

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

RE - Q1 2014 Everest Re Group, Ltd. Earnings Conference Call

EVENT DATE/TIME: APRIL 24, 2014 / 2:30PM GMT

## OVERVIEW:

Co. reported 1Q14 net income of \$294m or \$6.21 per diluted share.



## CORPORATE PARTICIPANTS

**Beth Farrell** *Everest Re Group, Ltd. - VP, IR*

**Dom Addesso** *Everest Re Group, Ltd. - President, CEO*

**Craig Howie** *Everest Re Group, Ltd. - EVP, CFO*

**John Doucette** *Everest Re Group, Ltd. - EVP, Chief Underwriting Officer*

## CONFERENCE CALL PARTICIPANTS

**Jay Gelb** *Barclays Capital - Analyst*

**Vinay Misquith** *Evercore Partners - Analyst*

**Michael Nannizzi** *Goldman Sachs - Analyst*

**Amit Kumar** *Macquarie Research Equities - Analyst*

**Meyer Shields** *Keefe, Bruyette & Woods - Analyst*

**Brian Meredith** *UBS - Analyst*

**Ian Gutterman** *BAM - Analyst*

**Kai Pan** *Morgan Stanley - Analyst*

## PRESENTATION

### Operator

Good morning everyone and welcome to the Everest Re Group Limited first quarter 2014 earnings call. Today's conference is being recorded. At this time for opening remarks and introductions I would like to turn the conference to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead, ma'am.

---

**Beth Farrell** - *Everest Re Group, Ltd. - VP, IR*

Thank you, Augusta. Good morning and welcome to Everest Re Group's 2014 earnings conference call. On the call with me today are Dom Addesso, the Company's President and Chief Executive Officer, John Doucette, our Chief Underwriting Officer and Craig Howie, our Chief Financial Officer.

Before we begin, I will preface our comments by noting that our SEC filings include extensive disclosures and 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 those statements. Now let me turn the call over to Dom.

---

**Dom Addesso** - *Everest Re Group, Ltd. - President, CEO*

Thanks, Beth, and good morning to all. We are pleased to report another excellent quarter, which continues to improve on the trends from last year. The attritional combined ratio for first quarter improved to 80.4% from 81% for the full year of 2013.

Premium volume continues to grow, rising 7% over last year. Despite softening in the property cat market, there is still sufficient opportunities for profitable growth for Everest, given our scale and financial strength. John will get into further details in his report but, as evidenced by the improving



combined ratio, the growth has come with improving margins, which is partly the result of new products, particularly in the credit and specialty lines space.

In the property reinsurance lines, where there have been rate reductions, we continue to modify our portfolio to achieve the best risk-adjusted return. For example, in Canada, where rates were going up for property catastrophe exposed lines, we committed more capacity.

Likewise, in other territories we reduced or moved to different layers or moved to pro rata from excess. Or we wrote different types of product. Of course, we did renew accounts at reduced rates but only when they met our return hurdles. And in most regions there is still business at attractive rates. I must emphasize that the ability to diversify and remain flexible is the key to improving margins.

An additional tool that has enabled us to improve our net position is our capital market platform, Mt. Logan. This has enabled us to increase our share across many programs and bring new products to market while at the same time earn fees and profit share on the business sourced.

A key value of our global franchise is being able to marry the risk appetite of the capital markets with a global, well-diversified source of business, constructed by best in class underwriting and analytical skills. There are not many that can duplicate this value proposition.

You also, no doubt, saw that we recently came to market for a cat bond placement. This is another capital market vehicle allowing us to leverage our underwriting ability and marketing reach across a larger capital base. This transformation of our business, at least for now, is about capital management.

Capital is now available in many forms, and while this can cause us to reshape our capital structure, one thing is constant, developing business, underwriting that business, producing contracts, and paying claims. These additional forms of capital provide more options for managing our equity base and funding growth. We are flexible and adaptive to change that can add value to customers and shareholders.

You have also heard us speak about our insurance operation as another source of business that can be a diversifying risk. For these reasons we have continued to increase our emphasis in building this business out further while remaining focused on improving results. In the first quarter results, we are clearly seeing the early signs of progress with a 98.2% combined ratio. At the same time we have already expanded into new products and territories and, excluding crop insurance, which was down in the quarter, our insurance book grew 10% in the first quarter. Craig will explain the adjustment in crop premiums for the first quarter. Our crop business remains an important part of our strategy, but will face some downward pressure on the premium side in part because of the decline in commodity prices from last year.

Nevertheless, the plan is to grow our footprint, as diversification is key to developing and managing a profitable book in this sector. As we move forward, the significance of emphasizing underwriting profitability in all segments takes on even greater importance as investment income continues to come under pressure.

In the low rate environment, and in a business where asset allocation is closely followed by rating agencies, there are limited options. We were an early adopter of different asset allocation strategies, which has kept our returns amongst the best in the sector. However, given constraints we are not expecting dramatic changes from here.

Nevertheless, we will continue to be active but prudent in terms of allocation. Despite these head winds, whether it is a tough rate environment, third party capital or declining investment income, we had another terrific quarter with net income of almost \$300 million and return on capital of 17%, and would expect this to continue through the remainder of the year absent any significant events.

With these results and our focus on managing capital, we were pleased to be able to return to shareholders \$285 million in the first quarter through share repurchase and dividends. This is a record for us in any one quarter.

We are committed to returning capital consistent with the needs of the business. Thank you. And now to Craig for the financial highlights.



**Craig Howie** - Everest Re Group, Ltd. - EVP, CFO

Thank you, Dom, and good morning, everyone. We are pleased to report that Everest had another strong quarter of earnings, with after tax operating income of \$281 million or \$5.93 per diluted common share for the first quarter of 2014.

This compares to operating income of \$301 million or \$5.88 per share for the first quarter of 2013. Net income for the first quarter was \$294 million or \$6.21 per diluted share compared to \$384 million or \$7.50 per share in 2013.

Net income includes realized capital gains and represents an annualized return on equity of over 17%. These results were driven by a solid underwriting result, offset by lower net investment income compared to the first quarter of 2013.

The results reflect the continued improvement in the overall current year attritional combined ratio of 80.4%, down from 80.7% at the first quarter of 2013, and down from 81.0% at year end 2013. This measure excludes the impact of catastrophes, reinstatement premiums and prior period loss development.

The total reinsurance attritional combined ratio was 77.3% compared to 76.8% in the prior year first quarter. The slight increase in this ratio for the reinsurance portfolio was anticipated after the January 1 renewals and with the additional pro rata business written.

The insurance segment attritional combined ratio was 97.2% compared to 98.5% in the prior year. However, eliminating the effects of the primary crop book, this ratio would have been 92.8% compared to 95.9% in the prior year.

All segments reported underwriting gains for the quarter. Neither this year nor last year included any catastrophe losses in the first quarter. Total reinsurance reported an underwriting gain of \$215 million for the quarter compared to a \$210 million underwriting gain last year.

The insurance segment reported an underwriting gain of \$4 million for the quarter compared to an underwriting gain of \$193,000 last year. Each year reflected an underwriting loss for crop insurance in the first quarter due to the seasonality of crop premium.

Earned premium for crop insurance declined \$17 million in the first quarter of 2014 compared to last year. The estimated premium was adjusted to reflect the lower than expected premium for the winter crop season due to the reunderwriting of the book and commodity price reductions year over year.

Based on current prices we expect the crop premium to decline for the full year of 2014 as well compared to 2013. Mount Logan Re's financial position and operating results were consolidated into Everest beginning July 1, 2013. These results were included in a separate segment and reflected a \$10 million underwriting gain in the first quarter of 2014.

Everest retained \$2 million of income and \$8 million was attributable to the non-controlling interests of this entity. The overall underwriting gain for the group was \$228 million for the quarter compared to an underwriting gain of \$210 million in the same period last year.

Our reported combined ratio was 80.0% for the quarter compared to 80.7% in 2013. Our low expense ratio of 4.4% continues to be a major competitive advantage.

On reserves, our overall quarterly internal reserving metrics remain favorable. For investments pre-tax investment income was \$123 million for the quarter on our \$16.8 billion investment portfolio. Investment income declined \$23 million from one year ago.

This decrease was primarily driven by the decline in the limited partnership result for the quarter, although low reinvestment rates and capital used to redeem stock and debt also contributed. Limited partnership investments resulted in a loss of \$2 million for the quarter compared to a \$17 million gain in the first quarter of 2013.

Our existing limited partnership portfolio is fairly mature and we're starting to see a decline in current gains coming from these investments. Despite the declining rates our investment portfolio continues to perform well.

The pre tax yield on the overall portfolio was 3.1% with a duration of just over three years. The quarter reflected \$13 million of net after tax realized capital gains compared to \$83 million last year. These gains are mainly attributable to fair value adjustments on the equity portfolio. There were \$2 million of derivative losses during the first quarter compared to \$15 million of derivative gains last year.

This is related to our equity put options and is a function of the change in interest rates during the first quarter. On income taxes, the 13.8% effective tax rate on operating income, is in line with our expected tax rate for the year. Stable cash flow continues with operating cash flows of \$367 million for the quarter compared to \$259 million in 2013.

This is despite the high level of catastrophe loss payments over the past few years. Shareholders equity for the group was \$7 billion at the end of the first quarter, up \$69 million from year end 2013. This is after taking into account capital returned through the \$250 million share buy backs and the \$35 million dividends paid in the first quarter of 2014.

Book value per share increased 4% to \$152.80 from \$146.57 at year end 2013. Our strong capital position leaves us with capacity to maximize our business opportunities as well as continue share repurchases. Thank you. And now John Doucette, our Chief Underwriting Officer, will provide the operations review.

---

**John Doucette** - Everest Re Group, Ltd. - EVP, Chief Underwriting Officer

Thank you, Craig. Good morning. As Dom highlighted we had a strong start to the 2014 year. Our group first quarter 2014 gross written premium was \$1.3 billion, up \$90 million from Q1 of last year, with growth coming predominantly from US reinsurance and international reinsurance.

For our reinsurance segments, total reinsurance gross written premium, including Logan, was \$1.04 billion for the quarter, up 12% from Q1 last year.

As mentioned on the last earnings call, we continue to benefit from a flight to quality, rolling out new products, expanding our relationships with some larger clients and writing US property exposures domestically as we leverage the competitive advantage of our high ratings and significant capacity.

We have continued to make progress in our multi line initiative in the USA, developing new relationships and broadening existing relationships with multi line clients, as underwriters' relationships with those clients go back for many years, sometimes decades.

In Q1 we also deployed capacity on several short tail quota share treaties at terms we found attractive, expanded our Purple writings, and continued to deploy capacity this quarter in credit-related opportunities. Total reinsurance, including Logan, bottom line we had a very solid quarter with underwriting profits of \$225 million, up 7% compared to last year Q1 underwriting profits.

Now some color on April 1 insurance renewals. For our overall reinsurance book we grew our global property gross written premium and continued to see dollar margin expansion in the overall book at 4/1 compared to last year with the combined ratio and the expected risk adjusted returns remaining flat from the prior period.

This demonstrates the strength and the diversification of our business. That said, specifically for Japan, our premium dollars in Japan were down from last year due to the following reasons: the continued consolidation trend among our long-standing clients, resulting in merged reinsurance treaties and, in some cases, less pro rata premium; Japanese exchange rates caused a decrease in gross written premium in US dollars; and rate decreases on Japanese excess of loss treaties of 10% to 15%.

Turning to our overall casualty reinsurance book globally, while primary rates remain attractive, ceding commissions on casualty quota share treaties are still under pressure.

Therefore, we remain cautious of deploying capacity on risks which appear to have heavy competition. Nonetheless, we continue to find new insurance and reinsurance products and new deals where we can and will deploy our capacity at attractive risk-adjusted rates.

Through the first quarter and at 4/1, we continue to roll out and utilize Mt. Logan Re and saw these benefits at each renewal, as it allowed us to deploy larger lines on attractively priced treaties and provide more capacity to targeted clients while containing our PMLs.

We are pleased to report that with additional capital raised at 4/1, Logan is now in excess of \$400 million in AUM. And, again, 100% of the Logan capacity is fully deployed.

This success continues to highlight the significant value proposition we bring to our capital market investor partners in Logan while being completely seamless to our clients, who continue to deal with the same core reinsurance trading partner, Everest, as they have for many years.

This smooth, flexible deployment of capacity to our clients has helped us secure better signings on many non-cat exposed classes, as more of our clients look to have broader and deeper relationships with fewer, high quality reinsurers. In addition to Logan, we have initiated other PMLs and capital management strategies.

As Dom mentioned we recently obtained \$450 million of fully collateralized catastrophe reinsurance coverage funded in the cat bond markets. This coverage was purchased through Kilimanjaro Re across two layers.

One layer is in an occurrence based deal providing tail protection for southeastern USA wind risk, and another layer is an aggregate cover providing tail protection for all natural perils in the US and Puerto Rico as well as British Columbia earthquake risk in Canada.

The combination of Logan, cat bonds and other reinsurance and retrocessional protection from both traditional and alternative markets allows us to match our portfolio of risks to the best capital structure. This, in turn, allows us to broaden our product offerings and our value proposition both to our clients and to our shareholders.

With this flexibility on how and where we deploy our underwriting capacity, combined with flexibility of the form of our capital structure to manage those same risks, we believe we can and will continue to improve our risk adjusted returns and improve our cost of capital.

In the end we are pleased with our Q1 reinsurance results and continue to nimbly identify, execute and deploy capital to profitable opportunities across the global reinsurance market.

Turning to our insurance operations, our premium was \$230 million in Q1 down from last year's Q1 gross written premium of \$250 million.

However, this decrease is primarily driven by premium adjustments for Heartland's crop book for the reasons which Craig mentioned. Stripping out Heartland premium, our insurance operations GWP is up 10% year-over-year for Q1 with most other insurance segments showing growth, reflecting the impact of the initiatives we have put in place over the last couple of years.

We continue to see profitable growth opportunities in many areas, and we have been successful growing in those areas that we have targeted, including non-program workers comp, casualty, specialty lines, property E&S and DIC, non-standard auto, and accident and health.

We continue to see primary rate improvements in almost all insurance segments. However, we have seen some weakening in some of the professional insurance lines where we remain cautious in our deployment of capacity.

Our California workers comp book saw an average of 8% rate increases in the first quarter, continuing the significant rate increases for the last several years, providing a compound rate increase in excess of 60% over the last five years.

We continue to see profitable growth and positive rate increases in our property E&S and DIC books and see that footprint expanding throughout the rest of 2014, as primary rates have been holding across this book. Bottom line, our reported insurance results were positive with a 98% combined ratio for the first quarter.



And after eliminating the effects of Heartland, the combined ratio was 94%, down two points when viewing Q1 2013 on a comparable basis. We are pleased with the underlying trends in our insurance book as we begin to see the positive results of our initiatives over the last several years, with noted improvements in both loss ratios and expense ratios.

In summary, around the globe we are viewed not only as a lead re-insurer in all P&C lines of business but also as a creative problem solver, and we continue to be given the opportunity, with our broker partners, to structure new deals, new products, and alternative solutions for many of our corporate and insurance clients.

Thus, we remain very bullish on our future. Thank you. And now back to Beth for Q and A.

---

**Beth Farrell** - Everest Re Group, Ltd. - VP, IR

Yes, Augusta we are open for questions now.

---

## QUESTIONS AND ANSWERS

### Operator

Thank you. The question and answer session will be conducted electronically. (Operator Instructions). Our first question will come from Jay Gelb of Barclays.

---

**Jay Gelb** - Barclays Capital - Analyst

Thank you. The insurance segment, with the 94 combined ratio in the first quarter, would you anticipate -- is that the right run rate we should anticipate for the rest of the year, barring any unusual items?

---

**Dom Adesso** - Everest Re Group, Ltd. - President, CEO

Jay, this is Dom. That certainly would be a reasonable assumption. It could improve from there, due to continued improvement in California comp -- but that's a reasonable assumption.

---

**Jay Gelb** - Barclays Capital - Analyst

Including the crop book? Would it be a couple of points higher all in?

---

**Dom Adesso** - Everest Re Group, Ltd. - President, CEO

The crop book, actually for the year, we're still anticipating, at this point, mid 90's combined. So it's a low 90's combined, depending on the outcome of winter wheat. But, generally, we're expecting the overall number to gravitate towards the mid 90's on an accident year basis.

---

**Jay Gelb** - Barclays Capital - Analyst

The next issue is on partnership income. Craig, I think you mentioned that we're -- part of the decline was reflecting in the book seasoning. So just trying to get a perspective on the remaining quarters, maybe what we should be penciling in in terms of partnership returns.



---

**Craig Howie** - Everest Re Group, Ltd. - EVP, CFO

Well, as I said, we're starting to see a slight decline because they're becoming fairly mature. But as you noticed even over the last several quarters it has started to come down. This quarter we happen to have one partnership that threw off a loss of over \$5 million, which is what was driving the \$2 million loss in the quarter. But it has been coming down over the last several quarters.

---

**Jay Gelb** - Barclays Capital - Analyst

Right, so in the back half of last year when it was running in that \$5 million --

---

**Craig Howie** - Everest Re Group, Ltd. - EVP, CFO

\$5 million per quarter. I think that's probably a better estimate, Jay.

---

**Jay Gelb** - Barclays Capital - Analyst

Okay, that's helpful. Then Dom, do you have any thoughts or commentary on the recent movement we see in Bermuda between Endurance and Aspen? Does that change your view at all on M&A in Bermuda or are you anticipating any increase in consolidation beyond that transaction?

---

**Dom Adesso** - Everest Re Group, Ltd. - President, CEO

Well, I didn't expect that question right out of the gate but I think -- first of all let me just say it certainly would be inappropriate for me to comment on the transaction per se. And I know that's not what you're asking about.

But, clearly, I think that as we've been discussing in some of our opening comments, we have benefited, for example, by our scale and our strength in the marketplace and our capital position. And I think, in part, this transaction or transactions like this are, in fact, an attempt to achieve a different level of scale in the marketplace.

So it doesn't surprise me, not particularly this transaction, but that we would see transactions like this bubble up in the marketplace for that reason. I really -- the other reasons I really wouldn't be in a position to comment on but I do think that's, in part, what's driving this particular idea, and perhaps ideas like this in the future.

---

**Jay Gelb** - Barclays Capital - Analyst

I appreciate that. Thank you.

---

**Operator**

Our next question will come from Vinay Misquith of Evercore.

---

**Vinay Misquith** - Evercore Partners - Analyst

Hi. Good morning. So first just a numbers question. Curious how much was the crop insurance negative adjustment. I believe you mentioned \$17 million. So was that for the (inaudible) premiums? So was the adjustment \$17 million or was the premiums down \$17 million?



---

**Craig Howie** - Everest Re Group, Ltd. - EVP, CFO

The earned premium was down \$17 million. The net premium that was written is down \$30 million for the quarter.

---

**Vinay Misquith** - Evercore Partners - Analyst

I'm sorry. And what was the impact of just the adjustment? Was that the entire \$30 million? Sorry.

---

**Craig Howie** - Everest Re Group, Ltd. - EVP, CFO

Down \$15 million.

---

**Vinay Misquith** - Evercore Partners - Analyst

Okay. So down \$15 million. Okay, fine. Second is we've seen that Citizens has up sized its cat bonds significantly. What do you think is going to happen on the renewals for Florida?

---

**Dom Adesso** - Everest Re Group, Ltd. - President, CEO

Well, certainly, there's downward pressure in the overall property cat space, depending on the territory. And given the -- how well that market is still priced we certainly would expect that pressure to carry over into Florida. In terms of a prediction as to how much, well, we'll just have to wait and see. We're not prognosticating at this point.

But for us, we write, on at XOL basis, about \$130 million in Florida, and then the remainder of our exposure is on a pro rata basis.

As we said, again, in our opening comments, if rates are down but still meet our return hurdles, yes, we may do some -- continue in XOL but it'd more likely be that perhaps we would shift some of our capacity to quota share. And, again, it depends on what the market is willing to give us come this June.

---

**Vinay Misquith** - Evercore Partners - Analyst

Okay, that's helpful. Just one last numbers question. I believe that (technical difficulty) tax rate is 13.8%? Did I hear that correctly? That you expect -- and I believe you mentioned that you expect that for the entire year. Historically I thought it was between 12% and 13%. Curious why you expect a higher tax rate for this year. Thanks.

---

**Craig Howie** - Everest Re Group, Ltd. - EVP, CFO

13.8% is an effective tax rate that we would expect for the year. That rate could go even go up from there, as we've talked about in the past, specifically on the last quarter call, that if there are no catastrophes for the year, that rate could go up. That's with an expected amount of catastrophes for the year.

---

**Vinay Misquith** - Evercore Partners - Analyst

Okay. Thank you.



---

**Operator**

Our next question --

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

Keep in mind. Keep -- excuse me, one other point. Keep in mind that, in your assumptions, that rate does have to move with cat losses. You can't take the rate up without taking cat -- expected cat losses down.

---

**Craig Howie** - *Everest Re Group, Ltd. - EVP, CFO*

Correct.

---

**Operator**

Thank you. We'll go next to Michael Nannizzi of Goldman Sachs.

---

**Michael Nannizzi** - *Goldman Sachs - Analyst*

Thanks. Would it just -- I know we -- it sounds like we got some pieces for a crop. But would it be possible just to get 1 Q premium for crop and then the combined ratio for crop for the first quarter?

---

**Craig Howie** - *Everest Re Group, Ltd. - EVP, CFO*

1Q premium for crop was minus 15m for gross written premium.

---

**Michael Nannizzi** - *Goldman Sachs - Analyst*

Okay.

---

**Craig Howie** - *Everest Re Group, Ltd. - EVP, CFO*

And -- I'm sorry, your second question was?

---

**Michael Nannizzi** - *Goldman Sachs - Analyst*

The earned -- the earned premium or -- the earned premium that rolled into revenues.

---

**Craig Howie** - *Everest Re Group, Ltd. - EVP, CFO*

The earned premium that you would see in the first quarter for crop is only about \$2 million.

---



**Michael Nannizzi** - *Goldman Sachs - Analyst*

Okay, got it. Great. Thanks. And then a question about the California comp book. Can you talk about the -- so the rate you took in -- remind us what the rate you took in 2013, and where the loss trend was there and where you're booking comp today on an action year, on initial type basis?

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

I'll let Craig give you the last year information. But right now for California comp, on an accident year basis, we're in the mid 90's.

---

**Michael Nannizzi** - *Goldman Sachs - Analyst*

On accident year combined?

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

Yes.

---

**Michael Nannizzi** - *Goldman Sachs - Analyst*

Okay. Got it. Great.

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

I don't know if Craig is looking for some of the information.

---

**Michael Nannizzi** - *Goldman Sachs - Analyst*

Okay. Great. And then if I could just ask one more. So in Bermuda is it possible to know, and I realize it's a blended book and probably there's some -- there's some composition change to it but is it possible to get an idea of what the year-over-year change in pricing a rate was in that book?

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

You're talking about --

---

**Michael Nannizzi** - *Goldman Sachs - Analyst*

Roughly.

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

What, property cat?

---

**Michael Nannizzi** - *Goldman Sachs - Analyst*

Well, just a --



**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

Bermuda is a mixture of property and casualty so it's a little tough to answer that question.

---

**Michael Nannizzi** - *Goldman Sachs - Analyst*

Let me get to the basis of my question then. So the part that I'm trying to understand is the attritional loss ratio was flat-ish year over year, and it's been down on a year-over-year basis over the last few quarters.

I'm just trying to understand just given, generally, that there's been some pressure on reinsurance pricing, how does that factor in? Because if it were just typical primary insurance or something very simple, you have reductions in pricing that would cause your combined ratio to rise.

But it seems like we've absorbed, as a market, some declines in pricing but that attritional ratio has been flat. I'm guessing there's some mix change in there or something. I'm just trying to reconcile that.

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

It's exactly that. It's mix change. We They can move in and out of retro business. Depending on what we do out of London and some of those transactions, it's essentially mix change which is driving it.

---

**Michael Nannizzi** - *Goldman Sachs - Analyst*

So is it fair to assume, then, if all else is equal, if you have this environment and you have mix change, which allows you to keep your attritional flat, does that mean that you're taking more risk per unit of premium that you're collecting?

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

Well, keep in mind that on a gross written basis Bermuda was down year over year.

---

**Michael Nannizzi** - *Goldman Sachs - Analyst*

Yes.

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

And I think it's a reflection of, when you say a mix change, what we said in our opening comments we'd like to emphasize over and over that we have the capacity, the willingness and the ability to actually change our mix, and move from one class of business to another, one layer to another, always trying to achieve the best risk adjusted return.

So that's really what we're striving to do. And at times you will see a segment, like Bermuda, for example, perhaps slip in premium because we're backing away from certain classes of business that aren't giving us the right return.

---

**Michael Nannizzi** - *Goldman Sachs - Analyst*

If we're in an environment where -- if there continues to be -- if there continues to be challenges in the reinsurance part of it, is it possible to just keep that attritional loss ratio flat even with pressure? Just -- or are there some limitations of mix that will cause, at some point, that attritional loss ratio to start to rise?

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

There's always those, those -- that potential. And it all depends on how fast and how far rate decreases are, and what we back away from in terms of business that doesn't meet our return hurdle. So, yes, if you want to continue to write the same book of business year in and year out, yes, attritionals will -- will rise.

On the other hand if you move into different -- new products, different geographies, change attachment point, use the capital markets, potentially -- there are lots of ways in which we can maintain our profitability throughout a difficult -- what you're describing as a difficult market.

---

**Michael Nannizzi** - *Goldman Sachs - Analyst*

Great. Thank you very much for answering my questions. I appreciate it.

---

**Operator**

We'll go next to Amit Kumar of Macquarie.

---

**Amit Kumar** - *Macquarie Research Equities - Analyst*

Thanks, and good morning. Just a few quick follow-up questions. First of all going back to the Florida piece, you mentioned that your XOL premium is \$130 million. Is the remainder \$17 million or so or did I -- am I thinking of the total Florida book wrong?

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

Our Florida pro rata premium is -- it would be --

---

**John Doucette** - *Everest Re Group, Ltd. - EVP, Chief Underwriting Officer*

It would be another couple hundred million dollars.

---

**Amit Kumar** - *Macquarie Research Equities - Analyst*

Okay.

---

**John Doucette** - *Everest Re Group, Ltd. - EVP, Chief Underwriting Officer*

Or in total -- sorry, in total it would be about \$280 million, roughly. That's XOL and pro rata.

---



**Amit Kumar** - *Macquarie Research Equities - Analyst*

Got it. That's helpful. The follow up to that point is I think last year you had talked about getting preferential signings, you had talked about private layers, the (inaudible) deals. Are you seeing that phenomenon for Everest this year, too, or is it much different?

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

I'll let John answer that.

---

**John Doucette** - *Everest Re Group, Ltd. - EVP, Chief Underwriting Officer*

Yes. This is John, Amit. Yes, we are. We're seeing that opportunity. In some cases private layers. In some cases, clearly, at 1/1 and 4/1 preferential signings.

But also new products. There are new layers, new products with -- with existing clients and new clients. And that answers the prior question about attritional losses as well.

It's our job to figure out how to make money no matter what market we face. And, yes, we are seeing the opportunities where we're one of the biggest broker markets in the world. And we are getting better and better signings from brokers and clients working with the brokers.

---

**Amit Kumar** - *Macquarie Research Equities - Analyst*

And then when you mention new clients, are these the smaller new take-out entities? Who exactly are these new clients?

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

We're not talking just Florida here. We're talking across our entire portfolio globally. So it's new clients globally. It's an expansion of existing clients across the world.

---

**John Doucette** - *Everest Re Group, Ltd. - EVP, Chief Underwriting Officer*

Specifically in Florida, Amit, we have relationships with almost 40 companies, and we see every deal that comes into the market, and we have been trading with many of those clients for many, many years. And we do have relationships that are not broadly marketed.

---

**Amit Kumar** - *Macquarie Research Equities - Analyst*

Got it. That's quite helpful. Another question that is I think is a follow up to Mike's question on California comp. Did you see any changes in loss cost trends over the past quarter?

There has been, obviously, a lot of debate, a lot of reports that have come out on the impact of SB 863. And it seems that that impact varies from the companies present in the marketplace. Did you see any changes in your book or has it been a steady state from 2013?

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

We have not yet seen any changes. I'm not saying they're not out there, but we've maintained -- and actually we didn't answer Mike's question earlier about loss cost trend. We build loss cost trend into our reserve projections.

And that's typically, depending on classes, in the mid to high-single digit range. So that's built into our reserve assumptions. And so far that has been sufficient, clearly, in the most recent accident years. The reserve development we saw in the fourth quarter of last year was primarily older years.

---

**Craig Howie** - Everest Re Group, Ltd. - EVP, CFO

And the answer to Mike's question was the rate increase for 2013 was 13%. And we were running in the 96% range last year on an accident-year basis.

---

**Amit Kumar** - Macquarie Research Equities - Analyst

Got it. Final question --

---

**Dom Adesso** - Everest Re Group, Ltd. - President, CEO

So just to follow up on that, you can see that the, well, the ratio -- the combined ratio has not improved to the level of rate increases, which means that we're taking some of that, obviously, into loss cost trend. Probably more than is necessary at this point but conservative.

---

**Amit Kumar** - Macquarie Research Equities - Analyst

That's good. The final question. Probably a follow up to Jay's initial question. As you look at your growth prospects, you have Purple, you have Mt. Logan, you've talked about different new products. And I'm curious, as you look out how do you look at organic growth versus outside opportunities to add to the portfolio?

---

**Dom Adesso** - Everest Re Group, Ltd. - President, CEO

What's the distinction that you're making between organic growth and outside opportunities?

---

**Amit Kumar** - Macquarie Research Equities - Analyst

What I'm trying to ask is, based on all the changes that we have seen recently, is it fair to say that, probably, you don't need to look at other entities at this juncture?

---

**Dom Adesso** - Everest Re Group, Ltd. - President, CEO

Ah. Okay. I'm sorry. For right now we do not need to do that. And, in fact, a growth strategy, at least for us, would never be built on an acquisition.

It doesn't mean that we don't look at many things because, as you can well imagine, everyone calls us when there is a potential deal out there. But we do not build our growth strategy off of an acquisition.

We prefer, frankly, to build from within. So we don't have to deal with legacy issues, integration issues and, nine times out of ten, there's limited strategic value to many of the opportunities that we see.



**Amit Kumar** - *Macquarie Research Equities - Analyst*

Got it. That did answer my question. Thanks. Thanks for the answers, and good luck for the future.

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

Thank you.

---

**John Doucette** - *Everest Re Group, Ltd. - EVP, Chief Underwriting Officer*

Thank you.

---

**Operator**

Our next question will come from Meyer Shields of KBW.

---

**Meyer Shields** - *Keefe, Bruyette & Woods - Analyst*

Thanks. Dom, you talked earlier about the tendency of ceding commissions to go up now. Is that trend varying by the size of the cedant? Was that different now than it was five or ten years ago?

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

That was John that spoke to that. And I don't know that (inaudible) seeing anything differently by size of the customer.

But, certainly, it can be influenced by the size of the transaction, given that there might be some that are hungrier for premium. That would be the only comment I would make about that.

---

**John Doucette** - *Everest Re Group, Ltd. - EVP, Chief Underwriting Officer*

And, obviously, this is John, it, obviously, is also reflective of the client's individual experience. So a lot of cases that are -- whatever class of business they're in, if there's been bad results we see ceding commissions going down.

If there's been catastrophes (inaudible), including pro rata deals, ceding commissions go down. So, really, it's both the macro and the micro situations that drives these.

---

**Meyer Shields** - *Keefe, Bruyette & Woods - Analyst*

Okay. That's helpful. Thank you. And very briefly, is there a good proxy we can use for limited partnerships?

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

Well, in the past we have guided people to just the general equity markets, and I think we probably still would say that that is as good a proxy as you can get. And I think it points to what Craig mentioned earlier in response to another question, that limited partnerships were quite strong last year. But that's kind of in line with the general equity markets were strong last year.



And, conversely, the equity markets in the first quarter of this year were not quite as strong, they were flat-ish. And I think that's consistent with our limited partnership experience except for the one -- in our particular case, there was one LP which was distorting, I think, what we would otherwise normally have expected for the quarter.

And that -- we would not expect that going forward. So I would say that the best proxy you can use is the general equity market -- public equity market.

---

**Meyer Shields** - *Keefe, Bruyette & Woods - Analyst*

Okay. Fantastic. Thank you very much.

---

**Operator**

Our next question will come from Brian Meredith of UBS.

---

**Brian Meredith** - *UBS - Analyst*

Yes, a couple of quick questions. The first one, and my apologies that I missed it, but in the insurance segment, operating expenses were down about 13% year-over-year. Was there something unusual that happened there?

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

Just good stewards on the incentive package. No, in part it's premium growth. And, frankly that's most of it. And maybe some internal allocations but nothing dramatic other than premium growth.

---

**Brian Meredith** - *UBS - Analyst*

(Inaudible) but the actual expenses were down 13% year-over-year. The allocation.

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

That would be driven by allocation. Are you including commissions in that?

---

**Brian Meredith** - *UBS - Analyst*

No.

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

That would just be allocations, then.

---

**Brian Meredith** - *UBS - Analyst*

Okay. Thanks. And then, Dom and John, I wonder if you can just update -- or not update but remind us what your thoughts are on Watford Re and then there are a bunch of other companies that are looking into these potential type of facilities.

What interest level would Everest have in potentially doing something like that, and what do you think the potential impact is on the casualty and return markets?

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

Well, yes, to answer one of your questions, is that we are looking at that, as I think probably most of our peer (inaudible) are doing. We haven't yet determined where we're going with -- we have not yet concluded on that analysis yet.

And generally it'd certainly cause one to think that it could soften the casualty reinsurance market further from where it is now. On the other hand, the types of transactions that are likely to go into these types and into these facilities are not generally -- they're generally already tend to be lower margin type business, lower volatility associated with the class of business that fit these structures.

And so it may not have as dramatic an impact as has been prognosticated by many on the overall [casualty] markets. That remains to be seen. I'm not sure that any of us really know for sure where that all ends up, but it is something we're looking at.

And, in fact, it can create interesting opportunities for ceding companies, frankly, that -- to help (inaudible) their cost to capital on a transaction. And may, in fact, [create] opportunities into the reinsurance market space that don't exist today. Where the casualty space (inaudible) a lot of companies are holding on, are ceding less business, increasing nets.

Some of these ideas can, in fact, create transactions that can help their PML or balance sheets, and perhaps a reinsurer can add value and then see premium go up in this space. There's a lot of -- there's a lot of possibilities that can come out of these structures. But we are examining that very closely.

---

**Brian Meredith** - *UBS - Analyst*

Great. Thanks for the answers.

---

**Operator**

We'll go next to Ian Gutterman of BAM.

---

**Ian Gutterman** - *BAM - Analyst*

Hi. Good morning. A few different questions on different parts of your cat book. Just to follow up on the Florida question from earlier. Obviously, we see rate pressure on XOL, which was mentioned.

You talked about your quota share book. Can you talk -- I assume that the upward pressure on ceding commissions is quota share, too. Is that fair? Can you give us sense of how you think about that?

---

**John Doucette** - *Everest Re Group, Ltd. - EVP, Chief Underwriting Officer*

Again, there are many, many, many moving parts to it. There's the current [summit], ceding commissions. To the extent -- we saw this phenomenon last year -- to the extent that there was -- to the extent that the reinsurance buy was down from some of our clients resulted in more attractive combined ratios, including ceding commissions to the reinsurers.

So we -- as we talked about on the last couple of call, we wrote more pro rata business last June. We also wrote more pro rata business at 1/1. We wrote another \$50 million, \$55 million of property pro rata at 1/1. And, again, the -- across our book, the combined ratio, globally, improved.



---

**Dom Adesso** - Everest Re Group, Ltd. - President, CEO

And I wouldn't expect that the same dynamics that are effecting the XOL market from the introduction of third party capital to have as dramatic an impact on the pro rata market. That, I think, is what you're getting at.

---

**Ian Gutterman** - BAM - Analyst

Yes, exactly. Okay. Great. And then as a follow up to that on the XOL side. Given the talk on how much rates will fall this year, do you feel like we're approaching the bottom? Are we near people's walk away price? Or if there is another no-loss year and there is still abundant capacity next year, can Florida rates go down another double digits or are we getting close to the walk away point?

---

**Dom Adesso** - Everest Re Group, Ltd. - President, CEO

I don't know the answer to that question. Certainly, if it were to go down to your question, again this year and again next year it certainly would be getting very, very close to our walk away point.

---

**Ian Gutterman** - BAM - Analyst

Okay.

---

**Dom Adesso** - Everest Re Group, Ltd. - President, CEO

(Inaudible) But, again, remember that it doesn't mean that we don't participate in that market through our platform. If capital markets are willing to come down to those levels then we have the capacity that we can deploy in that fashion, move, again, to more pro rata.

And so we could still stay very, very active in the marketplace and move to other products, move to different attachment points. Perhaps write the business and use the capital markets as a reinsurer. So there are many ways in which this can play out to our benefit, frankly, going forward.

---

**Ian Gutterman** - BAM - Analyst

Got it. That actually leads into the next question on the cat bond -- I was just confused and maybe this was just nomenclature or something that I don't quite follow. But your PML for U.S. wind is at, I think, \$1.2 billion at the one in one hundred.

The cat bond on the index referenced had a \$1.4 billion to a \$2.1 billion index loss that equated to a one in forty five to a one in close to one hundred. So on the occurrence is what I'm, obviously, talking so that it could be comparable.

I was curious why in an index loss at the one in one hundred is \$2.1 billion when your PML one in one hundred is \$1.2 billion. Are they not comparable for some reason?

---

**John Doucette** - Everest Re Group, Ltd. - EVP, Chief Underwriting Officer

Yes. This is John. Basically, that's -- the Kilimanjaro cat bond, the mechanics of that really reflects -- it's basically is taking for the occurrence one is southeast states, and it basically is taking industry loss events because it's a PCS trigger, it's taking industry loss events and then there's, effectively, market shares buy each of those states.

And so it's taking a very big loss and then scaling it down -- or a range of big losses and then scaling it down for the market share. So those are -- the short answer is those are two different things. Our PMLs and how the mechanics of the bond responds.

---

**Ian Gutterman** - *BAM - Analyst*

Okay. That's (inaudible). That's what I was trying to get at. And then --

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

I think, I think -- Ian, the bottom line is the -- that purchase of that bond did reduce our PMLs at one in one hundred --

---

**Ian Gutterman** - *BAM - Analyst*

That (inaudible). Basically the \$2.1 billion equates to your \$1.2 billion, is that the right way to think about it?

---

**John Doucette** - *Everest Re Group, Ltd. - EVP, Chief Underwriting Officer*

It's not -- the \$1.2 billion is one point on the curve.

---

**Ian Gutterman** - *BAM - Analyst*

Okay.

---

**John Doucette** - *Everest Re Group, Ltd. - EVP, Chief Underwriting Officer*

The reinsurance repurchased through the special purpose vehicle, Kilimanjaro, that then issues the cat bond is not one point on the curve. It's across the distribution.

---

**Ian Gutterman** - *BAM - Analyst*

Okay, got it. Okay. And then just real quick on Mt. Logan, I was -- the \$36 million of gross premium, just knowing the capital deployed is a little over a 10% [rate] (inaudible). My math is correct? Is that right? \$36 million over \$300 something?

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

But remember the \$400 million -- be careful, though. The \$400 million that we cited as now assets under management, that's a recent number.

---

**Ian Gutterman** - *BAM - Analyst*

Right. I was using, I think, it was \$320 million earlier in the year maybe?

---

**John Doucette** - *Everest Re Group, Ltd. - EVP, Chief Underwriting Officer*

There's also an accounting recognition of the premium. Over 2014 we would expect it to be higher and more ceded premium in each of the quarters, going forward, against that capital base.



**Ian Gutterman** - *BAM - Analyst*

Okay. What I was getting at is I thought normally for (inaudible) collateralized you need closer to a 20% rate aligned to make the math work. Is that generally accurate?

---

**John Doucette** - *Everest Re Group, Ltd. - EVP, Chief Underwriting Officer*

I think we're trying to build the most (inaudible) that is maybe different and better than what is out there, and I think the fact that we've been able to go from zero to \$400 million in a relatively short amount of time highlights that we may have a better mouse trap than others who are out there.

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

But I do think, though, the simple arithmetic that you were trying to do is probably a bit low.

---

**Ian Gutterman** - *BAM - Analyst*

Got it. Okay. I'll follow up on that one offline, too. Thanks.

---

**Operator**

We'll go next to Kai Pan of Morgan Stanley.

---

**Kai Pan** - *Morgan Stanley - Analyst*

Good morning, thank you for taking my call. And I have two questions. One is on the capital structure. Another one on reserves.

On the capital structure you have one of -- the least, lowest debt to capital ratio at 7%. And now you have a third party capital, Mt. Logan, and the cat bonds. What do you think about your (inaudible) base of (inaudible). Could you buy back more than you earned like you did this quarter that actually (inaudible) reducing your shareholder base?

---

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

Well, we tend to want to think about share repurchases within the context of earnings. That's generally been our approach. And what we're trying to do with our capital and Mt. Logan and use of cat bonds and other types of third party capital structures, is grow the business.

This is a growth strategy not one in which we're trying to shrink the business. As we've mentioned earlier we think that our size capital position, rating, global franchise and the ability to grow is what perpetuates the good earnings we've been able to produce and (inaudible) is able to produce.

So in all of that context it really means that it's to our advantage in the marketplace, to the extent that opportunities present themselves, to grow our capital base. And when I say grow our capital base that means in all the vehicles that we've mentioned, meaning our own equity capital, Mt. Logan, use of cat bond structures and other vehicles.

But in the context of our equity capital it is important to us to be the size that we're at. So we think about share repurchases in the context of earnings.

---



**Kai Pan** - Morgan Stanley - Analyst

So with 100% earnings ratio a -- the assumption?

---

**Dom Adesso** - Everest Re Group, Ltd. - President, CEO

Well that depends on the price of our stock. It depends on what opportunities present themselves. It depends on a lot of things. And we don't give prognostications about what level of shares we're going to be repurchasing. But I just saw we did, obviously, have \$250 million this quarter was a pretty good number for us.

---

**Kai Pan** - Morgan Stanley - Analyst

Okay. My -- turning to my second question on reserves. And your reserve development has been minimal throughout the past few years and each quarter, actually.

But if you'll look underneath you have some -- these large reserve charges and the insurance operation while you have larger reserve releases on your -- from your reinsurance operation. They tend to coincide in the fourth quarter. I just wonder are those just coincidental that you do big reserves, like a [study] at year end?

And then, following on that and that going forward, as you see the past reserve issues in your insurance book gradually -- well, hopefully, were diminishing, you said, Dom, since you joined Everest you've been focusing on the -- on the reserve side [studying] probably more prudent with -- setting more cushions in your reserve. Is that possible we will see these efforts actually playing out in favor of the development in the future?

---

**Dom Adesso** - Everest Re Group, Ltd. - President, CEO

Yes. I -- hopefully the reserve practices that we've been adopting over the last couple of years, I think, will hold us in good stead, but I will point out that our reserves even prior to me getting here, in many years, developed favorably.

We do do our reserve studies mainly around the year end. We do some of the smaller classes of business throughout the year, but the larger, more material lines we focus on that in the fourth quarter.

Certainly if we see anything coming out of the smaller lines of business during the year we will take some action, certainly like we did here in the first quarter with the insurance on the medical mal side.

But insurance has been more of an issue than reinsurance because many of the lines of business we were in were run off lines of business, and those typically many in the business tend to be more problematic than in an ongoing book. And also our insurance lines of business tend to be -- on an overall basis -- tend to be in the longer tail areas than in the reinsurance side.

So those are some of the challenges related to insurance but we clearly think we've got that under control.

---

**Kai Pan** - Morgan Stanley - Analyst

Thank you very much.

---

**Dom Adesso** - Everest Re Group, Ltd. - President, CEO

Okay.

**Operator**

And it appears that's all the time we have for questions today. I'd like to turn it back to our presenters for any additional or closing remarks.

**Dom Adesso** - *Everest Re Group, Ltd. - President, CEO*

Well, thank you very much, and thanks for your questions. We would like to just say, in summary, that, clearly, we think we had a great quarter in what some would describe as a challenging environment.

We happen to think that the challenges create opportunities for a company like Everest, and we have the ability to do different things and respond quickly and appropriately to market conditions that are better at our feet today, and they certainly won't be the same tomorrow or two years from now. We appreciate your questions and your support, and we look forward to seeing everybody in the interim. Thank you.

**Operator**

That does conclude today's conference. Thank you for your participation.

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.