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PRESENTATION

Operator

Good day, everyone, and welcome to the First Quarter 2017 Earnings Call of Everest Re Group. Today's conference is being recorded.

At this time, for opening remarks and introductions, I will turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Beth, please go ahead.

Elizabeth B. Farrell - *Everest Re Group, Ltd. - VP of IR*

Thank you, Debbie. Good morning, and welcome to Everest Re Group's First Quarter 2017 Earnings Conference Call. On the call with me today are Dom Addesso, the company's President and Chief Executive Officer; Craig Howie, our Chief Financial Officer; John Doucette, our President and CEO of Reinsurance Operations; and Jon Zaffino, our President of North American Insurance Operations.

Before we begin, I will preface our comments by noting that our SEC filings include extensive disclosures with respect to forward-looking statements. In that regard, I note that statements made during today's call, which are forward-looking in nature, such as statements about projections, estimates, expectations and the like, are subject to various risks.

As you know, actual results could differ materially from current projections or expectations. Our SEC filings have a full listing of the risks that investors should consider in connection with such statements.

Now let me turn the call over to Dom.

Dominic James Addesso - *Everest Re Group, Ltd. - CEO, President and Non-Independent Director*

Thanks, Beth. Good morning to all, and welcome to our first quarter earnings call, and we have a positive report for you today.



Before we dive into the quarterly results, I would like to touch briefly on the characteristics that have helped the Everest Re Group deliver above-average returns.

Certainly our size and scope are important differentiators, but more critical to our success is the entrepreneurial and decisive culture that permeates our organization. We are not satisfied with the status quo, but instead, we continually seek to expand our horizons for new opportunities as well as increase our penetration with existing clients.

Examples of these would be our expansion into credit opportunities in both of our reinsurance and insurance businesses. And just this quarter, we participated on the new National Flood Reinsurance program, which represents new business to the market.

As the government seeks to privatize certain markets, we could see similar additional opportunities.

But why is this important? These new market segments allow us to continue to diversify our portfolio away from the more competitive markets and sustain underwriting profitability.

This, and a constant focus on expenses, and our expanding use of capital market tools explains why we continue to outperform the market.

This now leads me to our discussion on results, which again, were quite positive for the quarter.

Operating income increased 17% in the quarter or \$260 million, giving rise to \$6.29 in earnings per share and a 13% operating ROE for the quarter.

The increase in earnings is a result of an increase in both the underwriting and investment income. Furthermore, the underwriting results improved in both the reinsurance and insurance division, while our reinsurance combined ratio was up slightly over the prior year, due to a relatively minor increase in caps, the increase in earned premium propelled us to a higher underwriting result.

The increase in earned premium is the continuing result of broadening our reinsurance product set over the last several quarters into crop, mortgage and other credit-related opportunities. The expansion into credit-related business has contributed to the almost 1-point improvement in the quarter's attritional combined ratio, 80%.

John Doucette will discuss this in greater detail in his reinsurance operations report.

The insurance segment results improved year-over-year to an underwriting gain position. This was in part a result of the drag in the prior year from the crop operation that we sold late last year. Excluding the Heartland Crop business, the attritional combined ratio of 98.1% for the quarter reflects a stable loss ratio, but an uptick in the commission and operating expense ratio.

The commission ratio was up on changing business mix, while operating expenses are trending as planned. We continue to build out the North American and European platforms and have had great success with gross premiums written up 21% in the quarter, excluding crop.

Expenses are still outpacing earned premium, thereby putting pressure on the expense ratio. But we would expect this to stabilize as the operation matures.

However, despite this more elevated expense ratio, you will find that by comparison, we are still quite efficient relative to the market. We are pleased with what the team has accomplished in a relatively short time frame, which was aided in part by the market dislocation created by a few large players. In fact, given the opportunity presented by this market turmoil, we actually accelerated our investment in the operation.

You will hear more details on all this later in Jon Zaffino's operations report.

Another strong spot this quarter was investment income, which increased approximately \$20 million. Our alternative portfolio accounted for some of that improvement, along with a higher asset base. Our strategy here is not much different from the fundamental principles we use in our total

business: conservative, yet look for differentiated opportunities that provide good margins relative to risks. As a result, our overall portfolio has a beta of less than 1, but yet our returns have been in the upper quartile relative to our peer group.

Overall, we continue our optimism and our ability to not only outperform but also provide above-market returns through the cycle. I maintain that optimism because of, as I referenced earlier, the well-diversified platform we have built, but perhaps more importantly, because of our adaptability to market changes and opportunities. That comes from a corporate culture that embraces new opportunities and that has the skill and talent to execute.

You will hear more about our newest initiatives from my colleagues and how we continue to build our franchise for the future.

Thank you, and I look forward to your questions later on. And now to Craig for the financial report.

Craig W. Howie - Everest Re Group, Ltd. - CFO and EVP

Thank you, Dom, and good morning, everyone. Everest had another solid quarter of earnings, with net income of \$292 million for the first quarter of 2017. This compares to net income of \$172 million for the first quarter of 2016.

The 2017 result represents an annualized net income return on equity of over 14%.

Net income included \$32 million of net after-tax realized capital gains compared to \$51 million of capital losses in the first quarter of last year.

2017 capital gains were primarily attributable to fair value adjustments on the equity portfolio. After-tax operating income for the first quarter was \$260 million compared to \$223 million in 2016.

The overall underwriting gain for the group was \$183 million for the quarter compared to an underwriting gain of \$171 million in the same period last year. All segments reported underwriting gains for the quarter.

In the first quarter of 2017, Everest saw \$20 million of current year catastrophe losses related to Cyclone Debbie in Australia, compared to \$10 million of catastrophe losses during the first quarter of 2016.

The overall current year attritional combined ratio was 84.5%, down from 85.3% in the first quarter of 2016, primarily due to a lower commission ratio in 2017.

Our overall expense ratio of 5.8% was down slightly from the first quarter of 2016. Our reported combined ratio of 86% was flat compared to the first quarter last year.

For investments, pretax investment income was \$122 million for the quarter on our \$18 billion investment portfolio. Investment income was 19% above last year. This result was primarily driven by an increase of limited partnership income, which was up \$17 million from the first quarter of 2016, primarily due to the turnarounds in energy-related investments compared to last year.

Pretax yield on the overall portfolio was 2.8%, with the duration of just over 3 years.

Foreign exchange is reported in other income. For the first quarter of 2017, foreign exchange losses were \$4 million, similar to the first quarter of 2016.

Other income also included \$2 million of earnings and fees from Mt. Logan Re compared to \$3 million of income in the first quarter of last year.



On income taxes, the 9% effective tax rate on operating income was on the low end of our expected range for the year. First quarter of 2017 tax rate is slightly lower than the 10% tax rate for the full year of 2016 due to a \$5 million tax benefit or a FASB tax accounting change related to share-based compensation.

Previously, these tax benefits were booked through additional paid-in capital in the balance sheet.

The effective tax rate is an annualized calculation that includes planned catastrophe losses for the rest of the year. Should catastrophe losses come in lower than this estimate, it will be expected that the tax rate would go up.

Stable cash flow continues with operating cash flows of \$382 million for the quarter compared with \$375 million in the first quarter of 2016.

Shareholders' equity for the group was \$8.3 billion at the end of the first quarter, up \$272 million from year-end 2016. This is after taking into account capital return for the \$51 million of dividends paid in the first quarter of 2017.

Capital position remains very strong and continues to grow. Thank you. And now John Doucette will provide a review of the reinsurance operations.

John P. Doucette - Everest Re Group, Ltd. - President and CEO of the Reinsurance Division

Thank you, Craig, good morning. We are pleased to report another strong quarter, with \$178 million of reinsurance underwriting profit. Our earnings reflect the continued strength of our reinsurance franchise, sustained by product and geographic diversification, underwriting discipline and ultimately, relevance to our clients.

Everest's long standing global presence, high ratings and nimble execution underpin our outperformance through this part of the underwriting cycle.

Before discussing renewals, here is some color on the first quarter results.

Total gross written premium for the first quarter was \$1.2 billion, an increase of 19% compared to Q1 2016, through a combination of growth on existing business and new business opportunities. This included \$53 million of crop premium on the new quota share arrangement done in conjunction with the sale of Heartland as well as new structured reinsurance business.

The growth in these profitable, diversifying and strategic lines fortifies our competitive strength in an otherwise difficult market. Additionally, these customized transactions require a differentiating breadth of skills from a sizable and strong partner. Our agility in executing these bespoke transactions is highly valued by our clients and accomplished to attracting best-in-class underwriting actuarial and analytical talent and providing them appropriate resources within a lean and responsive organization, conducive to creative solution.

The Q1 loss ratio increased to 55.6% from 53.2% in Q1 2016, driven in part by an increase in the cat loss ratio, with losses from Cyclone Debbie impacting the quarter. In addition, the quarter experienced lower, favorable prior year loss development and an uptick in the current year attritional loss ratio. The shift in the composition of our book with a higher expected loss ratio on the new crop business accounted for the slight increase in our attritional loss ratio.

In our U.S. Reinsurance segment, Q1 2017 gross written premium was up 8% to \$579 million. Growth was driven by crop and credit-related reinsurance writing, offset by a 9% decrease in property lines as we walked away from underpriced pro rata business.

The Q1 combined ratio for the U.S. Reinsurance segment was up 3.1 points, affected by the new crop writings, with a higher attritional loss ratio and non-catastrophe weather-related losses. This was partially offset by a lower commission ratio.

Although the crop writings produced higher combined ratios, they consume relatively little capital.

Our international reinsurance segment premium was \$266 million, up 13% for the quarter and up 8% on a constant-dollar basis. We saw growth across most of our territories: Middle East, Africa, Latin America, Singapore and Canada. Increased property pro rata business and some higher cat XOL business particularly in loss-affected regions, coupled with our growth in our worldwide Facultative operations provided for this growth, the combined ratio for this segment improved by 1.1 points to 86.6%, despite higher cat losses and lower level of reserve release.

This was due to an almost 6-point improvement in the attritional loss ratio, driven by better experience in certain regions and a lower mix of casualty pro rata business.

Our Bermuda segment's written premium increased 57% to \$321 million or up 61% on a constant dollar basis. The growth was largely from new business, including new credit opportunities and account true-ups on financial line treaty. In addition, premium growth was -- also came from both London and Europe, including motor quota shares and new strategic reinsurance deals, with large core global clients.

The combined ratio improved to 83.5%, with a lower current year attritional loss ratio, no prior year reserve development and a lower expense ratio.

Moving on to the 4/1 renewals. Everest is well positioned in a market that appears to be stabilizing. Rate pressures continue but are showing signs of moderating as ample capacity is partially offset by an increasing demand in some zones.

In the Asia-Pacific market, renewal rates in loss-affected areas such as New Zealand, were up an average of 5%, with rates in a range of flat to down 10% in other areas. Japanese renewal decreases were more moderate at flat to down 5%.

In the U.S. property markets, excess of loss rates were flat to down 5%, with indications that some early 6/1 renewals will be flat.

We are expecting incremental Florida demand fostering some market stability, but this could be somewhat offset by decreased purchasing by citizens.

As Dom mentioned, we did participate on the new National Flood Program that came to the market, and we are exploring other potential opportunities around flood coverage.

In our casualty book, reinsurance rates, terms and conditions are stable, but reductions on underlying business continue to put pressure on overall economics. Nevertheless, we were able to reallocate our capital to more favorable opportunities, and we see some improvement in certain Facultative lines.

Internationally, some of the recent currency movements have allowed foreign-based competitors to report accounting gains, softening the otherwise weak profitability across major classes and delaying market stabilization.

However, rate decreases were smaller than in prior renewal. In the U.K., the Ogden rate change, which has affected the U.K. motor market, has caused some market disruption, with treaties being extended as insurers reassess their strategies. Large rate increases and program restructurings have been the norm on affected motor programs.

Throughout the world, our clients demand multifaceted solutions commensurate with their expanding scope, complex capital requirements and unique demands. Our clients clearly want to trade with reinsurers like Everest, that offers scale, expertise and sustainable -- in a sustainable franchise.

We just completed our latest cap on transaction, with the issuance of \$1.25 billion of Kilimanjaro II catastrophe bonds. That brings our total catastrophe bond capacity to \$2.8 billion, which, in conjunction with Mt. Logan and our own balance sheet, elevates Everest's total capacity and capital across both rated and unrated balance sheets to almost \$13 billion. This places us among the very largest reinsurers in the industry, making us even more relevant to our clients and brokers.

Overall, Everest reinsurance operations remain well positioned and diversified by product, distribution, geography, client and capital, giving us numerous levers to control our market efficiency and effectiveness.

We continually enhance our strategic focus to succeed in the new reinsurance world order. Thank you. And now I will turn it over to Jon Zaffino to review our insurance operations.

Jonathan M. Zaffino - Everest Re Group, Ltd. - SVP and President of the North America Insurance Division

Thank you, John, and good morning. The Everest global insurance operations performed well and in line with our expectations in the first quarter. Many strategic actions we have taken to establish a world-class, specialty diversified insurance organization are becoming increasingly evident in our results. A consistently expanding top line across the balanced portfolio is testament to the relevance we are achieving among our insurers and brokers.

We continue to find opportunities to profitably expand our business across our global platform despite a challenging market environment. As a result, Everest Insurance is firmly positioned in the market landscape as a specialty provider, offering a wide breadth of product solutions and lines of business that we expect to outperform over the long term.

As in prior quarters, due to the divestiture of Heartland in late third quarter of 2016, I will be discussing our comparative results, excluding this business.

For the first quarter of 2017, the global insurance operations registered \$434 million in gross written premium, an increase of \$75 million or 21% over the first quarter of 2016, another outstanding result and consistent with the growth rate we saw in 4Q 2016. This represents the ninth consecutive quarter of growth for our global insurance operation. Each division within the North American segment contributed to this growth, with notable strong performances from our Canadian and accident and health platforms, each of which grew in excess of 30%.

Of further note, roughly 18% of our production in the quarter was derived from our recent new business launches and from our Lloyd's operation, which as you will recall, has entered only its second year of account. We remain encouraged by this balanced contribution across the diversity of our growing underwriting platform.

Net written premiums for the quarter were \$346 million, an increase of \$37 million or 12% over 2016. As we've shared in the past, net written premium growth slightly lags gross written premium growth due to the marginally more conservative reinsurance position we have taken to support our many new underwriting divisions.

There were some notable transactions in the quarter, particularly within our A&H group, that also contributed to a slightly lower net to gross ratio. We expect this to normalize throughout the year.

Net earned premium in the quarter increased more in line with our gross written premium on a percentage basis, producing \$323 million, which represents 17% growth from the first quarter of 2016.

Turning to the combined ratio, the GAAP combined ratio for the first quarter was 98.4%. While we are pleased to have produced an underwriting profit of more than \$5 million in the segment, we expect to show continued improvement as earned premium develops in future quarters. The overall loss and loss adjustment expense ratio for the global insurance operations remained essentially flat year-over-year, registering a 68.2% in the first quarter of 2017 or 68.1% in the first quarter of 2016. On an attritional basis, each ratio has improved to 67.8% and are flat period-over-period.

Let me offer a couple of additional comments to further amplify our performance. First, both 1Q '16 and 1Q '17 had unprecedented levels of cat activity in the U.S., with 12 PCS events declared in the first quarter of this year. Despite this, our book is performing well. Our conservative loss estimates for our U.S. property lines, coupled with a series of deliberate underwriting actions taken over the past several quarters, has largely mitigated the impact of these events to us.



Second, as earned premium comes in on several of our new business launches referenced earlier, which have historically generated better combined ratios, we expect the shifting portfolio mix will result in improved overall profitability. Again, the bottom line, we expect improvement in the underlying loss ratios as we move through the year.

Our expense ratio in the first quarter was 30.3%, up when compared to 28.2% in the first quarter of 2016, but essentially in line with the full year 2016 result of 29.9%.

The change to first quarter 2016 represents roughly a 1-point increase in our commissions and premium tax expenses and a 1-point increase in our operating expenses. There remains moderate pressure on our expense ratio due to the continued organic build of our operation, along with the impact from the lag of earned premium.

We anticipate the expense ratio to moderate and stabilize as we continue upon our growth path.

As Dom mentioned, an expense ratio of roughly 30% remains very competitive in the specialty insurance segment.

I'll now turn to the performance of our major insurance portfolios, starting with the North America P&C book, which is our largest business.

In the first quarter, the core P&C portfolio grew 15% to \$353 million over the prior year period. We continue to gain momentum across the breadth of our specialty P&C operations, headlining the quarter were: a continued steady growth from our new business initiatives, which represented 17% of our total premium production in the quarter, the highest level we have experienced to date.

The continued addition of outstanding talent supports our strategy across underwriting claims, technology, actuarial and several support areas. And the announcement of a portfolio transaction we consummated to effectively acquire renewal rights to our direct and Facultative book of property business. This book of business closely aligned with our own appetite fits neatly into our property expansion strategy, and we are pleased to welcome several new talented underwriters to the Everest family.

Our Accident and Health group also delivered an excellent quarter of growth, with a 38% increase over the prior year comparable quarter. Our continued effort to thoughtfully diversify and grow our product lines, including medical stop-loss, continues to prove successful.

Notably in the quarter, several of our new A&H products, particularly our sports disability offering, also contributed meaningfully to growth. We expect we will continue to find opportunities across the balance book of A&H business as the year progresses.

Our Lloyd's operations also continue this expansion. The syndicate contributed \$21 million to the insurance growth in the quarter, nearly double the contribution from 4Q 2016.

All lines of business, ranging from our property through our professional indemnity books experienced growth, despite a challenging rate environment. We remain delivered in our growth pursuits and are finding opportunities for continued expansion.

Turning to the operating environment, the first quarter represented a predictably mixed picture from a rate perspective. The overall level of rate change varies meaningfully by major line of business.

As a general statement across the entirety of the North American portfolio, I would say that rate pressures are somewhat mitigating. In fact, we have many lines of business that are gaining rates across our book.

Let's take a look at this by major line of business. Commercial auto, again, headlined our rate change result in the first quarter as it has in several prior quarters. We continue to achieve high singles and low double-digit rate changes for this line of business. Again, our exposure to this line is limited, as it continues to represent less than 5% of our overall writing.



Also, as in prior quarters, the primary general liability and umbrella markets continue to remain in the tight range and are basically flat year-over-year. The professional liability markets remain competitive, with continued rate pressures in the mid-single digit range across various lines. We continue to take a conservative posture in this market.

Of particular interest to us is the broader attention to rate and terms being exhibited in the U.S. property market. While capacity remains plentiful, the market continues to find the bottom.

Directional price changes, month-by-month, are recognizing this reality. 12 PCS convective storm and cat events in the first quarter, a record for insurance losses on top of last year's prior record quarter, should add momentum to this price action.

As we noted last quarter, we feel there is a larger positive story emerging that will allow us to selectively expand our portfolio.

Finally, Workers' Compensation, our largest line of business, continues to experience moderate rate pressure in the low to mid-single-digit range on the back of continued favorable underwriting results. While not an unexpected result, there is still an opportunity to consider new business in certain select territories as we closely monitor the many trends across this line.

While the rate environment is trending predictably, line by line, the overall rate picture is improving across the entirety of our portfolio.

In conclusion, we are pleased with our start to the year. Our team continues to execute very well against the major strategic objectives within our urgent organic growth plan. As a result, our market brand and capabilities continue to grow.

The Annual RIMS Conference, which is underway as we speak, is reaffirming our belief in the Everest Insurance value proposition. Based on the client interaction and meeting schedules of our colleagues in attendance, it is clear we are being embraced by a growing range of brokers and insurers alike.

We look forward to continuing our momentum and reporting back to you on our progress next quarter. With that, let me turn it back over to Beth for Q&A.

Elizabeth B. Farrell - *Everest Re Group, Ltd. - VP of IR*

Thank you, Jon. That ends our prepared remarks, I'd like to open up for the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question today from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - VP and Senior Analyst*

My first question, I was hoping just to get a little bit more color. You guys saw exceptional growth in your reinsurance business to start the year. I know, lots of moving parts with the crop, some growth in credit and then also in other geographies outside of the U.S., but when you kind of blend your market outlook together, how do you really see the growth trajectory over the remaining 3 quarters? And just a question in relation to the Q1, is any of the premium growth that you saw kind of onetime in nature? Or are there any multi-year covers included within the strong growth you saw in the first quarter?



John P. Doucette - Everest Re Group, Ltd. - President and CEO of the Reinsurance Division

Elyse, this is John, and thanks for the question. So I think, there were some one-off parts to the growth in the reinsurance operation. As we mentioned, there was some true-ups, but there is also a combination of growth in the mortgage and credit lines. Some of those are new deals and some of those are multiyear deals, where we're continuing to get premium from prior quarters. So we would think a normalized growth rate would probably be high single digits.

Elyse Beth Greenspan - Wells Fargo Securities, LLC, Research Division - VP and Senior Analyst

And do you think that high single-digit is something that's sustainable over the balance of 2017, based on how you see the market right now?

John P. Doucette - Everest Re Group, Ltd. - President and CEO of the Reinsurance Division

We do, we do think that -- I mean, there's a lot of gives and takes on that but we continue to see new opportunities. There's places where we're coming off business, that we don't think is attractive, but at the same time we continue to find new opportunities both -- we talked about the motor quota shares in Europe tied to Solvency II. Also in the U.K. motor market, there's opportunities, but then also, in the mortgage and the credit and one-off structured deals that we have in the pipeline now.

Dominic James Adesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

Elyse, this is Dom. I mean, it also highly dependent on June 1. So we have had lots of new opportunities and growth in new areas, new types of products as well for that particular credit [ph]. But depending on what the -- what happens with rates at 6/1, that's still yet to be determined. So hard to predict, some sustainability to our growth rate when we don't yet know what June 1 will be offering up.

Elyse Beth Greenspan - Wells Fargo Securities, LLC, Research Division - VP and Senior Analyst

Okay, great. Did you guys -- you guys didn't call out an Ogden loss? Was there any -- did you guys have any adverse development associated with the change in the rate there?

Dominic James Adesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

The Ogden loss is a prior year event, prior period event. And that was covered in our year-end -- prior year-end reserve position. And it's the kind of thing that -- well, not specifically known at -- in the prior years, that kind of thing, our reserve analysis contemplates for things that can go wrong. So it's completely covered in that reserve position. We estimate that the -- with the current discount rate that they're applying, up to \$30 million, this is with the impact.

Elyse Beth Greenspan - Wells Fargo Securities, LLC, Research Division - VP and Senior Analyst

And that you -- that's included in how your reserves are set today?

Dominic James Adesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

Yes, absolutely.

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - VP and Senior Analyst*

Okay. And then, in terms of capital return, there was no share repurchase in the quarter. I know we also saw a slowdown at the end of 2016. When you guys are thinking through capital return right now, how do you kind of balance just the growth opportunities that you're seeing in reinsurance as well as insurance? And then just also, where, of your stock is obviously trading at a higher valuation. So can you just update us on your thought process for the first quarter as well as when you think about capital return over the balance of 2017?

Dominic James Adesso - *Everest Re Group, Ltd. - CEO, President and Non-Independent Director*

Sometimes I feel like a broken record on this one. As you know, we do not give any prediction as to what we would be doing in terms of share repurchases. But relative to the first quarter, how we were thinking about it was that, as you did see, we had significant growth, so we may be a little bit more cautious on capital return, to the point of not buying in any shares. This, coupled with the fact that we have a number of cat events that we're potentially slowing out around out there, so that was part of our deliberations. And then the third item that you made reference too, of course, was the rising stock price. While in it of itself and by itself, not the sole determinant, but along with the other factors all led us to not be purchasing any shares back in the first quarter. And none of that means that we won't be back into the market throughout the year, but again, it has to be balanced up against events that are occurring in the marketplace as well as our premium growth trajectory.

Operator

We'll take our next question from Kai Pan with Morgan Stanley.

Kai Pan - *Morgan Stanley, Research Division - Executive Director*

So first question on the insurance side, what do you think are your sort of competitive advantages that you can grow in this -- like a more challenging market condition and at the same time improving your core or your combined ratio towards your 95%, like maybe long-term target? How soon do you think you can get there?

Jonathan M. Zaffino - *Everest Re Group, Ltd. - SVP and President of the North America Insurance Division*

Kai, this is Jon. I think, our competitive position in the market is quite strong. I think this on the backs of -- we are obviously trading with the benefit of a significant balance sheet from the Everest Group, which credentials exceedingly well in a number of our chosen markets. We have been able to amass what we feel is a very distinguished talent, taking advantage of the dislocation in the market over the past couple of years. And remember, our insurance platform has been around for a while, so we have a pretty good reach in terms of different market segment, different product lines, et cetera. So as we refined our strategy and focused on the areas that we thought would contribute more to our bottom line and also help us increase our relevance with clients by providing solutions, we're now starting to see the momentum of all those actions take hold. So that's been very encouraging. As for why we feel that's going to produce better results, there's a lot of changes, so to borrow John's comment earlier, there's a lot of ins and outs here, lots of different mix, scenarios coming in. Our new businesses are -- tend to trend at a lower EOR, expect the loss ratio than we had in the past. So as those gain more scale, as we exit certain lines, such as our crop operation, which is better handled in our reinsurance side as we deemphasize a couple of other areas that had higher loss ratios, we expect that combination and mix to produce better performance than we've seen historically.

Dominic James Adesso - *Everest Re Group, Ltd. - CEO, President and Non-Independent Director*

And I think, in part, Kai, to answer that, a little bit of market disruption, along with, as Jonathan pointed out, significant capital base that is attractive to clients and brokers. But that market disruption, again, allowed us to get very capable people but also as other competitors were reevaluating their strategies, that enables us to grow certain segments faster than we might otherwise have been able to do.

Kai Pan - Morgan Stanley, Research Division - Executive Director

And can -- do you see yourself can get down to the mid 90s combined ratio next couple of years?

Dominic James Adesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

Well, one interesting point that we shouldn't gloss over is that the first quarter, while none of the events that -- the weather events, catastrophe, the PCS events that Jonathan referenced, while none of them reached our threshold for declaring them to be cats, nonetheless, we have \$15 million of weather losses in the first quarter of the insurance operation, which amounts to 4.5 points in the combined ratio for the insurance results. So as you can see, we're pretty much already where you're referencing.

Kai Pan - Morgan Stanley, Research Division - Executive Director

Okay, that's great. My second question is on the reinsurance side. So I just wonder is there any seasonality? Because now you have the crop reinsurance and the U.S. reinsurance book, that would impact your kind of second quarter and third quarter year-over-year comparison in terms of the core combined ratio.

John P. Doucette - Everest Re Group, Ltd. - President and CEO of the Reinsurance Division

Kai, it's John, there isn't that much seasonality in crop, while it's a new piece, given the move from the insurance to the reinsurance. In the grand scheme of things, it's relatively small across the overall global portfolio for the reinsurance operation. So I would say no. There's not really much seasonality.

Kai Pan - Morgan Stanley, Research Division - Executive Director

So the fourth quarter and the first quarter result should be a good indication for the coming 2 quarters?

Dominic James Adesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

You're talking in terms of loss ratio?

Kai Pan - Morgan Stanley, Research Division - Executive Director

Yes, just the overall, the core combined ratio, attritional combined ratio, because there are probably different mix between loss and the -- like commission expenses.

Dominic James Adesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

Yes, that doesn't move around all that much, because of some quarter-to-quarter. Based on our pegged loss ratios obviously, when we get to the fourth quarter, we have our reserves here in reserve review, which could impact the attrition in that quarter. I don't know that you'd refer to that as seasonality. But our earned premium is earned ratably through the year, and we book a consistent estimated loss ratio, absent any exogenous-type events.

Kai Pan - *Morgan Stanley, Research Division - Executive Director*

Great. Just a quick number of clarifications. Is the \$30 million Ogden rate impact is already including in this quarter reserve development or in the fourth quarter one? You said year-end reserve study.

Dominic James Adesso - *Everest Re Group, Ltd. - CEO, President and Non-Independent Director*

What I was referencing was that the impact of Ogden in terms of the dollar amount wasn't made known, of course, until the first quarter. But what I was referencing was that we consider that to be a prior year event, which was more than covered in our year-end reserve, where you will not specifically, of course, an item in the year-end reserve review just like many other discrete events that occur many quarters or years later frankly, when you look at reserves. The point is, is that our reserve review contemplates the fact that things can go wrong, things can happen, but you cannot specifically, identify what they might be. So our reserve review has a certain amount of conservatism built into it, or what I would describe as the fact that the point of reserve review is an unknown event. And the Ogden situation, it was a prior year event for us and well within the balance of being covered in our year-end reserve review contemplations.

Operator

We'll take our next question from Sarah DeWitt with JPMorgan.

Sarah Elizabeth DeWitt - *JP Morgan Chase & Co, Research Division - Senior Property and Casualty Insurance Equity Research Analyst*

In the reinsurance segment, I was surprised that the underlying combined ratio improved year-over-year in what's still a competitive market. Can you talk about how you're achieving this and how sustainable is that going forward?

Dominic James Adesso - *Everest Re Group, Ltd. - CEO, President and Non-Independent Director*

The simple answer, Sarah, is just the changing mix. So as -- for example, as mortgage and other credit-related opportunities, as that premium begins to form to the books, that carries a lower loss ratio, combined ratio, than which you would think about as the more traditional lines. That's frankly, the simplest example or explanation. We also have a little less quota share coming into the reinsurance book, which also helps maintain that ratio.

Sarah Elizabeth DeWitt - *JP Morgan Chase & Co, Research Division - Senior Property and Casualty Insurance Equity Research Analyst*

Okay, great. And then just a couple of numbers questions, how much does the crop reinsurance transaction contribute to the top line? And then how much is your mortgage and credit business?

Dominic James Adesso - *Everest Re Group, Ltd. - CEO, President and Non-Independent Director*

Crop was about \$50 million.

John P. Doucette - *Everest Re Group, Ltd. - President and CEO of the Reinsurance Division*

Yes, \$53 million in the first quarter.

Sarah Elizabeth DeWitt - *JP Morgan Chase & Co, Research Division - Senior Property and Casualty Insurance Equity Research Analyst*

Okay. And how big is the mortgage and credit then?



Dominic James Adesso - *Everest Re Group, Ltd. - CEO, President and Non-Independent Director*

And the total mortgage gross written premium in -- it's about \$150 million to \$200 million.

Sarah Elizabeth DeWitt - *JP Morgan Chase & Co, Research Division - Senior Property and Casualty Insurance Equity Research Analyst*

Annually? Or in the quarter?

John P. Doucette - *Everest Re Group, Ltd. - President and CEO of the Reinsurance Division*

Sorry, could you say that again?

Sarah Elizabeth DeWitt - *JP Morgan Chase & Co, Research Division - Senior Property and Casualty Insurance Equity Research Analyst*

That's an annual number or in the quarter?

John P. Doucette - *Everest Re Group, Ltd. - President and CEO of the Reinsurance Division*

Yes, that's annual.

Operator

We'll take our next question from Jay Gelb with Barclays.

Jay H. Gelb - *Barclays PLC, Research Division - MD and Senior Equity Analyst*

My first question is on the outlook for the midyear Florida renewals, where I believe you said, hoping for flat rates. I think it's pretty well understood that Citizens' insurance capacities can be down at midyear in terms of demand for reinsurance protection, but I just wanted to understand, if I have you correctly, are you saying demand from other primary writers in Florida is going to be enough to offset that?

Dominic James Adesso - *Everest Re Group, Ltd. - CEO, President and Non-Independent Director*

Well, Citizens is down because the private market has assumed much of that exposure. So the capacity will be sought from the private markets.

Jay H. Gelb - *Barclays PLC, Research Division - MD and Senior Equity Analyst*

Okay. Is there any influence, do you think at midyear, as a result of Matthew?

Dominic James Adesso - *Everest Re Group, Ltd. - CEO, President and Non-Independent Director*

We hope. We think that there could be some influence. But that all depends on how much capital has been going to the market. So look, based on the returns that the industry is producing on overall capital, we do think it suggests that rates should be flat, but there's no way for us to know what that might be right now.



John P. Doucette - Everest Re Group, Ltd. - President and CEO of the Reinsurance Division

This is John. There's also other contributing factors with the AOB issue that's out there, and that impacted people in 2016, including their capital position.

Jay H. Gelb - Barclays PLC, Research Division - MD and Senior Equity Analyst

So what's that, John?

John P. Doucette - Everest Re Group, Ltd. - President and CEO of the Reinsurance Division

The assignment of benefits. So the assignment of benefits issue that happened in -- that's been happening that has resulted in an increase in the attritional loss ratio for many of the Florida cedents. And so some of them had to go get more capital or in the process of getting more capital or raising more capital. And as you know, reinsurance is a form of capital. And so a lot of them are potentially looking to increase their buys, whether it comes -- whether that's on a quota share or an excess loss basis as well as some of the larger Florida seasons have also been diversifying outside the state. So as they've been growing, they've had natural exposure growth for their overall books of business. Their reinsurance demands to protect that book have also been increasing, and we would see that to directionally to continue.

Jay H. Gelb - Barclays PLC, Research Division - MD and Senior Equity Analyst

That's helpful. And then my separate question, Dom, in this year's annual shareholder letter, you talked about the decision to build in the insurance segment as opposed to buy, and I'm kind of glad you brought that up in the letter, hopefully, it's a pretty good jumping-off point, just to touch on it in a bit more detail.

Dominic James Addesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

You have a specific question there? I mean...

Jay H. Gelb - Barclays PLC, Research Division - MD and Senior Equity Analyst

I mean, yes, just in terms of that decision, what kind of where you see the Insurance segment going forward.

Dominic James Addesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

Well, we've had this view for a long time, and it's not because we haven't considered opportunities that are out there. And our view has been based on the fact that integration, since we had an existing operation, as contrasted with not having one at all, we felt that it was easier for us to grow our existing franchise. In the face -- acquisitions are tough because integration issues are challenged. In addition, you're not quite sure -- talent that you're getting, the legacy issues that you might be obtaining, there's a whole new different face to the market in terms of how a particular company might be presenting itself to the distribution partners. So having the ability to kind of build our message, our culture, our products or appetite, all of those things from the ground up is more attractive to us. And then, of course, coupled with many of these acquisitions as you know, are occurring at tremendous multiples, creating a lot of goodwill, but that set aside, the potential of buying businesses that have mid-single-digit ROEs. That's not -- and I'm paying premium for that. That's not all that attractive. And what we think we have done here in these short years has been to, we're steeling with the legacy issues that we had, but we think the current enforced portfolio, as I mentioned before, absent the weather losses, it's already -- that we have in the first quarter, it's already in the low to mid-single or 90s combined ratio. So I think our strategy there has proven to be, so far, a good one.

Jay H. Gelb - Barclays PLC, Research Division - MD and Senior Equity Analyst

And a final one, if I can. I -- the reinsurance performance in the first quarter was incredibly strong, especially taking into account that it was the worse first quarter for catastrophe losses in the U.S. in over 20 years, is that -- can you talk a little bit about whether that's risk management and program structure, primary companies just retaining more exposure? What -- how come we didn't see more of that impact in Everest results on the reinsurance side?

Dominic James Adesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

So it wasn't one event, right? It was many events, which for the most part, has fallen on within company retentions. Along with the fact that, as we have mentioned each quarter, for many quarters now, we keep -- we tend to keep moving up our attachment point where the most competitive part of the market has been down low. And so -- and we've been spreading our aggregate. So we've been diversifying our cat portfolio, slightly moving up an attachment point, coupled with the fact that many cedents -- as their capital bases grow, continue to retain more. So it's all of those things, not any one of them, but it's all of those things, come into play.

Operator

We'll go next to Josh Shanker with Deutsche Bank.

Joshua David Shanker - Deutsche Bank AG, Research Division - Research Analyst

Can I start with mortgage reinsurance for a second? I want to know how you think about catastrophe risk versus mortgage reinsurance risk, is it similar? And what Everest Re is modeling in terms of its exposure to a mortgage catastrophe? And two, how much business is there to be written out there? What's going to cause mortgage insurers want to see that risk in the future?

Jonathan M. Zaffino - Everest Re Group, Ltd. - SVP and President of the North America Insurance Division

Josh, it's Jon. So a couple of things. So we have been, as we've talked about in the last several calls, focused on the mortgage opportunity within a broader credit play that we're doing, but mortgage is a meaningful part of that. And we do see -- so we have focused on that, both in the underwriting side, but also and arguably more importantly, building out underwriting capabilities, analytical capabilities, ERM risk and very technical capabilities for us to be able to think about that. Really to get it, to bring it up to the level of which it has, we have done, to the level how we have been moved to best-in-class over the last several years, in the property side. So in terms of how we think about to model it, we look at it from at the macro, macro level and how it overlaps, and intercepts and correlates with our asset portfolio. We think about it on an overall economic capital model for the group. We look at it on a realistic disaster scenario. We look at it as total limits that we deploy. We think about across years, the correlation and the aggregation that can happen. And really try to focus on what the economic situation is today and where we think it will be in the future to determine how we want to play, where -- what attachment points we want to play at, how that would impact if something like the financial crisis in 2008 happen again, how our book would perform.

Joshua David Shanker - Deutsche Bank AG, Research Division - Research Analyst

So along those lines, do you -- is it normal to think that sometime next decade, there will be a mortgage cat event? And is there a way to have that occur and avoid the loss via underwriting?

Dominic James Adesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

Well, we have no idea if a loss is going to happen just like we don't know if a catastrophe loss is going to happen. We want...

Joshua David Shanker - *Deutsche Bank AG, Research Division - Research Analyst*

I can promise you a catastrophe loss will happen in next 10 years. I'm certain of that.

John P. Doucette - *Everest Re Group, Ltd. - President and CEO of the Reinsurance Division*

All right, I'm going to write that down. So but we -- we're going to build a book and have an underwriting strategy that we think will succeed based on underwriting conditions, macroeconomic conditions, pricing conditions, and we're going to adjust the book, and that's our job, that's Dom and mine and the rest of the team's job to do that to react and how we think the book will best move going forward. But we do -- we certainly manage to the idea that a loss could happen in and try to think of limits deployed in capital required in that context.

Dominic James Adesso - *Everest Re Group, Ltd. - CEO, President and Non-Independent Director*

And it's also -- also keep in mind that it's -- we tend to agree with you that you have to consider the fact that a loss can happen, but it's also where you attach, how diversified you are, there's many factors which go into what the level of loss might be. And from a realistic disaster scenario perspective, the exposure that we have to the mortgage space is relative to the property cat risk is much less and, of course, relative to our capital, it's pretty small.

Joshua David Shanker - *Deutsche Bank AG, Research Division - Research Analyst*

And I guess, one more, that -- can we expect that if you've done your homework correctly, a well-run mortgage re book should outperform primary mortgage book?

John P. Doucette - *Everest Re Group, Ltd. - President and CEO of the Reinsurance Division*

I think, there's strengths -- advantages and disadvantages of both, clearly from a -- we have decided to make a reinsurance bet on this, and that gives us the benefit of hard dollar limits, that gives us the benefit of retentions, that gives us the benefit of having a -- compared to it running an insurance operation, far less resources, both capital and people wise, so it gives us more ability to navigate the underwriting market, the market cycle that could happen. So we feel like -- we feel pretty good about how we're deploying capacity and capital and our underwriting strategy, and we'll be able to, hopefully, expand it, if the market -- the pricing and the market conditions allow, but also be in a position to dial it back if we don't think we're getting paid a good risk-adjusted return.

Joshua David Shanker - *Deutsche Bank AG, Research Division - Research Analyst*

And then quickly for Jon Zaffino, I wonder how he thinks about a 1-, 3-, 5-year plan. When you started at the beginning of '15, did you have a 3-year plan? Do you have a 5-year plan? When do you sort of -- is the checkpoints to note that the insurance business is performing in line with sort of the predicted plan on how to get this to be an important part of adversary?

Jonathan M. Zaffino - *Everest Re Group, Ltd. - SVP and President of the North America Insurance Division*

Sure, Josh. We have very much paved out a deliberate road map that aligns with what Dom mentioned before about an organic growth plan. What does that look like, what are the key milestones along that journey and how do we get there. So certainly, for us, there was a few prominent themes in that process. Number one was sort of foundationally preparing the organization for that journey, which is an ongoing every day type of exercise. Certainly looking to enhance our market relevance in the form of people and products and distribution connectivity has also been very much a part of that. And then certainly, along the path, we are going to make portfolio of selections along the way. A lot of that work has been at the forefront of our activity in the last several quarters, if not, 1.5 years or so. But remember we're still adding talent as we go here to make sure that

we continue to keep up with our growth and aspirations, so that's ongoing work. So I would say that we're very much on track. We're going to follow market opportunity where it presents itself. We don't have sort of hard dollar specific target in mind, other than we certainly see a lot of growth opportunity that we want to pursue in our chosen market. But certainly, looking to foundationally prepare, refine our operations, add the talent, increase the relevance. There's a lot of work going on day to day, which is the tactical activity that drives success on the insurance side that we are working hard at, across the board.

Operator

We'll go next to Brian Meredith with UBS.

Brian Robert Meredith - *UBS Investment Bank, Research Division - MD, Financials Research Sector Head, Global Insurance Strategist, and Senior Property Casualty Insurance Analyst*

Just a couple quick questions here. First I'm just curious, in the Bermuda segment, what was the kind of dollar figure of the true up that you had in the first quarter, just so we get a good sense of kind of what the year-over-year growth really is looking like without this true-ups? The Bermuda segment.

Dominic James Adesso - *Everest Re Group, Ltd. - CEO, President and Non-Independent Director*

Give us one second.

John P. Doucette - *Everest Re Group, Ltd. - President and CEO of the Reinsurance Division*

Yes, it was roughly about \$60 million.

Brian Robert Meredith - *UBS Investment Bank, Research Division - MD, Financials Research Sector Head, Global Insurance Strategist, and Senior Property Casualty Insurance Analyst*

Great. That's really helpful. And then, the second question, on the credit mortgage business, I'm just curious, when you think about the capital allocation to that business, how do you think about it? Are you using, call it, rating agency models? What are you using? And what is the risk here, that perhaps there's a change in the way rating agencies look at the mortgage reinsurance business to get to maybe some type of a capital requirement that's closer to a P. Myers, particularly in this quota share, would that change your kind of view of the business?

John P. Doucette - *Everest Re Group, Ltd. - President and CEO of the Reinsurance Division*

So Brian, it's John. I think, a couple of things. I think we feel like just overall, first principles that Everest, given our overall capital position and diversified book of business, we feel we're pretty capital efficient in deploying capital into areas like mortgage. We also note there has been conversations and some of the rating agencies have been looking at this fairly carefully about what the rating, how they should think about the capital required to support this book going forward. More times than not, when more capital is required, whether it's from the P. Myers or the rating agencies, that puts pressure on supply and we view that, given our strong capital position and balance sheet and ratings, we view that as positive that will drive increases in demand and put downward pressure on supply. So in terms of how we think about it, we think about it all of the above, rating agencies, what limits deployed, realistic disaster scenarios, stochastic pricing reserving, looking at it at an overall economic capital model, thinking about the assets and the liabilities and the whole balance sheet.



Brian Robert Meredith - UBS Investment Bank, Research Division - MD, Financials Research Sector Head, Global Insurance Strategist, and Senior Property Casualty Insurance Analyst

Great. And then another -- just a quick question here. Given that you're moving to more, we call it, shorter tail type of businesses, at least in the liability side, with MI and crop and stuff, is that causing any changes in your investment portfolio and kind of where you're going to be investing the proceeds?

Dominic James Adesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

Well, no, it hasn't. Our duration on the liability side really hasn't moved all that much in approximately 3 years, 4 years, and our asset portfolio was underneath that. So that has not changed significantly.

Brian Robert Meredith - UBS Investment Bank, Research Division - MD, Financials Research Sector Head, Global Insurance Strategist, and Senior Property Casualty Insurance Analyst

Great. Great. And last quick question here. Workers' comp market, I know you guys did mention that there's some dislocation of the insurance market, in general you're taking advantage of opportunities there. How about the workers' comp market, with some of the recent activity that we've seen there, any opportunities there?

Dominic James Adesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

In the insurance side?

Brian Robert Meredith - UBS Investment Bank, Research Division - MD, Financials Research Sector Head, Global Insurance Strategist, and Senior Property Casualty Insurance Analyst

Yes, insurance side, sorry. Yes.

Dominic James Adesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

Our select opportunities and we have expanded slightly some of our offerings, being expanded into some different states but only selectively into certain states. California as you know, which is our biggest comp market, very profitable for us, rates are off a little bit, but we're -- we're still very bullish on the sector, given our -- given where rates are, and we will use comp, frankly, as a competitive advantage. There's a lot of markets we compete against that don't have the comp capability and that gives us an edge to get into some other lines of business. So that's how we are thinking about.

Operator

We'll take our final question today from Nicholas Mezick from KBW.

Nicholas J. Mezick - Keefe, Bruyette, & Woods, Inc., Research Division - Associate

A year ago, you mentioned that you're not done hiring in the insurance division, and in the prepared remarks today, you mentioned due to market turmoil, you've accelerated those investments X Heartland. I see underwriting -- other underwriting expenses up about \$9 million quarter-over-quarter, where you see the notional dollar amounts going in 2017 and 2018 for the other underwriting expense?

Dominic James Adesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

I don't know that we have an answer for you on that, because it's all dependent on market opportunities. So we think about it more as an operating expense ratio. And I think where we're at today, we're lower, particularly as the earned premium begins to catch up, because our reign of ad for resources is not necessarily plateauing but not going up at the same pace that it has been over the last 18 months, as we've been building out some of these new businesses. And as these businesses have -- the premium begins to earn in, the expense ratio, all other things being equal, should moderate. And as Jonathan pointed out earlier, we will continue to make additions consistent with what we see as the growth opportunity. So it's a little difficult for us to give you a nominal dollar amount because that will emerge as opportunity emerges.

Nicholas J. Mezick - Keefe, Bruyette, & Woods, Inc., Research Division - Associate

Okay. And one of the governors to that is the sort of sub-30 expense ratio target?

Dominic James Adesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

Correct. And by the way, if it remained at 30 in the foreseeable future, again, as we pointed out before, most of our competitors aren't even close to us there. So while everyone seems to be focused on the increasing expenses, reality is, is that, where we're at today, is competitive relative to the market.

Nicholas J. Mezick - Keefe, Bruyette, & Woods, Inc., Research Division - Associate

Just a quick follow up on that last point, any overrides from the more conservative reinsurance program?

Dominic James Adesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

Do we have overrides in our reinsurance purchases? Is that what you're asking?

Nicholas J. Mezick - Keefe, Bruyette, & Woods, Inc., Research Division - Associate

Yes, that's sort of driving the expense ratio to that sub-30 target.

Dominic James Adesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

Not to any significant degree. We do have some overrides, but that's not driving.

Operator

This concludes our question-and-answer session. I'll turn it back to management for closing remarks.

Dominic James Adesso - Everest Re Group, Ltd. - CEO, President and Non-Independent Director

Well, I'll conclude by just thanking everyone for participating this morning. And as you can surmise from our prepared comments as well as some of the answers to the questions, we remain optimistic about our ability to deliver -- continue to deliver solid returns. That conservative management of our cat exposure, solid reserve position, along with an expense discipline and all of that position -- positions us to withstand what the market might bring to us. Coupled with the growth into newer product areas and our reinsurance operations as well as what's proving to be a successful



growth strategy for our insurance division, these things should continue to help us maintain our above-average returns. So thank you for your interest, and we look forward to perhaps meeting many of you in the months ahead. Thanks again for participating .

Operator

Ladies and gentlemen, thank you for your participation. This does conclude today's conference. You may now disconnect.

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