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## PRESENTATION

**Operator**

Good day everyone. Welcome to the second-quarter 2015 earnings call of Everest Re Group. Today's conference is being recorded. At this time, for opening remarks and introductions, I would like to turn the conference over to Miss Beth Farrell, Vice President of Investor Relations. Please go ahead.

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

Thank you Destiny. Good morning and welcome to Everest Re Group's second-quarter 2015 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 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.

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

Thanks Beth. Good morning. We are pleased to report that operating earnings for the quarter were $225 million, which was primarily driven by pretax underwriting income of $183 million and net investment income of $125 million. The tax rate in the quarter jumped to 16.6%, causing some distortion relative to our first-quarter numbers.

Other factors affecting the first-quarter comparison include a $50 million difference in foreign currency adjustments, $30 million of catastrophes, other weather-related losses not recorded as cats per se, and finally, a marine loss from the Pemex oil platform. Adjusting for these items clearly puts our results in line with last year on a quarter and year-to-date basis. And while the returns are still quite favorable, improvement year-over-year is affected by market conditions. We believe that, in an absolute sense, we are well above our cost of capital and are near the top of industry performers. I expect that industry results will bear that out. We achieve above market returns with strong expense controls, innovative and dynamic portfolio management, and new products.

In these last six months, we have continued our expansion of capital market tools to leverage our capital and achieve a net return in excess of the gross. Mt. Logan has grown to $830 million of assets under management, and our purchase of ILWs has increased this year versus last year at this time. These tactics allow us to increase market capacity on attractive business without increasing net exposure while maintaining an above average return.

Premiums were down for the quarter and flat for the year with strong growth in the insurance segment, offset by a reduction in our reinsurance premiums. The factors affecting reinsurance were less quota share premium, the impact of foreign currency translation, shift of excess capacity to higher layers, increased corporate sessions to hedge accumulations, market pricing, and non-renew deals to terms and conditions.

Offsetting these trends have been initiatives on the new product side. We continue to modestly grow our credit and financial assurance business and agricultural lines in the reinsurance segments.

In the insurance segment, the growth has been strong at 20-plus% as we continue to see momentum in professional lines, excess casualty, contingency, crop and property E&S.

The insurance operation is on an excellent trajectory with an attritional combined ratio of 93%, excluding crop. We continue to aggressively build out our insurance platform with the addition of underwriting talent. Market dislocation has made this a bit easier these days and a determined build is our preferred course of action here.

Despite what we all see swirling around today in the M&A space, we are generally not inclined to take on significant dilution and then still face the generally enormous integration, cultural and legacy challenges, unless of course it is ROE accretive in some reasonable time frame. We have the capital, patience and discipline to build a top-tier insurance operation consistent with our pricing and risk appetite. None of this, whether it's reinsurance or insurance, will be easy. The market conditions in the reinsurance sector are challenging, but we appear to be closer to a turning point. Capital markets seem to be hitting the floor, but the traditional market's results will be a more important factor. The reality is that there is not much margin for even the small events, let alone larger, inevitable catastrophes.

Based on expected second-quarter industry results for reinsurers, we are likely to see that a few small cats and a large risk loss will produce returns on capital below 9%. Along with declining bond values, this begins to feel as if a market turn must happen. Of course, markets are not always rational and a quick snapback would be atypical.

We are not waiting, however, as we continue to leverage our strengths to manage our portfolios smartly and outperform. An element of managing our portfolio will be an emphasis on insurance growth.

Furthermore, we will manage capital accordingly. In this quarter, our share repurchases were $50 million. This was below our typical pace for a number of factors. Among them were longer-term capital needs driven by our insurance growth objectives. However, we have demonstrated over the long term we are committed to returning excess capital when market conditions warrant.

As I sum up the first half of the year, despite some previously mentioned cautions, I'm quite optimistic. We finished the first six months at $554 million of operating income, up from $532 million in the prior year, and with a 15% ROE, excellent results in such tough times, especially when compared to the industry. We continue to be able to navigate through a difficult reinsurance market by managing risk, staying opportunistic with new products, and maintaining our pricing and expense discipline.

I am most optimistic about the trajectory of our insurance operations. Excluding crop, our year-to-date growth was 26%, or $130 million, and continues to produce profitable accident year underwriting results. And my expectation is that this will improve over time.

Thank you. Now I will turn it over to Craig for the financial report.

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

Thank you, Dom, and good morning everyone. Everest had another solid quarter of earnings with net income of $209 million, or $4.68 per diluted common share. This compares to net income of $290 million, or $6.26 per share, for the second quarter of 2014. Net income includes realized capital gains and losses.

On a year-to-date basis, net income was $532 million, or $11.88 per share, compared to $584 million, or $12.46 per share, in 2014. The 2015 result represents an annualized return on equity of over 14%.

Operating income year-to-date was $554 million, or $12.38 per share. This represents a 9% increase over operating income of $11.35 per share last year. These overall results were driven by a solid underwriting result and sizable foreign-exchange gains compared to the first half of 2014. The results reflect an overall current-year attritional combined ratio of 83.0% on a year-to-date basis, up from 82.0% at year-end 2014. The attritional measure includes higher-than-expected current year losses in the US reinsurance market, including estimated losses for the marine energy market and numerous weather-related losses that did not meet our $10 million catastrophe threshold.

All reinsurance segments reported underwriting gains for the quarter and for the first half of 2015. Total reinsurance reported an underwriting gain of $177 million for the quarter compared to a $181 million underwriting gain last year. For the first half of 2015, total reinsurance reported an underwriting gain of $382 million compared to a $396 million gain last year.

The Mt. Logan Re segment reported a $28 million underwriting gain for the quarter compared to a $9 million underwriting gain for the second quarter of 2014. On a year-to-date basis, Mt. Logan reported an underwriting gain of $50 million compared to a $19 million gain for the first half of 2014. Everest retained $7 million of this income and $43 million was attributable to the noncontrolling interest of this entity.

The insurance segment reported an underwriting loss of $23 million for the quarter compared to a gain of $4 million last year. On a year-to-date basis, the insurance segment reported an underwriting loss of $12 million compared to a gain of $8 million in 2014. The insurance segment loss primarily related to a claim review of umbrella claims on a run-off program that was discontinued by the Company several years ago. As a result of the review, we booked an additional $31 million of prior-year losses rather than waiting for the reserve study that will be completed in the fourth quarter.

The insurance segment current year attritional combined ratio was 93.4% on a year-to-date basis, excluding crop. This ratio has improved compared to 93.9% one year ago.

The overall underwriting gain for the Group was $183 million for the quarter compared to an underwriting gain of $195 million for the same period last year. On a year-to-date basis, the underwriting gain was $420 million compared to a gain of $423 million in 2014. These overall results reflect $40 million of current year catastrophe losses in the first half of 2015, all recorded in the second quarter. Of the total, $20 million related to losses from storms in Australia and $20 million came from flooding in Chile.

The 2015 cat losses were partially offset by $10 million of favorable development on prior-year cat losses, primarily from the 2013 US storms. This compares with $45 million of catastrophes during the first half of 2014.

Our reported combined ratio was 84.1% for the first half of 2015, compared to 82.5% in 2014. The year-to-date commission ratio of 22.1% was slightly up from 21.9% in 2014, primarily due to higher contingent commissions. Our overall expense ratio remains low at 4.7%. This includes our industry-leading expense ratio of 2.8% for our total reinsurance segment.

As for loss reserves, in June, we released our fifth annual global loss development triangles for 2014. There were no major changes since the 2013 release. Our overall quarterly internal reserving metrics continue to be favorable.

For investments, pretax investment income was $125 million for the quarter and $248 million year-to-date on our $18 billion investment portfolio. Investment income for the first six months declined only $7 million from one year ago. The pretax yield on the overall portfolio was 2.9% with a duration of three years.

The first six months reflected $22 million of net after-tax realized capital losses compared to $52 million of realized capital gains last year. These losses were mainly attributable to impairments on the fixed income portfolio in 2015.

Other income and expense included $44 million of foreign-exchange gains in the first six months of 2015 compared to $15 million of foreign-exchange losses in the first half of 2014.

On income taxes, the annualized effective tax rate is primarily driven by lower-than-planned catastrophe losses resulting in higher-than-expected taxable income for the year. The 13.9% effective tax rate on operating income is in line with our expected rate for the year, given our planned cat losses for the remainder of the year. This rate is consistent with the 14.4% tax rate at the same time last year.

Strong cash flow continues with operating cash flows of $683 million for the first half of 2015 compared to $590 million in 2014. Shareholders equity at the end of the quarter was $7.7 billion, up $276 million or 4% over year-end 2014. This is after taking into account over $200 million of capital returned for $125 million of share buybacks and $84 million of dividends paid in the first half of 2015.

Book value per share increased 5% to $174.84 from $166.75 at year-end 2014. Our strong capital balance positions us well for potential business opportunities as well as continuing stock repurchases.

Thank you. And now John Doucette will provide our operations review.

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

Thank you Craig. Good morning. As Dom highlighted, we continued our solid underwriting results into the second quarter of 2015. Our group gross written premium for Q2 was $1.3 billion, down $157 million from Q2 last year with decreases coming from each of our reinsurance segments, which I will get into shortly.

Our US insurance operation gross written premium is up meaningfully in Q2 compared to Q2 last year with growth coming from almost every insurance profit center. Our group net written premium for Q2 was $1.2 billion, which was down 4% compared to Q2 last year. Year-to-date, our group gross and net written premium are both essentially flat year-over-year. Year-to-date 2015, underwriting profits for the group are $420 million, virtually in line with 2014.

For our reinsurance segments, total reinsurance gross written premium, including Logan, was $900 million for the quarter, down 17% from Q2 last year. This decrease in gross premium for the quarter was driven by several items. First, exchange rate. The stronger US dollar had a meaningful impact on our international operations and our Bermuda operations. On a like-for-like exchange rate, our overall reinsurance segments would have been closer to 13% down compared to second quarter last year.

Second, declining, reducing or nonrenewing business that had pricing we could not support. These occurred across all reinsurance segments of the group.

Third, in the international segment, a major deal for a strategic relationship was restructured with essentially the same economics and net premiums, but the top line is down significantly on a gross basis.

Reinsurance net written premium, including Logan, was $870 million, down 7% compared to Q2 last year. On a constant exchange ratio basis, our net written premium would be down roughly 4% due to increased retrocession oh protections, including ILW purchases and other hedges to help us manage our peak zone PMLs.

Our reinsurance book, including Mt. Logan, generated $206 million of underwriting profit in Q2, an 8% increase over last Q2. These strong underwriting results, despite both an increasingly tougher market and the loss events mentioned by Craig, confirm our reinsurance strategy, leveraging our core strengths, expanding our product offering, and increasing our opportunity set to achieve profitable growth. In addition, our utilization of alternative capital structures allows us to conservatively manage our net risk position while generating fee income and lowering our cost of capital. Under this strategy, we have and will continue to effectively deploy our capital towards achieving some of the best risk-adjusted returns in the industry.

At July 1, Mt. Logan celebrated its two-year anniversary. We continue to see strong investor interest with inflows of approximately $80 million of new third-party investments this quarter, raising total funds in Logan to about $830 million. Logan remains core to our overall capital markets conversion strategy to hedge and manage risk across our overall portfolio and earn fees. To complement this, we also secured more ILW protection heading into this hurricane season, mostly for Southeast USA and Florida wind. With Mt. Logan, our cat bond and ILWs, we maintained our conservative risk position with peak zone PMLs at 7/1, close to flat compared to our 1/1 PMLs as a percentage of GAAP equity on a net after-tax basis.

Here is some color on June 1 and July 1 reinsurance renewals. Group-wide, our in force property pro rata GWP is slightly down as we non-renewed some treaties and some clients bought less pro rata or converted their treaties to excess of loss. Our worldwide property cat excess of loss gross written premium went up compared to prior periods, but there was more churn compared to other renewals. We cut capacity on non-renewed underpriced business but we also added meaningful capacity on deals we like, particularly for long-standing key clients.

Our average dollar attachment on property treaties went up as we deployed less capacity lower down and more capacity in higher layers, both in Florida and internationally. This typically consumes more capital, but has better margins. The end result of the midyear renewals was our expected combined ratio is essentially flat compared to our expiring portfolios' combined ratio.

On a risk-adjusted basis, property pricing moderated and was off mid single digits although there were several regions around the globe that remained extremely competitive, including China, Australia, some parts of Latin America and US fac business. Other regions, however, provided opportunity due to a meaningful increase in demand. We therefore continue to build an attractive portfolio overall.

On a dollar basis, the expected dollar margin in the overall property book increased slightly compared to the expiring portfolio.

Turning to our global casualty and longer-tail reinsurance books, reinsurance terms continue to be under pressure for commodity type treaties and ceding commissions on casualty pro rata treaties remains high. Therefore, we deployed capacity to new products and new opportunities through current and new distribution sources. We continue to receive preferential signings on attractive deals across both long-tail and short-tail business, and across geographies, including the US, Latin America, Canada, London, Europe, Singapore and Bermuda markets, due to our lead market position, financial strength, ratings and long-standing trading relationships with clients and brokers.

Moving to our insurance operations, our premium was $344 million in Q2, up 9% from Q2 last year. However, excluding Heartland, which was impacted by changes that delayed timing on premium recognition for 2015, insurance gross written premium is up approximately 20% for the second quarter and up 26% on a year-to-date basis. This growth is very diversified, originating from over 10 separate insurance profit centers, including newly launched product lines resulting in a very balanced portfolio of both short and long-tail lines. Year-to-date, we are up 41% on what we describe as direct brokerage business, which is underwritten internally by Everest underwriters. Program business is up 9% year-to-date. We expect these trends to continue as we focus on building out our retail books.

Also noteworthy, the direct brokerage business has run to about 8 or 9 combined ratio points better than the program business over the last three years. As Dom indicated and you have seen from our recent press releases, we have been hiring key leaders in our insurance operations to build out this platform.

We are also in the process of establishing a Lloyd's syndicate. If approved by the Lloyd's franchise board, we will target an early 2016 launch. Lloyd's will provide access to international business and new products, diversifying our insurance portfolio. We expect that growth in our domestic and international insurance operations will accelerate over the next several quarters as our new initiatives gain traction.

Insurance rates are mixed with most long tail lines of business up except financial institutions and management liability due to increased capacity and competition. And similar to reinsurance, property rates are down in several segments.

Bottom line, our overall calendar quarter insurance results were disappointing in Q2 with a loss of $23 million driven by prior-year development on the terminated umbrella program mentioned by Craig. However, the underlying accident year results of our insurance book are profitable and improving, both for the quarter and year-to-date, compared to the same periods last year.

Now, for some detail on what we're seeing in each insurance market. For California workers comp, the gross written premium was about $80 million in Q2, relatively flat to last year, with a mid-90s% combined ratio and still getting positive rate. But that has slowed down with increased competition from a few players.

Professional liability premium with financial institutions the largest contributor was $55 million for Q2, up 23% compared to last Q2, with some attractive new opportunities. However, we see excess capacity and rate pressure here. Other casualty business is up approximately 22% driven by new initiatives. In the short-tail business, including property, DIC, nonstandard auto and contingency business, written premium was $84 million for the quarter, an increase of over 26% from last Q2, as we have deployed more property insurance capacity. We remain bullish on the property facility and contingency businesses, but we see increased competition in the DIC book with lower rates and looser terms.

Accident and health premium was up over 35% in Q2 compared to last Q2 approximately $30 million, benefiting from several new initiatives.

Regarding Heartland, crop conditions are favorable and commodity prices are stable. To date it is running at a slight underwriting loss, partly due to the delayed recognition of earned premium. However, we anticipate positive results for the year if prices and weather hold.

In summary, we believe that our market position, core strengths and sustainable competitive advantages, coupled with the new growth initiatives for the insurance book, will propel bottom-line returns that are superior to most in our industry. We continue to execute successfully in this environment for both reinsurance and insurance.

Thank you, and now back to Beth for Q&A.

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

We are open for questions at this time.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions). Sarah DeWitt, JPMorgan.

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**Sarah DeWitt** - *JPMorgan - Analyst*

Hi, good morning. On the M&A that we've seen in the industry, could you just talk about what the implications are for Everest Re from a competitive standpoint, as well as on the primary side, does that mean that insurers could perhaps purchase less reinsurance and what that would mean?

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

This is Dom. I'll answer that question basically in two sectors. First of all, on the reinsurance side, we don't necessarily see any major impacts from the M&A activity that are occurring today in that space to us. As I've mentioned in previous calls, we certainly feel we are of sufficient scale and size to maintain our relevance in the market. And with approximately $8 billion of capital, we feel we are operating in this market with $10 billion of capital, and we managed to get the signings and operate with our clients in the areas that we would prefer to do so. So no meaningful impact that we can see from that.

On the primary side, the trend of acquisitions there and what that means to the reinsurance purchase, I think that's just a continuing trend of, as capital grows, the larger players in the marketplace have purchased less reinsurance over time. But frankly, there are many other participants in the market that certainly need reinsurance. And in addition to that, as these entities get larger, they generally look to larger partners, and by partners I mean reinsurance partners. They will still continue to buy reinsurance but they are more likely to look to partner up with larger, more stable and meaningful companies. So that's kind of how we view the impact of all that. If that answers your question.

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**Sarah DeWitt** - *JPMorgan - Analyst*

Okay. Great, thanks. And then if you were to look at acquisitions, what lines of businesses or geographies would you be interested in? Would it be more on the insurance side or in Lloyd's to accelerate your growth strategy there?

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

The only thing that we intend to pay more attention to in the M&A space when presented with a variety of opportunities tends to be on the insurance side. But again, as I mentioned in my comments, our natural preference is to build our own organization that matches our risk appetite, avoiding the cultural and any legacy issues that could arise from an acquisition. We don't ignore them, but frankly, given some of the premiums that are involved in some of these transactions relative to building our own platform, we don't see the value in acquisition at this point. It doesn't mean it won't exist in the future, but currently that's not our focus. And we can't rely on that strategy. We can't rely on an acquisition strategy to further our insurance objective, our strategic objective in that space I should say.

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**Sarah DeWitt** - *JPMorgan - Analyst*

Okay, great. Thanks for the answers.

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**Operator**

Kai Pan, Morgan Stanley.

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

Thank you. Just first one follow-up to Sarah's question on the industry consolidation. You start up like greenfield invoice and there's news that a large syndicate waiting to open to merger partners. Can you talk maybe more about build versus acquire? And if you build out, would we expect at least initially higher expense as the teams run up?

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

Certainly there would be higher expense, but even in an acquisition with any amortization of intangibles that you would have to bear, we tend to feel that the expenses, frankly, would be -- it would be more economical to build. And as we build and as we've been adding resources, we have been growing the topline as well. So I don't think you will see any meaningful degradation in our expense ratio if that's really where you are going.

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

Okay. Would you just follow up, would you be interested in sort of the large-scale acquisition in Lloyd's syndicates, or you prefer to go through like a --?

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

Not at some of the prices that certainly have been bantered around in the press, no.

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

Okay. That's great. Then on the sort of large non-cat losses, could you quantify what's the impact for this quarter?

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

Overall -- Kai, this is Craig Howie. The overall losses are coming through our attritional loss [ratio] (corrected by company after the call). And what we had were losses that took place in April, May and June through Texas and the Midwest. Also that's what's coming through for the first half of the year are winter storms that took place in the Northeast. None of those storms rose to our $10 million cat threshold, but we have totaled those numbers to be almost $90 million to $100 million of losses.

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

Is that including the Pemex or the offshore energy losses as well?

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

That's correct.

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

Okay. That's great. And lastly, if I may ask on the capital management, it looks like the pace of buyback have been rather slow compared with the earnings stream as your total payout ratio is less than 50%. Given that reinsurance space is slowing down in terms of capital needs, I just wonder. Are you saving like capital for potential acquisitions, or is it over the long run were you expecting like a 50% payout ratio?

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

As you know, we don't give guidance on our share repurchase program. I think what we tend to do is look at this over the very long term. And we have returned a substantive amount of capital over the last 10 years to shareholders through dividends and share repurchases. We look at certainly our long-term objectives in terms of growth, and over the long-term, we think clearly insurance and frankly for that matter reinsurance again over the very long-term, we feel that we can succeed in this space. So we have to balance that up against our objectives in terms of what we would like to bring stock in at. And it's a long-term gain. So this past quarter, based on what we saw as our future growth objectives balanced up against what the opportunities were to bring additional shares in, we opted to do $50 million this quarter. And clearly, over the long-term, we remain committed to buying shares consistent with whatever growth objectives that we might have.

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

Great. Thanks so much for all the answers.

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**Operator**

Michael Nannizzi, Goldman Sachs.

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

Thanks. A quick question on just the reinsurance premiums, maybe ex Mt. Logan, just the stuff that is purely on your balance sheet. Do you have the constant dollar year-over-year change in net written premiums there?

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

Give us a second here.

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

Sure, no problem.

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

Year-to-date, right, you were asking?

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

Just in the second quarter if that's okay.

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

It's John. It's 5%, it's a 5% decrease.

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

5% decrease.

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

Quarter-over-quarter.

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

Great, thank you. And then I guess just off of the first quarter, I think we were sort of looking for a little bit more growth. Should we be thinking about this sort of as the level, just given the challenges that you outlined in reinsurance? Is there still an opportunity to grow your sort of piece of the pie here, or would you expect to continue to see areas where you will cut as a result of not meeting your profitability standards or the like? I'm just trying to get an idea of how we should be thinking about premium production on the reinsurance side here.

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

Yes to all of that. And it's interesting because some are looking for growth; others are not looking for growth; some are critical of growth; some are critical of lack of growth. So it's an interesting dynamic. And as kind of each of us kind of mentioned in our prepared comments, there's a number of things going on. So, you've got FX. You've got less proportional business that met our pricing guidelines. You've got us moving up an attachment point which lowers rate online. You've got more retrocessional protections that we purchased which is up significantly year-over-year, all of that kind of leading to a lower net written premium growth.

Interestingly, on an XOL basis, we actually did have some growth in our portfolio from gross XOL premium but, again, that was offset by some of the retrocessional protections we purchased. All with an eye towards improving our net returns on capital as compared with our gross returns on capital.

So we will -- we believe we continue to make headway in being a larger presence in the marketplace and winning and gaining share from other market participants. But that doesn't mean that we are also not paying attention to things that don't meet our return hurdles.

I think I mentioned in last quarter's call that there some things in Florida where we backed away from some writings where others had put down large lines. It doesn't mean that they're right and -- they're wrong and we are right. It just means it didn't quite meet our pricing objectives.

So again, we still continue to make headway in terms of growing our book. Our margin, our net margin, is up year-over-year. It doesn't mean there aren't some headwinds in the marketplace, but we think we are doing quite well. And we will continue to manage share that way going forward, and at some point, we certainly believe that there will be a turn in this market and we will be well-positioned to even take greater advantage of that than we are right now.

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

I guess Craig, you mentioned it sounded like about 9 points of underlying losses. So if I take that into consideration, does that mean that the sort of true underlying actually improved year-over-year, so profitability is improving in reinsurance?

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

You said (multiple speakers)

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

The $90 million I guess, the $90 million of non-cat large losses?

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

On an overall basis I would say. On a net basis we think that it's improving. And that is the reason if you back out those $90 million to $100 million of losses, yes. Essentially our operating income on a year-to-date basis year-over-year is up. Yes, this quarter, we had a number of things happen. Some of which, frankly, were losses that we were unaware of that were winter losses for example that came from the first quarter that got reported to us in the second quarter. So to look at reinsurance results just on quarter-by-quarter, sometimes can be a little bit misleading. And so on a year-to-date basis we are up year-over-year. We think it's quite a solid year-to-date so far.

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

I guess one question would be they're great results, is there a need then for the market to change at all? Because it seems like at these profitability levels that -- I mean, I don't know how the conversations happen between insurers and reinsurers. But it seems like these levels of profitability are pretty attractive.

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

Remember that it depends on scale, it depends on your expense ratio. And we've argued for a long, long time that we have a distinct advantage in the marketplace, given not only our size and the signings that we can obtain but also our expense ratio advantage and our global diversified platform. So compared to many other market participants that don't enjoy some of those advantages, you see, you've seen already I believe and will probably continue to see some returns dipping below, as I mentioned again in my comments, below 9%. That doesn't sound like a completely terribly robust market. And at the same time, you see a few losses that come through and hit the industry here in this quarter have -- take a pretty good bite out of the apple. So it suggests that there isn't much margin to handle the larger catastrophe. But notwithstanding all of that, we think we clearly have unique advantages which enable us to continue to expand our offerings.

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

Got it. And just one numbers question quickly Craig. The negative ceded premium in international segment, I'm just trying to think about should we be looking at like the net written line as sort of a good base or starting point? Should we be looking at the gross written line and then assume like normal cessions occur from here? I am just trying to sort of square that. And maybe you could give us some context in terms of what drove that negative number. And thank you all for all your answers.

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

That was really driven by one large strategic deal that we had done. It's better to look at the net written premium on the international book for that reason. That deal was restructured, so going forward, it's at the same margin but the premium will be booked differently going forward. So more appropriate to look at the net written premium.

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

Great. Thank you again.

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

The gross though was still important in the sense of how we are utilizing the capital market alternatives we have, including cat bonds, Mt. Logan, ILWs. So again, gross is -- you can't ignore because that's also indicating what our reach is into the marketplace. It's just that this particular quarter, given the adjustments we made on some of those transactions that we talked about earlier, that distorted that historical relationship for just this quarter.

**Operator**

Amit Kumar, Macquarie.

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

Thanks and good morning. Two quick follow-up questions on the discussion on capital. Number one, one question we were getting last night as it portends to Everest Re is how does I guess the forthcoming changes or the upcoming changes to the AIR model, how does that impact your view on capital PMLs, and how much of that is actually connected to the capital management pullback?

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

None of that, actually. We don't expect any major change to the PMLs. No question there will be some change. There's ups and downs depending on the territories that you write in. And I'll ask John if he has any additional thoughts.

Remember that our view of the risk positions that we talk about is essentially our view of risk. It is looking at all the models, whether it's AIR, RMS, and, frankly, our own internal models. So to the extent that AIR is changing some of their calculations, it will have some impact but we do not expect it to be a meaningful impact. John is going to add to that.

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

Yes. Just follow on that, so net-net, we view this as a positive as this will be potentially an increase in demand, a push on demand for some of our clients. And that will be -- just following on what Dom said, first, we create our own view of risk. We've been spending a substantial amount of time and resources over the last six or seven years building out Everest's view of risk for all zones around the world, all perils, all return periods. And we use many, many things to input this and we are continually enhancing our views of this and have a very smart, capable team of people that are analyzing this around the Group. And we think this is one of our core competitive advantages. And it allows us to take all the different inputs, not just AIR but the other vendors, as well as we've been trading for over 44 years in a lot of countries around the world, and so we look at our own results and look at the damageability against losses. We look at external. We look at academic studies that are done around the globe and all that rolls up to our view of risk.

So, our view of risk is we're trying to enhance it all the time, whether it's tied to AIR changing its results or somebody else, or internal studies that we do. And we are always looking to enhance that. But net-net, we think this is a positive for us and a positive upward on rating going forward.

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

Thanks for that color. The other question for Dom, and this is sort of a follow-up to Sarah's and Kai's question. It seems that the market is more forgiving in terms of doing dilutive tangible book value deals. And I'm curious. Looking at that, has that changed your view in terms of how you might look at things going forward or not?

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

Not a bit. The market is more forgiving today. We will see what that turns out to be two years from now.

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

Got it. And then final question --

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

Look. What we have to pay attention to here is how we feel we can best and economically and also given our strategies are how we can best build out our insurance platform. It doesn't mean that we turn a blind eye to any kind of a transaction that might be presented to us. It's just that, to date, as we look at the alternatives, our alternative looks a little better.

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

That's actually quite helpful. The final question is on the reserve adjustment. I think it was $31 million in the runoff book. Can you sort of maybe give a bit more color if that -- how should we view that $31 million versus I guess the size of that book? Can you put some ranges around it which ought to give us comfort that there is not going to be possibly more noise, or maybe just talk a bit more about this.

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

This is Craig. This was a claim review that was done on a runoff program book of business for umbrella. The Company discontinued this book several years ago, but the program has been running hot, if you will. We've had reserve adjustments over the last two reserve study cycles. There were over 300 open claims reviewed. About 195 claims had adjustments. Some of them were down. Most of them were up, obviously with respect to adding additional $31 million of prior-year losses. We took into account some things like other cases and local and state labor laws when we were going through these claims, but relatively speaking, this is $31 million. What we wanted to do was take this charge. The Company reacts very quickly to unfavorable type development like this, but keep in mind this is $31 million on a $10 billion book of reserves, so it's a very small number. The rest of our reserves I am very comfortable with the overall book and it continues to run very favorably against our internal reserving monitoring metrics.

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

I think I would ask that everyone consider, as Craig emphasized, that it's part of $10 billion of reserves and look at our track record of calendar year results for reserve development. It's quite strong. And again, as I've said many times before, we have some 200 different reserve groups that we analyze. This happens to be one subset of one of those. And we're going to get blips in any one of those different reserve groups from time to time.

What's most important is the integrity of the balance sheet, and I think we've demonstrated that our reserve position is quite strong. Our reserve triangles have been out. We've obviously released those in the last couple of years. All the analysis on that indicates that it is very positive, and clearly our own internal metrics suggest that as well. So I recognize that you certainly want to understand each segment of our business to properly project, but I also ask that you consider the overall. So thank you though for the question.

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

Got it. Fair comment. Thanks for the answers and good luck for the future.

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**Operator**

Josh Shanker, Deutsche Bank.

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**Josh Shanker** - *Deutsche Bank - Analyst*

Good morning everyone. Could we talk a little bit about fronting arrangements and changes in those and how we should think about ceding commissions going forward as far as your take commission ratios?

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

Sure. We can talk about it. What's your specific -- maybe (multiple speakers)

**Josh Shanker** - *Deutsche Bank - Analyst*

I see the big drop off in international premium and the uptick in the acquisition expense ratio. I'm wondering if that's one-time in nature, how I should think about that going forward.

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

I'll let Craig take that one.

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

In the international book, as we've mentioned a couple of times, what's driving that this quarter is one strategic deal that we had done that changed this quarter for the year and going forward. So while the margin is the same, the premium is being booked differently on a gross basis. So therefore, it's probably more appropriate to look at it on a net basis for this quarter anyway. That will give you a better indication of how that is driving the current result.

**Josh Shanker** - *Deutsche Bank - Analyst*

And so if I think about it going forward for the remainder of the year, year-over-year is the expense ratio higher than it was a year ago?

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

I don't think the expense ratio will be significantly higher for acquisition costs even on an international book.

**Josh Shanker** - *Deutsche Bank - Analyst*

Okay. And so thinking about 2Q 2016, not that I'm asking for guidance or anything, but more interested in this deal. Is this one-time in nature? Was it booked this year, and when we think about next year, you will be doing that again, or have you discontinued the relationship, or how does that all play in?

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

We have not discontinued the relationship. There have been some law changes in Latin America with respect to how to treat these transactions going forward. So over the next five years, we would expect these transactions to decline going forward, but that will be over a longer period of time, over five years.

**Josh Shanker** - *Deutsche Bank - Analyst*

This next question is very subjective. You can answer it any way you want, whether it's about at risk, whether it's about the industry. If you were prohibited from writing cat business for some reason, just hypothetically, what do you think the combined ratio is in the reinsurance market for non-cat business today?

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

Was it an option there not to answer your question?

**Josh Shanker** - *Deutsche Bank - Analyst*

Whatever you want. I'm trying to tease out -- still -- you had a higher loss ratio, still very attractive, in a non-cat quarter always hard to deduce what the real numbers are.

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

I'm going to take a guess at it more than anything at this point because part of the answer to that question, if that were the case, the whole marketplace would be within a different dynamic. So a transaction that you might do with clients might be done on a different basis. But I think the answer to that question would be somewhere in the low 90s% would be kind of a guess. Obviously you've casualty business; you've got all of our facultative writings; you've got property per risk; you've got professional alliance treaties. It's a multitude of things. But the whole mix of the business will change. But I think what you are really asking is what's the rest of the portfolio kind of running at.

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

This is John. I'm going to add some more color to Dom's answer. So it very much would depend on the book of business that we have. One of the things that Everest has built very intentionally over the last 40-plus years is a very, very diversified book of business and we are not a one-trick pony tied to property cat. And we keep talking about these 200-plus IBNR groups. That means we have 200 different segments of business around the Group, different lines of business and different geographies. So we are always looking for profitable business based on a combined ratio, ROE, and other metrics that we look at. So I think it very much depends on what the opportunity set is. We feel very good about our opportunity set, and we have for many, many years been a lead reinsurer in the casualty market. And we are capable to deploy as much capacity there as market conditions dictate and we desire to given the market condition. We can flip from reinsurance to insurance. We have a lot of dials, as we talked about on each of the earnings calls. But we trade in many, many different classes of business that there is margin in, not just in the property cat space.

**Josh Shanker** - *Deutsche Bank - Analyst*

Thank you for all the answers, and let's hope for a quiet hurricane season. Take care.

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

I think we are probably going to go over a little bit, because we still have a couple of questions, but I do think we have time for at least one more anyway.

**Operator**

Brian Meredith, UBS.

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

Thanks. Two quick questions here. The first one, Craig, can you give us a sense of where new money yields are right now versus your current portfolio and your fixed income? Are we getting close to a bottom with respect to your book yields?

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

I would love to say that we are. But our new money is just over 2%. We don't see a bottoming out until probably mid-2016.

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

Interesting. Great. Then the last question, on the Lloyd's start up here, a couple of Lloyd's guys in Lloyd's have kind of commented that the price competition in Lloyd's right now is equivalent to where we were back in 1999, so pretty darn competitive. I'm curious why from a timing perspective now going into Lloyd's, given the competition?

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

First, I think some of those comments were related to some very, very specific classes. And so that's number one. And those are not classes that we necessarily have on our radar screen, at least not in the near term.

And frankly, just like in our reinsurance lines, if the market is not giving us the return that meets our pricing metrics, then we won't write the business. We don't necessarily though have the choice as to when we start these projects literally months and at least a year in advance, you have to kind of start thinking about how to get these things running. So you don't have a choice in terms of timing sometimes, but you do have a choice in terms of what kind of business you put on the books. And we will continue to maintain our underwriting discipline and our underwriting culture, which will dictate the kind of business we write. And frankly, the business plan that we've put forth we believe can generate a very nice underwriting margin for us.

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

Thanks for your answers, Dom.

**Operator**

I will now turn it back over to the speakers for any closing remarks.

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

I will close it out just to say thanks for your interest. We went a little over today, but my apologies for that, and thank you for your interest. Clearly, within the industry, there is certainly lots of headwinds. We think Everest has demonstrated that we have the scale and the talent to manage through that as I mentioned before, with positive underwriting results, positive operating results for the first half of the year. And it's really a long-term business and we think we have to look at it on a six-month basis. And we think we've performed very, very well with 15% return on capital. So thank you for your interest, and we look forward to talking with you in the weeks and months ahead.

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

Thank you.

**Operator**

This does conclude your teleconference for today. Thank you for your participation. You may disconnect at any time.