to the beginning of this year, and that certainly helps us well in essentially protecting our net position within the company. But let me ask John Doucette to jump in and add some additional color.

John Paul Doucette - Everest Re Group, Ltd. - Executive VP, President & CEO of the Reinsurance Division

Yes. Thanks, Juan. And so Mt. Logan, we've been -- Mt. Logan has been in effect since 2013. And it has grown and then came down a little bit, and AUM now is starting back up.

So I don't think it's definitionally it used to go to Everest and now it goes to Logan. It's part of a holistic suite of both what we're doing on the growth side, capital management side and the hedging side, and it's part of that. But it's clearly a core part of this -- of how we're thinking capital management and volatility management going forward.

But I mean we also saw -- as Juan said earlier, while we did increase limits on the gross portfolio in our property book across property cat, retro and pro rata, we did increase that because of the opportunity set. But we saw an increase in overall premium and a larger increase in expected dollar margin and percentage margin and an increase in the ROE. So part of it is how we're thinking of what we want to keep on our balance sheet and other parts of the balance sheet.

But I do think it's more, I think, than your -- how you're focusing on it. It's more a function of the diversification. As a function of premium, it really has more to do with the diversification, the growth in the insurance operation as a percentage, the growth in reinsurance in different lines of business. We saw a lot of opportunities in casualty, continue to see opportunities in mortgage, professional liability, significant opportunities, in fact. And all of that is on the -- is growing the denominator of the 6% cat load that you're talking about. And I think that is driving it more than specifically in Logan or outside of Logan.

Michael David Zaremski - Crédit Suisse AG, Research Division - Research Analyst

Okay. That's very helpful, those answers. My last question is just thinking about the reserving additions that were added this past quarter, the \$400 million. Should we be thinking -- stepping back, are you adopting a new reserving methodology at all in a portion of the portfolio?

I guess sometimes, we get questions at some of your peers who kind of see -- they seek to, I think, strategically kind of book or maybe just overbook and be releasers. I'm just kind of curious. Is there anything we should be thinking about that's kind of changing on a go-forward basis versus how you historically picked?

Juan Carlos Andrade - Everest Re Group, Ltd. - President, CEO & Director

Yes. Thanks, Mike. This is Juan. Look, I think, from my perspective, the company has a very disciplined and multifaceted approach to reserving and risk management, and that doesn't change.

But I bring you back to my earlier comments. There's always opportunities for improvement on how you look at the data. So from our perspective, the new senior management team that we have in place is very granular and very detailed in how we look at IBNR groups and how we look at accident years by portfolio, by segment, et cetera, et cetera, and we're making fact-based decisions based on the trending and the information that our reserving studies give us and what our actuarial department is able to provide to us.

And so that is -- basically, if there's a change, it's that. It's the fact that we're being a lot more granular in how we look at the portfolios, how we make decisions based on the information that is there and how we react to that basically.

Operator

Ryan Tunis with Autonomous.

Ryan James Tunis - *Autonomous Research LLP - Partner of Property & Casualty Insurance*

I guess another follow-up on the charge in reinsurance. Just trying to get a little bit more texture. Is this mainly a few large programs, so a little bit more broad-based? And then also, just maybe you could give us some feel for how your reserve for those accident years, '15, '18 relative to the loss ratio indications from the ceding, how your loss picks compared to the loss ratios being reported to you in those years.

Juan Carlos Andrade - *Everest Re Group, Ltd. - President, CEO & Director*

Yes. So Ryan, this is Juan Andrade. Let me start, and then I'll ask both Mark Kociancic and Jim Williamson some to add a little bit of color on this one.

On the reinsurance strengthening that we took, it was really a factor of a few things. Number one, we had a few cedents with poor experience in those accident years. And on those cedents, we have subsequently reduced our lines or essentially completely non-renewed the affected accounts. So that's part of that.

There's also the fact that we had some pretty large losses coming through in some of those years, whether it was wildfires, MGM, et cetera. And that's part of that. And then the other part of that is really just general social inflation or the trend that we saw out in the market that was generating some higher severity losses than what we anticipated.

So that's basically what we saw in our reserving studies that essentially led to us taking the strengthening actions that we did. But let me now turn it over to Mark and then Jim for a little bit of additional color on your question.

Mark Kociancic - *Everest Re Group, Ltd. - Executive VP & Group CFO*

Just a bit more on that, Ryan. I think in addition to what Juan was saying, when we took a look at these individual lines and accident years, we were looking also at the magnitude of uncertainty; so in other words, where are we within the ranges. And I think that the strengthening that we put up in these individual years and lines, we feel pretty good about. So we feel like there's a good level of prudence that's been set up for these, and it solves the problem for us.

James A. Williamson - *Everest Re Group, Ltd. - Executive VP & Group COO*

Yes. And so I'd sort of close it out with just a little bit of color around the piece of your question that sort of looks to translate cedent underlying loss ratio to what we're experiencing. I mean look, the reserving process is based on our own loss activity. And I think there are clearly areas where you can draw a more direct connection, if you're talking about, for example, a quota share book. So in the cases where we're participating in a proportional fashion with our cedents and they're seeing social inflation, average claim sizes have increased on the casualty side or in the case of water damage, claims that are elevating property losses, that's going to be a more direct translation.

Where I think that starts to break down though is when you start talking about treaty structures that are not a direct quota share participation. You can't always draw those direct lines, and so I'd be a little bit careful about that. But if you think about the things and the general trends that have

affected primary insurers in the '15 to '18 on the casualty, sort of '16 to '19 in property, sort of the same drivers of loss that we are seeing in our book are the ones you're hearing from other companies. So I think it's consistent in that fashion.

Ryan James Tunis - *Autonomous Research LLP - Partner of Property & Casualty Insurance*

Got it. That was helpful. And I guess talking -- hearing you guys talk about how the loss picks in 2020 and also 2021 are more conservative, so obviously, you're taking a view on 2021.

I'm just curious, thinking about the 58 percent-ish ex-COVID accident year loss ratio to reinsurance. Should we think that -- given the higher 2021 loss pick, how easy or difficult do you think it will be to improve on that next year, also taking into consideration the rate backdrop?

Juan Carlos Andrade - *Everest Re Group, Ltd. - President, CEO & Director*

Yes. Ryan, this is Juan. Thank you. Look, I go back to some of my earlier comments where, for us, it's not just simply about rate. But it's also about all the other levers that we have within the underwriting portfolio and within the underwriting toolkit that we're executing upon, right?

So if you think about how John and his team are positioning the team from an attachment standpoint, from a structure into treaties, how they're playing on pro ratas to be able to take advantage of the improvement in primary rates, et cetera, et cetera, all of these are things that are going into the improvement of our underlying margin and frankly, why I said at the beginning of all of this that we are building meaningful margin momentum in our underlying book of business. And I feel pretty good about that. So the reality is, is we're working at this every day, whether it's in reinsurance, on insurance, with the goal of continuing to improve our margins, improve our profitability, improve our loss ratios, et cetera, et cetera.

So you're going to continue seeing us taking actions across the board. Again, not just necessarily all rate related, but there's a lot of things we can do in the portfolio that also influence that, and we're doing them today.

Operator

Brian Meredith with UBS.

Brian Robert Meredith - *UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist*

I got 2 questions. The first one, Juan, just curious -- if we look at the returns you're probably generating on new business right now, just curious what your thoughts are on that. Is that better than actually repurchasing your shares at this point given that you're trading at a discount to book value?

Juan Carlos Andrade - *Everest Re Group, Ltd. - President, CEO & Director*

Yes. So look, I think a couple of things. And then I'll ask Mark Kociancic to jump in as well.

From a capital management philosophy standpoint, our approach really hasn't changed. Number one, we invest in our company and in the organic growth that we see there. We happen to be at a place in time where we have terrific opportunities in the insurance side, on the reinsurance side, and you see from our numbers, we're taking advantage of them.

The fact is we're leaning forward. The fact that we grew 15% in a pandemic year with an economic recession, exposure reductions, I think, is a very good outcome. And I think that gives you a sense of how we're investing in our business to continue to grow and take advantage of those opportunities.

At the same time, we also then look at other things that we can do to return capital to our shareholders. And I'll let Mark talk a little bit about that.

Mark Kociancic - Everest Re Group, Ltd. - Executive VP & Group CFO

So Brian, I think both parts are on the table. Obviously, the emphasis on franchise expansion in a hard market is paramount. This hasn't come along in quite some time.

On the capital management side though, your points are well taken, and that's clearly on our radar screen. I think share buybacks, dividend policy, that's still all in play and very much in our line of sight. But we do have, I think, a unique opportunity to capture a lot of benefits from this hard market.

Brian Robert Meredith - UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist

And I guess you don't have the flexibility to do both at the same time, grow and buy back.

Mark Kociancic - Everest Re Group, Ltd. - Executive VP & Group CFO

No, we do. There's -- yes. We have full capability on both sides, so whether it's attacking the market and taking advantage of opportunities and doing the capital management aspects that you've seen in the past.

Juan Carlos Andrade - Everest Re Group, Ltd. - President, CEO & Director

Yes, Brian. And I would jump in there as well. As I've mentioned in the third quarter earnings call, we have the capital flexibility to attack this market, and we're doing it, as I mentioned earlier, based on the growth rates that you're seeing.

We also did the \$1 billion debt raise back in October of last year, and that has not been deployed for growth yet. That has been invested in our portfolio. But we have dry powder, so we have the ability to continue to do what we need to do in this market and take advantage of the opportunities that we see in front of us.

Brian Robert Meredith - UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist

Real helpful. And then my second question, Juan. I'm just curious, could you give us some perspective on where do you think we are with respect to COVID loss recognition? And what are the potential future exposures kind of related to COVID?

Juan Carlos Andrade - Everest Re Group, Ltd. - President, CEO & Director

Yes. No, thank you for that. Look, I feel very good and very confident with where we are with our COVID numbers. We were very consistent in our reserving throughout 2020. Our processes were very good, very thorough. As Mark mentioned in his remarks, we're at \$511 million for the year of 2020. Over 80% of that is IBNR.

We look at the claims activity that's been coming in. We have not been surprised. Everything has been tracking along sort of what we expected. So I feel very confident about where we are with those COVID numbers.

Now all of that being said, the pandemic is still ongoing, right? That has not eased. It continues. And things that we look at, are there going to be other legal, regulatory, legislative type things that happen that we haven't seen yet, right? So those are the things that are still out there potentially.

The other thing that's out there is the fact that as a reinsurer, we do get late information from our cedents. But all of that being said, I feel very confident about where we are with that \$511 million that we took in 2020.

Operator

[Derek Cohen] (sic) [Meyer Shields] with KBW.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

This is Meyer. Is this me?

Juan Carlos Andrade - *Everest Re Group, Ltd. - President, CEO & Director*

Yes, Meyer.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Great. I'm sorry, I couldn't catch the name.

So 2 quick questions. One, the cat load is consistent in terms of expectations on a year-over-year business -- year-over-year basis. And I was hoping you could break that down between business mix changes that had been driving down the cat loss ratio in prior years and maybe just a more pessimistic expectation of losses because of climate change or other factors underlying trend.

Juan Carlos Andrade - *Everest Re Group, Ltd. - President, CEO & Director*

Yes. No, that's good. So let me start with that, and then I'll ask John Doucette to come back into it.

Again, I think part of what you're seeing in that 6% cat load that Mark alluded to, it's essentially the end result of a lot of the management actions, the proactive underwriting actions that the team has taken really over the last 12 to 18 months to better improve and better manage the volatility of our portfolio. So you're definitely seeing that essentially come through at the same time.

Now regarding the point on climate change, we are very mindful of that, right? So one of the things that our modeling does, particularly on the reinsurance division, is really look at the impact of rising sea temperatures that you can clearly see from 1995 onto current. And based on that, we have adapted our modeling, we have updated our points of view on risk, on pricing to better be able to manage that.

So all of that is essentially baked into that. But let me turn it over to John Doucette and let him add a little bit of color on that as well.

John Paul Doucette - *Everest Re Group, Ltd. - Executive VP, President & CEO of the Reinsurance Division*

Yes. Thanks, Juan. And yes, just to continue on.

So 2 things we spend a lot of time thinking about in terms of how we manage the risk in our property portfolio. It's all the aspects of climate risk. We spend a lot of time looking at wildfire and frankly, derisking the wildfire exposure in our portfolio; spend a lot of time looking at the warm sea surface temperature, looking at droughts and the propensity for drought. So a lot of how we deploy capacity, what should the right attachments, products, terms, conditions and frankly, rate be looking at that. So number one is climate change.

And number two, we've also been looking a lot at the different social inflation and risks that we've seen in the books, things like assignment of benefits to LAE, the increase in LAE that we've seen in different areas, both in the U.S. and outside the U.S. And so that's all factored into how we think about building the best portfolio, learning from the lessons that the industry is seeing and really positioning our book on a go-forward basis.

And then also -- so it has some loss trends for the reasons I just mentioned, climate and some of the social issues. But it also -- we also are seeing the uplift that we're getting from improved rates, terms, conditions, occurrence clauses, hours clauses, et cetera, et cetera. So all of that is -- we have several countercurrents that result in the 6% you're looking at here.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. That was very thorough. And then second, really quickly, can you give us some picture of expectations of ceding commissions, both what you're going to expect to pay in reinsurance and collect in insurance on a year-over-year basis?

Juan Carlos Andrade - *Everest Re Group, Ltd. - President, CEO & Director*

Sure. So John Doucette, why don't you start with that, and then we'll go to Mike Karm for the insurance piece of it.

John Paul Doucette - *Everest Re Group, Ltd. - Executive VP, President & CEO of the Reinsurance Division*

Yes. Thanks, Juan. So in -- it will vary by line, by territory, et cetera, by loss experience of the client. So one of -- there's been significant underlying rate improvement, terms and condition improvement on casualty and professional liability. And so our view is that the casualty reinsurance market was rational for the most part. Ceding commissions were about flat. But we did see an economic uplift at 1/1 just based on our exposure to the underlying terms and conditions. And then that would be very loss dependent. If somebody had bad -- poor loss experience, they could see a cut in the ceding commissions.

And on property overall, we did see an improvement in the overall reinsurance terms and -- both in terms of like occurrence limits as well as ceding commissions. And I think that really was just a function of the overall capacity dearth on proportional reinsurance. So we were able to deploy and wanted to deploy more into that space.

Michael Karmilowicz - *Everest Re Group, Ltd. - President & CEO of the Everest Insurance® Division*

Yes. I think it really comes down from the insurance perspective really on the value of the reinsurance relationships that we are successful in maintaining, all the ceding conditions -- commissions that renewed over the last several months. I would say one comment is our books vary and we hedge certain portfolios. Like I mentioned, we are the beneficiary of that for some of the things Juan mentioned earlier about ceding commissions that we gained by some of the portfolio mix in certain lines like specialty, casualty and other specialty lines like transactional and credit, political risk.

So we tend to have really top talent in these areas, which I think have generated better terms and conditions for us and some more reinsurance. But I think as we continue the journey, we see opportunity, and we certainly think there's also opportunities for us to manage that more effectively.

Operator

Phil Stefano with Deutsche Bank.

Philip Michael Stefano - *Deutsche Bank AG, Research Division - Research Associate*

I just wanted to ask a follow-up to Brian's question about the COVID charges. Can you just provide us with a reminder of how to think about -- is there a date that you have booked this through? Is it just the calendar year 2020 losses? Or to what extent was 2020 and the potential ongoing nature of the pandemic contemplated in the \$511 million reserves?

Juan Carlos Andrade - *Everest Re Group, Ltd. - President, CEO & Director*

Yes, sure. Thanks, Phil. Let me ask Jim Williamson to address that question for you.

James A. Williamson - *Everest Re Group, Ltd. - Executive VP & Group COO*

Yes, Phil. To provide a little bit of color, I think it's important to understand the process we go through to arrive at these estimates. It's incredibly granular.

So we are basically reviewing each and every reinsurance contract we have in each of our markets around the world. We do that multiple times each quarter. And the goal of those underwriter estimates is to get a total view of estimated losses for those contracts. And so it's not really isolated to any particular time period. It's focused on the extent of the contract and what we think those losses are going to be.

So I mean, I think that's the core of the answer to the question. I think it's important to note though that obviously, our understanding of what that total is going to be is informed by the duration of the pandemic, et cetera, as well as the reporting lag that Juan pointed out. But our goal is always to try to estimate the totality of loss.

Philip Michael Stefano - *Deutsche Bank AG, Research Division - Research Associate*

Okay. And as we think about the growth that is coming into the business, and maybe this is more focused on insurance than reinsurance. But the potential for economies of scale as we think about nominal expenses moving forward, it feels like the insurance business had some investments in teams and the building out of the functions and things like that. Does it feel like that should slow down and we come to a point where expense growth on a dollar basis is much more inflation, plus or minus? Or are there investments still to be made in helping us think about the economies of scale you can pull through?

Juan Carlos Andrade - *Everest Re Group, Ltd. - President, CEO & Director*

Yes, Phil. I think that's a great question. Look, the Insurance division is now a \$3.2 billion business, right? So that's a good-sized insurance company. We are still making investments in technology and people, data and analytics, product expansion, a number of things, and that's not going to stop, right? Because we think we have a terrific opportunity in front of us, particularly in this market, to continue to be able to grow that.

Now that being said, we also expect that we will continue to manage our expenses in a very disciplined way, in the way we have been now. So focusing on things like digital automation, those types of things to make us more productive, much more efficient, those are things that are very much top of mind and that will also be implemented as we go forward. So there will be investment that will continue in this business. We will be reaching economies of scale, as you point out. I think we're pretty close to that. And the focus is on how do we become more productive, more effective, more efficient as we grow that business.

Operator

I'd now like to turn the call back over to management for final remarks.

Juan Carlos Andrade - Everest Re Group, Ltd. - President, CEO & Director

Great. Thank you. So I think as you can see from our results, we have strong growth, we have strong underlying improvement, and we have great momentum going into 2021. The company is very well positioned for this market.

We have the financial strength, a preferred market presence, a diversified global platform. We are nimble. We have a deep distribution relationship. We have great people, and we have a great culture. We're very well positioned. So thank you for your time with us this quarter and for your support of our company.

Operator

This concludes today's conference call. We thank you for your participation. You may now disconnect.

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