

Q4 2014 Earnings Call

Company Participants

- Craig W. Howie
- Dominic James Addesso
- Elizabeth B. Farrell
- John P. Doucette

Other Participants

- Amit Kumar
- Josh D. Shanker
- Michael Nannizzi
- Vinay Misquith

MANAGEMENT DISCUSSION SECTION

Operator

Good day everyone. Welcome to the Fourth Quarter 2014 Earnings Call of Everest Re Group Limited. Today's conference is being recorded. At this time, for opening remarks and introductions, I would like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead.

Elizabeth B. Farrell {BIO 1986541 <GO>}

Thank you, Kelly. Good morning, and welcome to Everest Re Group's fourth quarter and full-year 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 with respect to forward-looking statements. In that regard, I note that statements made during today's call which are forward-looking in nature, such as statements about projections, estimates, expectations and the like, are subject to various risks. As you know, actual results could differ materially from current projections or expectations. Our SEC filings have a full listing of the risks that investors should consider in connection with such statements.

Now let me turn the call over to Dom.

Dominic James Addesso {BIO 1428096 <GO>}

Thank you, Beth. Good morning. We were very pleased to report record operating earnings for the year and quarter. Net income was slightly below that in 2013, due mainly to less realized gains on investments. However, as a result of share buybacks, net income on an earnings per share basis was higher year-over-year at just under \$26 per share.

Most areas of our operations had excellent results, which contributed to the overall result. The reinsurance segments continue to be the main engine, and another good year was posted with the absence of any major cats. The underwriting result was flattish year-over-year and while the combined ratios slipped 2 points, the portfolio is still generating above-average returns.

This slippage in combined ratio points will be discussed in greater detail by Craig and John. But a couple of general factors accounted for this increase. These would include business mix shift and, in our international operations, a higher attritional loss ratio due to shock losses and storm losses not classified as cats.

Declining rates overall are also a factor, but we have muted much of that by moving attachment points to more attractively priced layers and buying external reinsurance in the capital markets and from traditional providers.

The flexibility and adaptability to the market has been one of our hallmarks. In fact, in many cases due to our capital structure, which effectively includes Mt. Logan and our sponsored cat bonds, we have the ability to put out more capacity with the same or less net peak zone PML exposure at better risk-adjusted returns. Overall, the net returns on the cat portfolio in 2014 were higher than the gross returns due to efficient capital management with the purchase of third-party reinsurance.

As a result, the absolute margins on our property portfolio on an expected basis were up despite an annual expected loss from cats of approximately 12 points on our underwriting combined ratio. This resulted in an increase in the ROE in this business as we deployed our aggregate across a more diversified portfolio rather than expanding net exposures in any of our peak zones. One of the few challenges in the portfolio last year was our crop book, which suffered a \$64 million loss, primarily due to a severe commodity price decline which accounted for \$36 million, with the remainder coming mostly from crop-hail losses.

Over the past couple of years, the industry has suffered a bit in this class, but over the longer term it has been a good business. The crop division caused our insurance operations to incur an underwriting loss for the year.

However, the improvement in the balance of the book has been notable. Excluding crop, the insurance operation produced an underwriting profit of \$15 million. On an accident-year basis, that portfolio is now running around a 95% combined ratio. This has been a good turnaround story.

Workers comp continues to benefit from rate increases, and our growth initiatives in property and casualty E&S lines and specialty lines are all contributing to premium growth and profit.

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Among other notable items in the quarter was the adjustment in our various reserve positions. Overall, the impact from reserves was minimal but yet favorable. We did add approximately \$140 million to our asbestos reserves, enabling us to increase our survival ratio to its historical levels. It had recently dropped due to an increased level of payment activity during the year.

This area is difficult to estimate, but we felt it prudent to increase these reserves to a more conservative position. Other reserve adjustments were in the insurance segment for run off-lines.

These various charges, however, had no meaningful net impact on results due to redundancies in other areas. Overall, a very sound reserve position with a track record of favorable accident-year development in each of the last 10-plus years.

Investment income continues to trend downward due to low rates in the fixed-income markets. However, the fourth quarter was a bit stronger than earlier quarters due to limited partnership income in our alternative-asset category. We have no immediate plans to make significant shifts in our allocations, so at these interest rate levels you should expect the downward trend in book yield to continue into 2016. The impact on net investment income of a declining yield will be somewhat offset by any increase in investable assets.

The rate of premium growth into 2015 will likely slow due to a decline in reinsurance price environment and our increasing selectivity. However, we continue with new products in the reinsurance segments, and our insurance segment will continue to be an area of greater focus.

Of note is that more than half of our expected underwriting profit, after consideration for normalized catastrophe losses is derived from non-cat exposed businesses. These other lines of business have therefore been an important area to focus on as a mitigator to rate pressures as well as providing a more diversified portfolio.

Share buybacks continued in the fourth quarter as well as an increase in our dividend. Capital returned to shareholders totaled almost \$650 million in 2014. Nevertheless, equity capital increased \$500 million during the year, which gives us capacity for growth opportunities during 2015 and beyond.

Given the market conditions ahead, we would expect to continue share repurchases in 2015. Since 2006 we have repurchased 36% of outstanding shares and returned \$3.4 billion of capital, and at the same time grew equity 46% from \$5 billion to \$7 billion. The level of share repurchases in the future will, of course, be dependent on business opportunities.

We remain committed to finding profitable growth from new initiatives and increasing our returns from capital alternatives. Our responsive, flexible, and adaptive style will no doubt continue to create opportunities in the year ahead.

Thank you, and now to Craig for the financial report.

Craig W. Howie {BIO 17579923 <GO>}

Thank you, Dom, and good morning, everyone. Everest had another strong quarter of earnings, with net income of \$340 million or \$7.47 per diluted common share. This compares to net income of \$365 million or \$7.54 per share for the fourth quarter of 2013.

Net income includes realized capital gains and losses. For the year, Everest had net income of \$1.2 billion or \$25.91 per share compared to \$1.3 billion or \$25.44 per share in 2013. The 2014 result represents a return on equity of 17%.

Operating income for the year was \$1.1 billion or \$24.71 per share. This represents a 15% increase over operating income of \$21.47 per share last year. These record operating results were driven by a strong underwriting result, foreign exchange gains, and lower income taxes compared to 2013.

The increase in underwriting income was partially offset by a lower derivative result and lower net investment income compared to 2013. The results reflect a slight increase in the overall current year attritional combined ratio of 82%, up from 81% last year. This measure excludes the impact of catastrophes, reinstatement premiums, and prior period loss development.

All reinsurance segments reported underwriting gains for the quarter and for the year. Total reinsurance reported an underwriting gain of \$275 million for the quarter compared to a \$390 million underwriting gain last year. For the year, total reinsurance reported an underwriting gain of \$862 million compared to an \$877 million gain last year.

The insurance segment reported an underwriting loss of \$36 million for the quarter compared to a loss of \$156 million last year. For the year, the insurance segment reported an underwriting loss of \$49 million compared to a loss of \$147 million in 2013.

The 2014 results reflected a crop loss of \$64 million for the year, comparable to last year, but lower prior period loss reserve development in the insurance segment.

The Mt. Logan Re segment reported a \$26 million underwriting gain for the quarter compared to a \$4 million underwriting gain for the same period last year. For the year, Mt. Logan reported an underwriting gain of \$73 million compared to a \$9 million gain in 2013. Everest retained \$14 million of the underwriting income, and \$59 million was attributable to the non-controlling interest of this entity in 2014.

The overall underwriting gain for the group was \$265 million for the quarter compared to an underwriting gain of \$238 million for the same period last year. For 2014, the underwriting gain was \$887 million compared to a gain of \$739 million in 2013. These results reflect \$15 million of current catastrophe losses in the fourth quarter of 2014

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related to the Brisbane, Australia, hailstorms. This compares to \$30 million of cats during the fourth quarter of 2013.

The fourth quarter of 2014 also included favorable development on prior-year cat losses, primarily from Sandy losses in 2012. For the year, catastrophe losses were \$62 million in 2014 compared to \$195 million in 2013. Our reported combined ratio was 82.8% for the year 2014 compared to 84.5% in 2013. The 2014 commission ratio of 22.0% was slightly up from 20.6% in 2013, primarily due to higher contingent commissions on several years of profitable results.

Our expense ratio remains low at 4.6% for the year compared to 5.0% in 2013. Everest has one of the lowest internal expense ratios in the industry. We believe each point of lower expense ratio translates to about a half point of higher ROE. This is truly a strategic competitive advantage for Everest. On reserves, we completed our annual loss reserve studies. The results of the studies indicated that the overall reserves remained adequate.

In the fourth quarter, we booked prior-year development in the insurance segment and for asbestos, which was more than offset by favorable development in the reinsurance segments. The \$20 million of prior year reserve development in the insurance segment during the quarter was largely related to construction liability and umbrella business. These run-off programs were discontinued by the company several years ago.

The \$30 million of favorable prior-year development in the reinsurance segments reflects \$167 million of favorable development. This was offset by a \$137 million increase in asbestos reserves. The asbestos charge can be split into two components. First, the reserves associated with the company's assumed reinsurance business were strengthened by \$100 million after completing our normal exposure analysis, in part to bring the survival ratio more in line with our historical trend.

Second, the asbestos reserves related to Mt. McKinley's direct insurance business were increased by \$37 million. Everest has entered into a letter of intent to transfer the Mt. McKinley asbestos reserves to another company. The proposed transaction indicated \$37 million of funding would be required for the other company to assume the liabilities. So no additional increase will be needed should the transfer be completed.

The \$167 million of reinsurance favorable development mostly related to treaty casualty and treaty property business, both in the United States and internationally. These redundancies have developed over time, but we don't react until the position becomes more mature. We continue to hold our estimates for the more recent years.

For investments, pre-tax investment income was \$134 million for the quarter and \$531 million for the year, a \$17.4 billion investment portfolio. Investment income was below last year as anticipated. This result was primarily driven by the low-interest-rate environment and the decline in limited partnership income. Also, the cash flow used for share buybacks and the redemption of debt contributed to this lower income.

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The pre-tax yield on the overall portfolio was 3.2% as compared to 3.5% in 2013. Limited partnership income was down \$6 million year-over-year. However, our diversified investment strategy enabled us to exceed our planned investment income for the year. The increased allocation to equities was also a benefit to net income, as the year reflected \$55 million of net after-tax realized capital gains compared to \$197 million last year. These gains are mainly attributable to the fair-value adjustments on the equity portfolio.

A derivative loss of \$16 million was recorded in the fourth quarter, reflecting a change in the estimated valuation of our equity index put option contracts to include a better estimate for expected future dividends. This change resulted in cumulative catch-up loss adjustments over the seven open option contracts.

On income taxes, the 2014 operating income effective tax rate was 12.2%. This 12.2% effective tax rate for the year was in line with our expectations for a year with much lower than planned cat losses and the additional foreign tax credits utilized. Strong cash flow continues, with operating cash flows of \$1.3 billion for the year compared to \$1.1 billion in 2013.

This is primarily due to our premium growth and lower catastrophe loss payments. Shareholders' equity for the group was \$7.5 billion at the end of 2014, up 7% compared to the \$7 billion balance at year-end 2013. This is after taking into account capital returned through \$500 million of share buybacks and \$146 million of dividends paid in 2014. The company announced a 27% increase to its regular quarterly dividend and paid \$0.95 per share in the fourth quarter. Additionally, we repurchased another \$36 million of stock after the year-end close. These purchases will be reflected in the first-quarter 2015 financial statements.

Book value per share increased 14% to \$166.75 from \$146.57 at year-end 2013. Our strong capital balance positions us well for potential business opportunities as well as continued share repurchases.

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

John P. Doucette {BIO 7178336 <GO>}

Thank you, Craig. Good morning. As Dom highlighted, we had a strong Q4 finishing a very successful year. Our group gross written premium for Q4 was \$1.4 billion, up 7% from Q4 in 2013, with the growth coming from all reinsurance segments. Our group net written premium was \$1.3 billion, which was up \$40 million or 3% over Q4 2013.

For the full year, our group-wide 2014 premium was \$5.75 billion, up \$530 million, or 10%, from 2013. Our group net written premium was \$5.26 billion, up \$250 million, or 5%.

Let me start with our reinsurance segment. I will focus more on the full year results for 2014 then turn to our January 1st renewals to give you some color on what we are seeing in the market and some themes as to how we are navigating it. For our global reinsurance

segments, including both total reinsurance and Logan, gross premium was \$4.5 billion, up 15%, with growth coming predominantly from our U.S. and international reinsurance segments.

Net premiums were \$4.2 billion, up 7% as we continued to pursue our retrocessional strategy to lay off some of our catastrophe exposure and lower our cost of capital. Our reinsurance book, including Mt. Logan, generated \$935 million of underwriting profit, a 5% improvement compared to 2013.

These results highlight the success of the initiatives we have put in place over the last couple of years to achieve profitable reinsurance growth, including the introduction of several new reinsurance products such as PURple, Everest's pillar product. Deploying increased capacity to pro rata deals where we saw attractive original pricing, terms, and conditions, pursuing new credit-related opportunities to various territories, developing new strategic relationships across the globe with several key reinsurance clients, increasing line capacity on several attractively priced property catastrophe treaties aided by Mt. Logan, developing increased penetration and breadth of our international facultative book, growing our regional footprint and leveraging our competitive strengths to become lead reinsurer on various treaties in multiple countries, allowing us to drive terms and conditions.

These initiatives have broadened and enhanced both our broker and client relationships, which in turn has provided new opportunities to expand our writings whether it is on new programs or layers or larger shares of existing treaties with our longstanding clients. And despite a challenging rate environment, we achieved profitable growth as evidenced by the results of 2014.

So what are we seeing for 2015? Certainly, it continues to be a challenging market, with rates off between 5% and 15% depending on the line of business and territory. But having said that, we were able to achieve better than market results given our rating, longstanding client and broker relationships, broadly diversified portfolio, and our underwriting diligence and flexibility.

We take an objective view of each deal at renewal and will scale back or non-renew deals we do not like and redeploy capacity to deals and layers which we find to be better priced. This mitigated the downward impact on our portfolio.

Let me provide you a bit more color on the January 1 reinsurance renewals in which we wrote about \$2.1 billion of treaty premium, which represents approximately 45% of our annual reinsurance treaty premiums. Catastrophe excess of loss business represented roughly 25% of this renewal. This is an important point. As you have all heard, market participants expound on the double-digit rate declines in this sector. While we are not immune to these pressures, 75% of our renewal was in-line outside of property cat excess of loss, which speaks to the diversity of our portfolio and a mitigant to just following the general market down.

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We also have Mt. Logan, which provides efficient capacity to support this line. We continue to see robust, ongoing investor appetite for the Everest Logan value proposition, highlighted by Logan's best-in-class, risk-adjusted returns to investors. As of 1-1-2015, we raised approximately \$270 million of additional funds and Logan now stands at about \$690 million of assets under management. And 100% of Logan's capacity was fully deployed at the 1/1 renewals. During 2014, Logan generated approximately \$28 million of earnings for Everest including fees.

Property related and short-tail business outside of catastrophe excess of loss represented another 50% of the renewal writings. And while much of this has a cat component, it is balanced by risk premium. Putting up larger capacity on short-tail deals we like and in general, moving up attachment on property excess of loss layers softened the impact of some of the rate reduction.

Our 1/1 cat-exposed premiums saw a couple of points of deterioration in the combined ratio, but both our expected cat premium and dollar cat margins are approximately flat compared to last year. USA rates held up pretty well, but we saw more competition this renewal in Latin America, Canada, and China. Rates in Europe were also under pressure. For PURPle, we saw some undisciplined competition in that space, so we redeployed some capacity away from PURPle to some of our long-standing retro clients.

Overall, we did see a three-point drop in our expected ROE at this 1/1 on our worldwide property XOL book, as the deals that many of the clients are now buying are more capital intensive.

We believe this highlights and validates our property retrocessional strategy with the increased use of Logan, Kilimanjaro issuing \$950 million of cat bonds, and other non-traditional and traditional sessions to manage our net cat PML and lower our cost of capital. As a result of these strategies, our net ROE continues to be greater than our gross ROE on our worldwide property cat book.

Casualty remains challenging, especially pro rata due to demands for expanded terms and conditions. As a result, we continue to withdraw from some contracts, move from quota share to excess of loss, and deploy capacity at higher layers on others.

We saw new opportunities at 1/1 outside of the mainstream that meaningfully added to our top line. This includes a large motor quota share in Europe, a large international professional liability quota share, increased lines for some of our global clients that were only offered to Everest, and surplus relief deals that were not widely marketed to many reinsurers. These new deals offset some of the premium from the quota share deal and excess of loss deals which we non-renewed at 1/1/2015.

Four themes helped us this 1/1. Number one, we have one of the lowest internal expense ratios in the industry, with our total reinsurance segment carrying only a 2.9% expense ratio. Therefore, we get more dollars of margin and a higher ROE on the same premium than others do.

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Number two; we are more diversified than most of our competitors. We use our capital across more zones and perils, and that naturally lowers our internal cost of capital.

Number three, the retrocessional strategy of Logan, Kilimanjaro cat bonds, ILWs, and other traditional and non-traditional sessions lowers our cost of capital further.

And number four, our reinsurance operational structure is another sustainable competitive advantage. Everest has one view of risk around the globe. But we deploy capacity to our clients by senior lead-market experienced underwriting teams in a decentralized fashion and empower those teams to make decisions.

This allows us to know our customers very well and move quicker and in scale, better and faster than our competitors who write only a few lines of business or who write out of one, only one or two offices.

Across all classes on a constant foreign exchange basis, our gross reinsurance premium at 1/1/2015 was approximately flat compared to last 1/1. Our net reinsurance premium declined by about 2% this 1/1 as we reinsured more of our book with the growth in Mt. Logan's AUM and the capacity provided by the Kilimanjaro cat bonds, in addition to increased use of other traditional reinsurance to effectively protect our net position.

We are pleased with the outcome of our 1/1 renewal despite market conditions and expect 2015 to be another strong year for our reinsurance book. Being innovative and providing ideas and solutions to our clients, as well as our ability to execute quickly and in size, is now more important than ever. Our focus on new business opportunities, new products, new distribution sources, and leveraging our competitive strengths remains key to our underwriting success.

With our balance sheet, ratings, and ability to nimbly deploy both rated capacity and unrated capacity in size, to support our business, we have more tools in our toolkit to compete and win against non-traditional capacity as well as other traditional reinsurers.

Now, turning to our insurance operations. We wrote \$300 million of insurance premium in the fourth quarter and wrote \$1.2 billion for the year. For both the quarter and the full year, that is down about 5% compared to the same period last year.

But removing crop insurance, both the quarter and the full year are up approximately 10% in premium, with growth coming from each of our insurance units.

Insurance growth initiatives that we have put in place over the last couple of years have been providing benefits to the top and bottom-line. These include staffing up underwriting operations and expanding broker relationships, both property and casualty, increasing our property insurance geographic footprint, driving international insurance expansion, including growing our existing Canadian platform, and building out new product, distribution and strategic relationships within our specialty insurance operation, both in the U.S. and internationally.

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Insurance calendar year results ran to a loss due to our crop results, which is consistent with what we have been discussing on prior earnings calls. Excluding crop, our insurance operation ran to a \$15 million underwriting profit. This was almost \$100 million improvement in underwriting results year-over-year.

Our crop insurance book had an underwriting loss of \$22 million in Q4, resulting in a calendar year underwriting loss of \$64 million in 2014. These results were driven by four issues: lower commodity prices during 2014, particularly for corn; below-average results in Minnesota, our largest state and typically our most profitable; significant losses in crop hail due to an unusual number of hailstorms throughout the Midwest; higher expenses associated with new technology and IT initiatives.

We anticipate improved underwriting results in our crop book in 2015, with a larger, more diverse book of business and increased operating efficiencies derived from an updated systems infrastructure. In other lines of business, in terms of rates, we continue to see rate increases in our California workers comp book of about 7%, but the rate increases have slowed as more competition has come into that space.

General liability was up about 7% for the quarter. Professional liability rates were down about 5%, and property insurance rates were also down about 5%. As before, we continue to roll out many new insurance and reinsurance products in 2015. We are hopeful for meaningful growth in our insurance operations as we capitalize on opportunistic expansion, both geographically and across product lines.

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

Elizabeth B. Farrell {BIO 1986541 <GO>}

Yes, Kelly, we are now for questions.

Q&A

Operator

We have our first question from Amit Kumar from Macquarie. Your line is open. Please go ahead.

Q - Amit Kumar {BIO 19777341 <GO>}

Thanks, and good morning, and congrats on the quarter. Just a few clarification type of questions. Number one, just going back to the discussion on Mt. McKinley, how much - what's the size of the reserves that is being shipped off from that?

A - Dominic James Addesso {BIO 1428096 <GO>}

Mt. McKinley is about \$150 million of reserves that would be transferred.

Q - Amit Kumar {BIO 19777341 <GO>}

And that's in Q1?

A - Dominic James Addesso {BIO 1428096 <GO>}

Well, we don't know when the transaction will close. We have to go through all the regulatory approvals and things like that. But I would suggest that it probably would be the beginning of Q2.

Q - Amit Kumar {BIO 19777341 <GO>}

Okay, that's helpful. The other question I had was on - this goes back to the discussion on renewals and thank you for the expanded commentary this quarter. In terms of some of the new opportunities which you talked about, I think you mentioned a motor quota share and a large international account, do you have some sense of - I guess, why was it shifted to you and how did it perform previously? I'm just trying to get a sense why it was non-renewed by the previous reinsurer?

A - Dominic James Addesso {BIO 1428096 <GO>}

I'm not sure, Amit, that we can really get into that level of detail relative to prior reinsurers. In some cases, it might not have even been a transaction that had been in the market. A number of these deals that John had referenced are surplus-driven or financially-driven transactions. They do have risk transfer in them, of course, but its capital relief type products in some cases. And in other cases, it's helpful to companies as to how they manage their capital at various subsidiaries around the world. So they're all different.

Why is Everest the company of choice? Some of the things that John mentioned, I think, are important to us. I think in the community at large, I think we hope that we're viewed as an innovative market and a market that's quick to respond, flat organizational structure so that any significant transaction can quickly get to John's desk or my desk if it needs that level of approval and a strong rating and the global footprint. And those are all reasons that we've been emphasizing, and that's what we found as why we're a market of choice in many of these unique transactions.

Q - Amit Kumar {BIO 19777341 <GO>}

I guess, what I was trying to figure out is - and I'm just a bit surprised that you've had these opportunities for a few quarters. And I'm just trying to figure out if it's a size issue, why some of your peer companies have not been able to capitalize and find similar opportunities?

A - Dominic James Addesso {BIO 1428096 <GO>}

Oh, I think it's hard to generalize. I do think in part, it's a size issue. It could be a ratings issue. It could be the fact that these are not the types of transactions that this company has shown an interest in or had a risk appetite for. It's hard for me to explain what the reasons might be.

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Q - Amit Kumar {BIO 19777341 <GO>}

Okay. And just finally, any change in the buyback philosophy versus as it relates to your discussion on premiums? Do you expect - should we anticipate that to be any different versus what we've seen in the past? Thank you.

A - Dominic James Addesso {BIO 1428096 <GO>}

I think what I've tried to emphasize in my comments was that, we've bought back a significant - returned a significant amount of capital in the past several years. I would anticipate that we would continue to do that given the current market conditions. But obviously if the market changes then we would change direction on how much capital we would return. So, I don't anticipate any major change at this point, what I think would be the straight answer to your question.

Q - Amit Kumar {BIO 19777341 <GO>}

Got it. Thanks for the answer and good luck for the future.

A - Dominic James Addesso {BIO 1428096 <GO>}

Thank you, Amit.

Operator

Our next question comes from Michael Nannizzi from Goldman Sachs. Your line is open. Please go ahead.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thanks. Just a couple here if I could. The expense ratio in international reinsurance in Bermuda in particular lifted in the fourth quarter. Was there something that happened that was kind of fourth quarter specific, in particular, in Bermuda, or maybe there were some other driver? Thanks.

A - Craig W. Howie {BIO 17579923 <GO>}

Michael, this is Craig. In the fourth quarter, we typically have compensation related accruals at year end. And if you recall, again, we had a record quarter of results in the fourth quarter as well.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. So, but even with the year-over-year comps - I mean, fourth quarter of last year was pretty good, too, right? So that's all just incremental comp on that we should be thinking about, and it's just specifically in Bermuda?

A - Craig W. Howie {BIO 17579923 <GO>}

No. The majority of it is where you're seeing it maybe even in total segments compared to third quarter into fourth quarter.

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A - Dominic James Addesso {BIO 1428096 <GO>}

Michael, I wouldn't look too much into individual segments because each of those are subject to individual accruals and year-end adjustments. I think the main topic is the overall group, and the difference in the fourth quarter was what Craig specified, which was predominantly compensation adjustments as it relates to putting it in line with our year-end results. So, the individual segments can be a myriad of factors that are local.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay, great. Thanks. And then, Dom, you mentioned the net ROE versus the - I'm sorry, John mentioned the net versus gross ROE. Just trying to understand - I imagine that includes the difference is in part Mt. Logan because you cede some business to Mt. Logan. So I'm just trying to understand the relationship of the ROE at Mt. Logan versus the ROE at Everest.

A - John P. Doucette {BIO 7178336 <GO>}

Good morning, Michael. This is John.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Good morning.

A - John P. Doucette {BIO 7178336 <GO>}

Yeah, we've been talking about this for several quarters that there's different - by having rated and unrated capacity, there's different constraints, there's different capital requirements. And it's not just cost of capital, it's also that there's different ROE for a rated company is impacted by how rating agencies think of the capital that you need to hold to support the businesses. And so it gives us the ability to find the right fit for business.

But deal-by-deal and across the portfolio, Logan is very critical for that. But it's also part of a broader strategy that involves the cat bonds and other traditional sessions that we have, and it allows us to kind of - and also within Mt. Logan, we have different investor appetites low risk, medium risk, high risk that results in lower return, medium return, and higher return. And having that combination gives us a lot more flexibility to be able to deliver the most value for our clients and have the best net position for Everest.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it, okay. And then Dom, I think you had mentioned that, I think, in your opening remarks that cat business represents about half of the underlying profit or of the profit on a run-rate basis, I guess, when you adjust for model cats. Can you share, what was that percentage in 2014 on an actual basis? Do we have that?

A - Dominic James Addesso {BIO 1428096 <GO>}

The number is probably somewhere between \$300 million and \$400 million of underwriting profit, non-cat.

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Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay, got it. Great. Thanks. And then last one if I could sneak one more in. I think John, you mentioned last quarter that you were seeing some 20% return opportunities in, I think, somewhere more on the financial side in terms of those types of transactions. Just would love an update on that. Is there still an opportunity to generate that level of return in that part of the portfolio? And thanks so much for all the answers.

A - John P. Doucette {BIO 7178336 <GO>}

The short answer is yes. We continue to see - and, again, we've been talking about this for a while. Not just do we have a large balance sheet and a high rating, but we also have a lot of underwriting expertise bringing underwriting accounting tax, legal, contract wording, and actuarial and bringing that all to the mix and solving clients' needs and creating some one-off structures. And we continue to look for those.

And I think in general, we think the more it's less commodity, less plain vanilla, that seems to be under more pricing pressure. So having the ability to execute kind of multi-jurisdictional insurance/reinsurance combination deals gives us the ability to really solve the clients' problems and use a lot of the different competitive advantages that we have. And we continue to think that there's a lot of runway for that.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Great. Thank you so much.

Operator

Our next question comes from Vinay Misquith from Evercore. Your line is open. Please go ahead.

Q - Vinay Misquith {BIO 6989856 <GO>}

Hi, good morning. The first question is on the increase of the combined ratio for next year, that's 2015. You talked about, I think, a couple of points increasing the combined ratio from the cat business. So, I was just curious as to - so when you shake it all together for the other lines of business because pricing is down, where do you see it sort of coming out to?

A - Dominic James Adesso {BIO 1428096 <GO>}

What was the last part of that?

Q - Vinay Misquith {BIO 6989856 <GO>}

So for the cat business, I believe you said that the combined ratio would increase maybe about a couple of points for the cat business. I was wondering also for the non-cat business. So, if we shake it all together for the company as a whole on the reinsurance side, how many points of an increase on the combined ratio do you think you got of the Jan 1 renewals?

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A - Dominic James Addesso {BIO 1428096 <GO>}

Yeah, you're really leaning us more towards giving earnings guidance, which, Vinay, we really try not to do. I think - or we expect, let me just say it this way - we expect our insurance operations combined ratio to improve. I'm not really going to give you any guidance on what that expected combined ratios would be in the insurance portfolio.

On the reinsurance portfolio, a lot of that is dependent upon the types of transactions that we see. Certainly we will strive to maintain a combined ratio targets that we've been accustomed to. And that will likely mean that some of the transactions that we were on in 2014, will probably not renew, and then we'll look for other types of transactions. As John mentioned, we're doing some new products, expanded our capabilities into the credit area. And a lot of that reinsurance we expect to run at better combined ratios than our traditional reinsurance book. So, part of it is dependent upon the mix and that's the best answer that I can give you at this point.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure. Fair enough. And on the cat business, you said that it's going to be about a couple of points higher, but pricing seems to be a lot lower. I was just wondering what the difference is - the difference, the retro that you guys are buying.

A - John P. Doucette {BIO 7178336 <GO>}

No, that's - the retro really is a capital issue, Vinay. The combined ratio on a gross basis - those were gross basis comments. And what - a lot of that, again - and we keep trying to articulate this to you that it's - that the ability to move between product, between layers, between clients to redeploy capacity from one product segment to another, as we try to utilize the cat capacity that we're willing to deploy at any renewal, and really be able to move seamlessly between that.

And one example is within our treaty property department, it's the same team that writes pro rata, risk, cat, and retro. And that, having the ability to dynamically allocate capacity to help where the clients' needs are and where we think the best pricing is as well as moving up and down attachment points within a layer and ask, again, we think because of our market position, we have the ability to get more the signings in the layers we want. And that really helps drive what you're seeing.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure. So it's a mix issue besides the pricing, right? Okay, okay.

A - Dominic James Addesso {BIO 1428096 <GO>}

The mix influences the combined ratio.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure, sure. Fair enough. Then just a 50,000-foot view, we've seen a lot of M&A in the industry. You guys are about a \$8 billion market cap company. Curious about your thoughts

on M&A.

A - Dominic James Addesso {BIO 1428096 <GO>}

Thoughts in what regard?

Q - Vinay Misquith {BIO 6989856 <GO>}

Are you interested in combining with others? Do you think your size is large enough that you don't need to? And also, do you think you're going to get some more opportunities? If you guys don't combine and the others do, do you see some more opportunities sort of within the industry for your premiums?

A - Dominic James Addesso {BIO 1428096 <GO>}

Well, I think we have been emphasizing our scale and diversity for some time. So, obviously, I think we've been communicating that. We think we have sufficient scale. So we don't really see the necessity or urgency for combinations. Others may view it differently. But I think in essence what you're seeing in the marketplace, in that regard, somewhat validates what we've been saying have been the Everest advantage. So that's what I'll really say about that.

In terms of the combinations and what it means to the marketplace in general, it all depends on execution. Many times, these combinations can be disruptive; maybe they won't be. We will see. It can affect market, it can affect shares of programs. It can affect teams of people. There's always some churn that will occur as a result of any kind of a merger in any industry.

So time will tell, and we'll see how that will evolve over the months ahead. Perhaps it creates opportunities, perhaps not. What I will say is that, in some regard, this could be good for the industry in the sense that perhaps some of the capital does come out of the business and creates further discipline. So that could be a good outcome for some of these combinations.

Q - Vinay Misquith {BIO 6989856 <GO>}

Fair enough. And then, just really on Mt. Logan Re, so it appears that you guys have increased capital by maybe 60%, because you raised about \$270 million more, correct? So would it be fair to assume that the premiums also would be up a similar amount because you've already deployed all the capital as of January 1?

A - John P. Doucette {BIO 7178336 <GO>}

Yes. This is John. Yes, we would expect there to be some increase in the ceded session to Logan.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay, all right. Thank you.

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A - Dominic James Addesso {BIO 1428096 <GO>}

And just - Vinay, one more thought relative to your size question. Keep in mind, as you mentioned, an \$8 billion market cap company, we're also - you add in the Logan piece and the sponsored cat bonds that we have, so essentially, you can almost argue that we're operating more like a \$10 billion capitalized company.

Q - Vinay Misquith {BIO 6989856 <GO>}

Fair enough. Thank you.

Operator

Our next question comes from Josh Shanker of Deutsche Bank. Your line is open, please go ahead.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Good morning, everyone. I think you made a very compelling case about your expense advantage compared to your competitors on this call this morning. I don't know if that translates necessarily to the insurance business, though. Why is Everest better in the insurance businesses than their peers? And we've seen some variable results from different reporters of crop insurance. Why have your results been weak this year while some others haven't seen such weakness?

A - Dominic James Addesso {BIO 1428096 <GO>}

I will let John talk about the crop piece because I think he hit some of those points in his prepared remarks. But let me just perhaps admit that I don't know that we are better than the industry on the insurance side. Our comment about the expense ratio was a reinsurance comment and why we feel we're getting superior returns there.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Does it make sense - okay, go ahead, John, and then we'll come back.

A - John P. Doucette {BIO 7178336 <GO>}

So in terms of the crop insurance, we have a great team at Heartland and we - but we know we need to grow that book. We need to diversify the book. A lot of it there is fixed expenses, those high fixed expenses with infrastructure and systems. And so we know that, so in all - a lot of the things we're talking about what we're doing on the reinsurance side, we're trying to do that with our - with various insurance books including the Heartland crop book.

And we would expect that with a better geographic footprint than we have, a bigger and better geographic footprint will give us more diversification, better risk-adjusted returns. It will also give us economies of scale. And I think some of the competitors may buy quota shares. We do not buy quota shares. And then they get an override from the reinsurers, and that may be impacting their expense ratio as well.

A - Dominic James Addesso {BIO 1428096 <GO>}

We have some work to do there. But, again, to remind you that a significant portion of that crop loss came from crop hail and not just MPCl.

Q - Josh D. Shanker {BIO 5292022 <GO>}

That's a great answer. And then coming back, if you are not necessarily better than your peers in the insurance business, does it make sense to you to continue in that business? I'm not telling you have to sell it or anything. But when you think longer-term, might it be worth more to somebody else than it is to you?

A - Dominic James Addesso {BIO 1428096 <GO>}

Right now, Josh, we think it is a good diversifier for our platform. We have the ability to deliver, we think, again, because of the diversification effect, a greater ROE. It's also a source of business for us into any capital market platforms that we've talked about earlier as well. So we do - here, again, when we talk about our net ROE being IRR gross ROE, there's an opportunity to leverage that as well. So for the time being, we think that the diversification and access to risk, being able to build out that platform is important to the future of Everest.

A - John P. Doucette {BIO 7178336 <GO>}

We also feel - we spend a lot of time looking at the trends, and we buy each of the business units that we have. And the trends are favorable. We've been growing our footprint whether it's our A&H operation, the SIG operation, our property facilities around the group, the workers comp, the FI and professional teams, the casualty and environmental teams, the trends have been favorable. And we are going to continue to give those teams support and capacity and help them grow their footprint, to help them get economies of scale, additional economies of scale, and leverage, again, the financial strength and rating and ability to execute that Everest prides itself in.

A - Dominic James Addesso {BIO 1428096 <GO>}

The in-force portfolio is delivering great results for us now, and we recognize that we've had over the last couple of years a drag from discontinued books of business. And obviously, as you can tell from this year, that's been greatly diminished. And so we think it's a bright future there.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Well, congratulations. Certainly a great year overall.

A - Dominic James Addesso {BIO 1428096 <GO>}

Thank you, Josh.

Operator

At this time, I would like to turn the call back over to Ms. Beth Farrell for closing remarks.

A - Elizabeth B. Farrell {BIO 1986541 <GO>}

Actually, I will turn the call over to Dom Addesso for closing remarks.

A - Dominic James Addesso {BIO 1428096 <GO>}

Thank you. And thank you all for participating in today's call. We talked a lot today, and we continue to emphasize about our competitive advantages which have yielded above-market returns. These are - our competitive advantage are our global franchise of scale, diversified portfolio. We have a very talented staff and, as we mentioned, a very competitive expense ratio. Market conditions are difficult. The trend is difficult. But we've proven our ability to deliver superior results. There certainly are many areas to be cautious about, but also there's lots more to do. And we thank you for your continued interest. Have a good day.

Operator

This concludes your teleconference. Thank you for your participation. You may now disconnect.

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