

## Q2 2012 Earnings Call

### Company Participants

- Beth Farrell, VP Corporate Communications
- Craig Howie, CFO
- Dom Addesso, President
- Joe Taranto, Chairman and CEO

### Other Participants

- Amit Kumar, Analyst
- Cliff Gallant, Analyst
- Greg Locraft, Analyst
- Ian Gutterman, Analyst
- Josh Shanker, Analyst
- Michael Nannizzi, Analyst
- Vinay Misquith, Analyst

### Presentation

#### Operator

Good day, everyone. Welcome to the Everest Re Group Limited Second Quarter 2012 earnings release call. Today's conference is being recorded. And at this time for opening remarks and introductions, I would like to turn the conference over to Beth Farrell.

#### Beth Farrell {BIO 19732216 <GO>}

Good morning. Welcome to Everest Re Group Second Quarter 2012 earnings conference call. On the call with me today are Joe Taranto, the Company's Chairman and Chief Executive Officer; Dom Addesso, our President; 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 Joe.

## Joe Taranto {BIO 1495653 <GO>}

Thanks, Beth. Good morning. We are pleased with our results through the first six months. Our comprehensive income for that period is \$590 million. During the six months, we purchased \$225 million of our stock, paid \$51 million in dividends, and still increased our surplus \$346 million, or 6%. Book value per share adjusted for dividends has increased 10%. Our annualized operating earnings ROE was 16%.

Our reinsurance book has been positioned to capitalize on the best opportunities, which have generally been on the property risks, as rates, terms and conditions improved in the last couple of years in response to loss activity. We have done this without meaningfully increasing our PMLs in any peak zones. We are pleased with our mid-year renewals. Dom will provide more detail on this shortly.

Our insurance book has also been positioned to capitalize on our best opportunities. This includes our D&O operations, our A&H medical stop loss business, and select property businesses, which continue to be profitable areas for us, as well as California workers' comp business and our general liability book, where the market continues to improve, and our crop book. Again, Dom will provide more detail. Our \$16 billion of invested assets continue to perform well, particularly given the challenges of finding quality investments in the current market.

As previously announced, I will continue as CEO through the end of 2013, at which point, Dom will become the CEO. I'm excited about continuing to lead our Company through this year and next, and thrilled to have such a high quality individual, Dom Addesso, lead our Company for many years thereafter. I like our team, our portfolio, and our plan. Our Company has never been stronger, our future has never been brighter. Dom?

## Dom Addesso {BIO 1428096 <GO>}

Thank you, Joe. Good morning. As Joe indicated, we have had an excellent quarter overall. The year so far is playing out generally as expected, with the attritional combined ratio improving by 1 point compared to the first six months of 2011. Rate increases and improving terms are beginning to work through the reinsurance property results.

Total cat premium year-over-year has increased \$200 million, with approximately 0.5 of that being rate increase. These results are also benefiting from the shift of pro rata to excess. While this has a dampening effect on premium, the positive impact on margin is flowing through the loss and expense ratios. The combined ratio on our reinsurance property portfolios, which has not yet been fully reflected through earnings, has improved by 11 points.

On the treaty casualty side, we are beginning to see modest rate increase work through the results. It has not yet reached a level where we feel the need to aggressively expand, but the future opportunities may be more appealing over time. In that regard, we are beginning to enhance our teams and structure to maximize our resources around the globe.

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Overall, reinsurance premiums for the quarter were down, but this was due to foreign currency, reinstatement premiums, and the one-time effect of a cancelled quota share contract. After eliminating the effect of these items, premiums were up 17% for the quarter. This was a result of the previously mentioned rate increases in many of our businesses.

The Florida market at June 1 saw cat rates move up on average by 5%. Canada property rate movements were similar. The Asian markets had the largest moves, where rates in loss-affected regions were up 20%-plus. In Japan, we saw terms improve on proportional treaties, although we did move some capacity to excess structures. July renewals in Australia and New Zealand also had upward movement in rates due to losses in those markets. Increases here were in excess of 10% to 20%. In all other international regions, property rate changes were relatively flat.

As I mentioned, approximately 0.5 of the cat exposed premium increase was rate. But the balance reflects new business opportunities for us in non-peak zones. Our total cat exposed premium through six months is \$740 million. By year-end this is expected to be approximately \$1 billion, with no material increase in peak PML zones. This expansion reflects our appetite to expand as markets improve, and most importantly, our ability to execute due to the capability of our staff and the desire of the market for our well-rated capacity.

Improving markets and portfolio changes in both property and casualty has resulted in excess of \$100 million of underwriting profit for the quarter, and \$218 million year-to-date for our reinsurance operations. Excluding cats and reinstatement premiums, the reinsurance segment's combined ratio for the year has trended down to 83.7%. This should continue to improve with the shift to excess.

On the insurance side, results for the quarter and year-to-date are unfolding as expected. Our growing primary A&H business, plus double-digit rate increases continuing in both workers' comp and our general casualty lines, are all contributing to a solid 96.5% combined ratio for the quarter. Our professional liability portfolio is also performing well, and the runoff of terminated programs is nearing its end.

Currently, the only headwind in the insurance book is the crop business. We have only 24% of the crop portfolio in the most severely affected states, yet we have booked conservatively for the year-to-date at a small underwriting profit. While it's still early to predict an outcome here, it's less likely to have a material impact on the annual results since the total (MPCI) writings for the year will approximate \$135 million, and we do purchase stop loss coverage on this book. Overall, the insurance book continues to move in the right direction, with an underwriting profit for the quarter and year-to-date.

As we move through the Third Quarter, the indications for all segments are still positive. We are moving into the US hurricane season and that still has to play itself out, but July property renewals in the US and Australia were strong. The casualty market continues to move in the right direction. For workers' comp, we are into our third year of rate increases. Our property portfolio has been expanding into non-peak zones, and rates are at

sustainable levels. We have made some organizational changes and additions in key management positions in both the US and internationally, which will allow us to move forward in expanding our footprint in new and different ways.

Given our size, credit quality and market positioning, we are a market that brokers and clients are interested in doing business with. With these changes, I'm confident that we can effectively execute on the right transactions and in the right way.

I will now ask Craig to take us through the further details on the financials.

### **Craig Howie** {BIO 17579923 <GO>}

Thank you, Dom. Good morning, everyone. We are pleased to report that Everest had another very strong quarter, with after-tax operating income of \$223 million, or \$4.25 per diluted common share. In comparing these results to last year, consideration must be given to the record catastrophes experienced in 2011. Net income for the Second Quarter was \$214.6 million, or \$4.08 per diluted share. Net income includes realized capital losses for the quarter.

On a year-to-date basis, operating income was \$462.9 million, or \$8.72 per share. This represents an annualized operating return on equity of 16.1%. Net income year-to-date is \$519.3 million, or \$9.79 per share. This net income includes realized capital gains for the year. These results are reflective of the year-to-date overall attritional combined ratio improving 1 point, from 87.8% down to 86.6%. This measure excludes the impact of catastrophes and reinstatement premiums.

The total reinsurance attritional combined ratio was 83.7%, compared to 84.7% in the prior year. The reinsurance segments would have improved even more if not for the \$30 million charge in the marine line for the Costa Concordia cruise ship, \$10 million of which was booked this quarter. This includes the estimated \$200 million of additional cost to remove the wreck.

The insurance segment attritional combined ratio was 98.7%, compared to 99.3% in the prior year. This ratio was much better than the 105.8% ratio for the full year of 2011. These improvements should continue as rate increases continue to earn in over time. Also providing better margins is the shift in our portfolio from quota share to excess of loss.

Gross written premiums of \$909 million for the quarter were down 8% compared to the Second Quarter of 2011. This decline is primarily driven by the non-renewal of one large Florida quota share reinsurance contract in the quarter. More on this later. On a year-to-date basis, gross written premiums were \$1.96 billion. This represents a decline of 2% after adjusting for reinstatement premiums and the effects of foreign currency movements.

Earned premiums of \$1.04 billion for the quarter were flat compared to the same quarter last year. Earned premiums of \$2 billion on a year-to-date basis have not changed significantly year-over-year. We have achieved strong rate increases on portions of our

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book, especially on catastrophe exposed risks. However, the shift in capacity away from proportional risk, does mask this effect, as excess of loss business carries lower premium.

The reinsurance segments reported year-to-date earned premiums of \$1.6 billion, up 1% over 2011. Reinsurance written premiums of \$1.5 billion were down 3% over the same period. However, written premiums were flat year-over-year after adjusting for reinstatement premiums and foreign exchange. For the quarter, written premiums of \$654 million were down 10%, after adjusting for reinstatement premium and foreign exchange. The decline in the reinsurance written premium this quarter is primarily driven by the non-renewal of a large Florida quota share contract. The reinsurance segment written premium would have been up 14% for the quarter, excluding the impact of the return premium on this transaction. The written premium would have been up 17%, excluding the impact of reinstatement premiums and foreign exchange.

The non-renewal of this contract allowed us to deploy our capital elsewhere, and write other excess of loss covers in Florida. In fact, we remain a significant writer of excess loss business in Florida. This fits our strategy of shifting our portfolio toward excess of loss business where we feel underwriting margins have seen the most improvement. We expect to see continued improvement in the expected margins to earn in over time, assuming normal catastrophe year in Florida.

The insurance segment reported \$212 million of earned premium for the quarter, which was flat compared to the Second Quarter of 2011. On a year-to-date basis, insurance earned premiums of \$392 million were down 8% year-over-year. This is primarily due to the runoff of certain program business, and lower crop premium in the current year. Last year, the crop premium earned evenly throughout the year as reinsurance premiums.

The insurance segment reflects \$35 million of seasonal earned premium from crop business in the Second Quarter, with \$39 million now earned year-to-date. We expect full-year net premium from this book to total about \$150 million. We are currently booking the crop business at a 95% combined ratio, but it's still too early to tell the overall impact that the record drought conditions in the US will have on this book. However, as Dom mentioned, the Company does purchase stop loss reinsurance coverage for its crop portfolio, and the MPC1 cover attaches at a 110% loss ratio.

Our reported combined ratio is 89.0%. This is for both the quarter and year-to-date. All segments reported underwriting gains for both the quarter and on a year-to-date basis. The overall underwriting gain was \$114.5 million for the quarter, and \$224 million for the year so far. Total reinsurance reported an underwriting gain of \$107 million for the quarter, and a \$218.7 million gain year-to-date. The insurance segment reported a \$7.4 million underwriting gain for the quarter, and a \$5.3 million gain year-to-date.

The commission ratio for the quarter is up 2.8 points compared to the prior-year quarter. This increase relates to a number of one-time adjustments and settlements, and the change in accounting for deferred acquisition costs. We expect this ratio to return to a normal run rate of 22% to 23% over the next several quarters. For the quarter, we recorded \$30 million of losses for current year catastrophes. These losses are primarily

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related to a number of tornadoes and other severe weather in the US this quarter. This brings our year-to-date gross catastrophe losses to \$60 million for 2012, or 2.9% of earned premiums.

Regarding 2011 catastrophe losses, we have reallocated a portion of the \$50 million cat IBNR established at the end of last year to cover higher estimates on certain events, in particular the 2011 New Zealand earthquake. We still have \$30 million of this catastrophe IBNR remaining. As for other loss reserves, we released our 2011 global loss development triangles in June. There were really no major changes since the 2010 release. In fact, our quarterly internal reserving analysis continues to develop favorably.

For investments, pretax investment income was \$149.3 million for the quarter, and \$301.8 million year-to-date on our \$16 billion investment portfolio. Year-to-date, investment income declined \$35.6 million from one year ago. This decrease is primarily driven by lower limited partnership income, which was down \$22 million this year, and by declining reinvestment rates.

The quarter reflected \$16.6 million of pretax realized capital losses, and \$8.5 million of losses after tax. But we had \$82.1 million of pretax realized capital gains on a year-to-date basis, and \$56.3 million of gains after tax. On income taxes, the 12.9% effective tax rate on operating income for the quarter reflects, one, the impact of the realized capital losses in this quarter on the annualized effective tax rate calculation. And two, other one-time tax adjustments. 7.4% year-to-date effective tax rate on operating income is within our expected range for the year.

Turning to other miscellaneous items, the \$16.3 million derivative loss for the quarter relates to the decline in the equity markets and interest rates during the quarter. On a year-to-date basis, we reported a derivative loss of \$10.1 million, compared to a derivative gain of \$4.2 million in the prior year. Other income for both the quarter and the year largely reflects foreign exchange gains in the periods, as compared to foreign exchange losses a year ago. This is primarily due to the strengthening of the US dollar against other world currencies.

Operating cash flows were \$139 million for the quarter, compared to \$151 million in the Second Quarter of 2011. As expected, catastrophe loss payouts and income tax payments contributed to this decline. We earned \$188.5 million of comprehensive income this quarter. This primarily reflects \$215 million of net income for the quarter, plus foreign currency translation adjustments of \$25 million. We now have \$590.4 million of comprehensive income year-to-date.

Turning now to capital management, in addition to the dividend payments to shareholders of \$25 million, we repurchased almost 1 million shares this quarter at a total cost of \$100 million. For the year, we have repurchased 2.4 million shares at a total cost of \$225 million. Since 2006, we have repurchased over 15 million shares, at a total cost of \$1.3 billion, representing over 23% of the outstanding shares at December 31, 2006. The Company has 4.9 million shares remaining under a share repurchase authorization from the Board of Directors.

Shareholders' equity increased to \$6.4 billion this quarter, up 6% from \$6.1 billion at year-end 2011. This is after taking into account the \$225 million of stock repurchases, and the \$51 million of dividends paid so far this year. Book value per share increased 9.5% to \$123.75 from \$112.99 at year-end 2011. Our strong capital position leaves us with capacity to maximize our business opportunities, as well as continue our share repurchases.

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

**Beth Farrell** {BIO 19732216 <GO>}

Lisa, we are ready to take questions.

## Questions And Answers

### Operator

(Operator Instructions)

Amit Kumar, Macquarie.

**Q - Amit Kumar** {BIO 15025799 <GO>}

Thanks, and congrats on a very strong quarter. I had a few clarification-type questions on the crop insurance book. The color was very helpful, which you gave in the opening remarks. First of all, can you refresh us -- what is the crop distribution in the heartland book? It's not corn, it's not predominant just based on where it is, but can you refresh us on what is the distribution?

**A - Dom Addesso** {BIO 1428096 <GO>}

You mean the distribution by crop?

**Q - Amit Kumar** {BIO 15025799 <GO>}

Yes.

**A - Dom Addesso** {BIO 1428096 <GO>}

It's normal distribution -- corn and soybean are the main products.

**Q - Amit Kumar** {BIO 15025799 <GO>}

And do you have the percentages?

**A - Dom Addesso** {BIO 1428096 <GO>}

Give me a second, Amit. The information I have in front of me will not let me give you a precise answer, so I'll have to follow up on that question.

**Q - Amit Kumar** {BIO 15025799 <GO>}

I know you mentioned the stop loss coverage -- would this be similar to what the industry standard is in terms of where it attaches? Can you give us any other color on that?

**A - Dom Addesso** {BIO 1428096 <GO>}

It attaches at a 110, I think it's 95% of -- we have a 5% participation --

**Q - Amit Kumar** {BIO 15025799 <GO>}

I'm sorry, say that again?

**A - Dom Addesso** {BIO 1428096 <GO>}

30 points the limit, 95 at 30% excess of 110.

**A - Joe Taranto** {BIO 1495653 <GO>}

It's similar in structure to what most companies purchase.

**Q - Amit Kumar** {BIO 15025799 <GO>}

The only other question I have for now is, obviously your overall book has evolved, and you are talking about your cat premiums being \$1 billion -- cat exposed premiums being at \$1 billion versus right now at \$700 million. I'm curious, how should we think about the cat load discussion? I know we have discussed a number in the past, but as the book changes, how do you think about the cat load internally?

**A - Dom Addesso** {BIO 1428096 <GO>}

That has not changed significantly. As we mentioned, there have been no major shifts in our peak zones, and we have pushed out some additional aggregate into some non-peak zones. But that's not changing materially our annual expected load.

**A - Joe Taranto** {BIO 1495653 <GO>}

And a lot of the change comes from rate increases.

**Operator**

Josh Shanker, Deutsche Bank.

**Q - Josh Shanker** {BIO 5292022 <GO>}

I want to walk through the Florida quota share arrangement a little bit. I wanted to know what impact there was on the expense ratio to loss ratio in terms of give back of premiums that might be one-time in nature. Did the program dissolve, or does it go to a competitor? And talk a little about the philosophy of letting that program leave, and what changed in the economics over the last few years.



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**A - Joe Taranto** {BIO 1495653 <GO>}

I will start with the latter part of that question, with regard to what happened; and then I will turn it over to Craig to take you through some of the numbers. Basically, we would have supported the deal that was in place with us last year, but a competitor offered terms that we could not support. We, in fact, had a contractual right on the deal that was put forth to do more than 50%, but we chose not to do anything. Instead we redeployed our capital into Florida XOL deals, which we think offer better returns. So that's the long and short of it in terms of that specific deal, but Craig will give you the particulars, numbers wise.

**A - Craig Howie** {BIO 17579923 <GO>}

Josh, one of the things -- we don't typically discuss any one transaction on a call like this. However, what I can tell you is, what we did was, we portfolioed out the unearned premium. That unearned premium was \$194 million. We have to reverse the corresponding commission and then we have to remove any deferred acquisition costs associated with that unearned premium. But this was a one-time transaction and a one-time event, so you're right that it was an impact as part of our combined ratio for the quarter, but there were a number of other adjustments and impacts in that combined ratio as well.

**Q - Josh Shanker** {BIO 5292022 <GO>}

Okay, no problem. But arguably, we could be comfortable saying that the expense ratio in US reinsurance is inflated in 2Q?

**A - Craig Howie** {BIO 17579923 <GO>}

Correct.

**A - Joe Taranto** {BIO 1495653 <GO>}

(multiple speakers) Inflation on the expense ratio -- that is on a worldwide basis. There is a blip in the quarter that drove up the expense ratio that should go away.

**Operator**

Greg Locraft, Morgan Stanley.

**Q - Greg Locraft** {BIO 4221265 <GO>}

Good morning, and congrats on the quarter. I wanted to get your appetite for buybacks at today's levels, given that the valuation hasn't moved much year-to-date, because you've had so much book value growth.

**A - Joe Taranto** {BIO 1495653 <GO>}

Our appetite remains strong. We think it's one the best ways to use the profits, the earnings that we are making. Now, we are moving into hurricane season and we will be a

bit more cautious in this quarter than perhaps otherwise. But we intend to continue to buy nonetheless.

**Q - Greg Locraft** {BIO 4221265 <GO>}

Okay, and if you could remind me -- historically, have you ever bought in the wind season, and would that strategy change?

**A - Joe Taranto** {BIO 1495653 <GO>}

Again, we have bought less than we have in other quarters, but at this point we have a lot of excess capital, profits are good, we like the portfolio, and the only hesitation is the fact that it is hurricane season. But we like the price and it's really one of the ways of continuing to move the football down the field. We like buying our stock at these levels.

**Q - Greg Locraft** {BIO 4221265 <GO>}

Shifting gears back to crop -- it's actually pretty amazing. You are not the only carrier, but the industry is sitting, staring at what seems would be the largest loss in crop in history; and yet, you guys are booking at 95 and will obviously, therefore, make money in the line if your projections prove out. What I am trying to understand is, what is going into that expectation of a 95? What gives you confidence that what appears to be the worst industry loss ever is not going to result in you losing money in that particular line?

**A - Dom Adesso** {BIO 1428096 <GO>}

It is still very early to be predicting what the outcome is, but also recognizing that the limited amount of premium that was earned in the Second Quarter from crop; the fact that we booked a very small underwriting gain, which I think is consistent with what many of the other markets have done. It's not inconceivable, given that, as I mentioned in my script, we could eke out a small profit, because at this point only 24% of the states are severely affected. That could change in the months ahead in either direction. We have ranges around where the result could end up, which include both the strong profit and a modest loss. It was much too early to predict how to book this, and, frankly, given the level of earned premium that we had in the quarter, it wasn't that material, at least as the impact for this quarter.

Ultimately, as I said, even as the year plays out on the insurance side, our annualized premium for crop is \$150 million. Of that, \$135 million is MPC-related. The remainder is crop hail.

**A - Joe Taranto** {BIO 1495653 <GO>}

That really means that this is 3% of our worldwide premium and it has a stop loss on it. As Dom noted, only 25% of the business now is in the states that are performing quite poorly. Having said that, as Dom noted, it remains to play out. It certainly could get worse and we could lose money on this. We will see. But in the grand scheme of things, it's not a real big deal for us.

**Q - Greg Locraft** {BIO 4221265 <GO>}

Last, is on the top line decline, the loss of the contract which you called out in the quarter. Are there any lingering impacts to that as we think about premiums and our models going forward on the top line and the bottom-line -- how we should handle that?

**A - Joe Taranto** {BIO 1495653 <GO>}

I don't think there are any adverse issues in terms of margins, or profits, or attritionals going forward. Premiums may be down a bit -- they were down this quarter -- and we won't have that treaty on an ongoing basis, but our focus is on margins and profits and attritional; and we don't see any issues on that front.

**A - Dom Addesso** {BIO 1428096 <GO>}

In fact, margins should be going up -- again, as I indicated, moving more of our cat PML from proportional to excess. We are benefiting, not only on the attritional loss ratio, but also on the commission ratio.

**Q - Greg Locraft** {BIO 4221265 <GO>}

The profitability is strong, but what you are saying, though, is there will be top line pressure that plays through for the next three quarters. We have taken one quarter of the decline and it should continue, but profits are up because of all the reasons you have stated.

**A - Dom Addesso** {BIO 1428096 <GO>}

Offsetting that, is, if you think about the rate increases we've had not only in Florida but around the globe, a lot of that rate increase is offsetting to a very large degree this one particular transaction.

**A - Joe Taranto** {BIO 1495653 <GO>}

You don't have one quarter in this quarter, you have the whole unearned premium reserve portfolioed out. Everything that was put in the books has been written but has not earned at this point has been reversed. So this is a very unusual quarter in that regard.

**Operator**

Cliff Gallant, KBW.

**Q - Cliff Gallant** {BIO 1854853 <GO>}

Good quarter.

On the switch from quota share to XOL -- is that simply a reflection of current market terms? Or is it something more intrinsic about the business that you prefer in XOL? And my second question was on investment income -- we continue to see low yields and the outlook doesn't look good there. Is there any sense that you should change your strategy, try to get more yield?

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### **A - Joe Taranto** {BIO 1495653 <GO>}

What we have found, I think, looking around the world in the last year or so is, XOL rates have been going up, where in many cases pro rata rates have not. More and more that is pushing us into the XOL cat. Having said that, we still see pro rata deals that we like doing, and we have put them through our models and decide how those returns compare to other potential deals. We are talking about cat deals now and, again, it is a portfolio optimization model that we are using.

We want to do the best deals. We have a certain aggregate that we are willing to apply and we want only the best deals to go into that aggregate. And what shakes out of that, shakes out of that. As it turns out, given the trends, that's more and more XOL as opposed to pro rata.

### **A - Craig Howie** {BIO 17579923 <GO>}

From an investment standpoint, Cliff, I don't see a dramatic change in our portfolio here. First of all, there has been a lot of changes in the portfolio over the past couple of years, but right now it's very conservative. It's a diversified portfolio, it's very high credit quality. We don't have control over the low interest rate environment, but we have to live with it. We have to make it up on the underwriting side. There's been a lot of discussion about underwriting benefits here and a decline in our attritional ratio, and that will make up for it to get to the bottom line ROE.

### **A - Dom Addesso** {BIO 1428096 <GO>}

Let me also give you a statistic that might help keep this in perspective relative to the pro rata versus excess. It's not as if, as Joe indicated, that we have stopped writing pro rata; it's just reducing the proportion. In terms of a proportion of pro rata to excess business, in 2010 -- I'm going back to 2010 because that's a reflection of how it earns through the portfolio -- pro rata was 68%, XOL obviously 32%. In 2011, 61%/39%; and in 2012 through June, it's 57%/43%. That gives you the trend line of the pro rata. Pro rata is also benefiting, by the way, from underlying increases in primary rates, but it's not as if pro rata is falling off a cliff here, either.

### **Operator**

Ian Gutterman, Adage Capital.

### **Q - Ian Gutterman** {BIO 3106649 <GO>}

Could you clarify again for me on the universal contract -- I think you said \$194 million of unearned premium? Over what time period, if you had kept the contract -- over what time period would that have earned out? By the end of the year, does it go into next year?

### **A - Craig Howie** {BIO 17579923 <GO>}

That would have been one year and you are correct, the number was \$194 million that was portfolioed out of unearned premium.

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**Q - Ian Gutterman** {BIO 3106649 <GO>}

Basically that is Q3 of this year through Q2 of next year, that it would have earned out?

**A - Craig Howie** {BIO 17579923 <GO>}

Correct.

**Q - Ian Gutterman** {BIO 3106649 <GO>}

Given the portfolio changes you made in cat -- I don't know if you can give us a Florida-only PML? Or talk about how you've structured the portfolio into XOL? Are you exposed more to the Florida-only and nationals? Are you playing high layers, low layers? Some sort of sense of what types of events or companies you might be exposed to?

**A - Dom Adesso** {BIO 1428096 <GO>}

Our portfolio hasn't changed much in that regard, frankly, and it's pretty well ventilated. We support both regional, local, and national clients. It's a wide array of a client list.

**A - Joe Taranto** {BIO 1495653 <GO>}

And no meaningful change to the PML.

**Q - Ian Gutterman** {BIO 3106649 <GO>}

Even though I would have thought -- quota share, obviously, implies that you play at dollar one, where XOL means you play higher. It would seem you would be less exposed to lower events this year at a minimum. Is that right?

**A - Dom Adesso** {BIO 1428096 <GO>}

Slightly, that is true. But there are cat covers that do attach low. And then, of course, you can deploy more limit up high, but it has similar PML.

**A - Joe Taranto** {BIO 1495653 <GO>}

And our design was to not increase the PML, so we worked backwards from that.

**Q - Ian Gutterman** {BIO 3106649 <GO>}

As you were trying to reallocate onto XOL-type programs, some of your competitors have discussed it being difficult to stay on programs that they liked in the past because of these non-traditional competitors coming in. I'm just wondering how much of a concern was that as you were repositioning? Or are you playing on contracts that doesn't tend to attract that kind of capital?

**A - Joe Taranto** {BIO 1495653 <GO>}

There's always competition in our business, there always will be. It comes in from the normal competitors and, yes, you do see it come in, in unconventional ways here and there, be it sidecars or other things. Yes, there was a little bit more of that recently. Having

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said that, as Dom noted, in Florida, as an example, rates still went up. I'm sure it had a dampening effect, but rates still went up. I found that overall this June and July to be a very sensible market where we were still able to achieve what we were looking to achieve.

To a certain degree, more competition coming in still keeps it a sensible market. It is not a bad thing. We don't want so much coming in that it makes it a market that doesn't rate very well, but a lot of the competition that is coming in, in an unconventional way, only wants to come in if it is a reasonable market and, frankly, will go away if it is not. Put it all together -- I don't think it changed the world all that much, and we were happy with what we achieved.

#### **A - Dom Addresso** {BIO 1428096 <GO>}

You also have increased demand coming out of model drift, as well as companies seeking to buy more protection. Those are some offsetting factors to what you described.

#### **Q - Ian Gutterman** {BIO 3106649 <GO>}

Do you have any emerging thoughts as far as willingness to engage with some of these new forms of capital?

#### **A - Joe Taranto** {BIO 1495653 <GO>}

We are open. We talked to some of these potential new ventures, and if it makes sense for us, we could engage. We are open-minded about it.

#### **Operator**

Michael Nannizzi, Goldman Sachs.

#### **Q - Michael Nannizzi** {BIO 15198493 <GO>}

One question I had -- you mentioned capital deployment before and you mentioned the non-renewal of this Florida contract. Thinking about capital deployment through wind season -- is the fact that you have less exposure now, would appear to wind season -- allow you to get more comfortable with deployment through wind season?

Joe, you mentioned up front that you are deploying capital relative to the capital you are generating. My question would be, why stop there? Why not deploy more if you have enough capital and you feel comfortable that there is enough there to continue?

#### **A - Joe Taranto** {BIO 1495653 <GO>}

I think we will be buying back. In terms of going even more aggressively, let's put everything into perspective. Craig noted we bought back 23% of the stock in recent years. Frankly, we have added to that, that we plan on continuing to buy in a meaningful way. Beyond that, we like having excess capital. We like having capital for business opportunities. It didn't hurt having capital last year when there was a ton of losses out there and some others got downgraded because they didn't have enough capital. We

want to balance everything. We want to keep having high-quality earnings that we can buy back, and we would just continue to buy back. I think we have pitched it at a very reasonable level, all things considered.

I think you said something up front about our -- something that suggested our exposure was down. I think we have said we've kept the PML the same, but we didn't say that we have taken them down. Our exposure, if you will, looking from a PML point of view to hurricane is still approximately the same in peak zones.

**Q - Michael Nannizzi** {BIO 15198493 <GO>}

Even after adjusting for the non-renewal of that one large contract?

**A - Joe Taranto** {BIO 1495653 <GO>}

Yes, because we redeployed that capital to do some other excess of loss contracts.

**Q - Michael Nannizzi** {BIO 15198493 <GO>}

Okay, and one follow-up on the home and crop stuff -- I assume that the reason that your losses, even in a worst-case scenario are limited or relatively bracketable, is because of the reinsurance program that you have? Is that all private market reinsurance? Some of that back to the government?

**A - Dom Addesso** {BIO 1428096 <GO>}

What I was referring to is the stop loss program, and Craig referenced it as well in his opening comments. That is private reinsurance. That's not (concessions) to the federal government.

**Q - Michael Nannizzi** {BIO 15198493 <GO>}

Is there a quota share as well, or is it purely just a stop loss?

**A - Dom Addesso** {BIO 1428096 <GO>}

Stop loss. (multiple speakers) We do have quota share with XOL.

**Q - Michael Nannizzi** {BIO 15198493 <GO>}

The growth -- and it looks like a lot of premium growth came out of international reinsurance -- and I just want to understand, where are you focusing your attention, and do you expect that, that will continue to be the engine for premium growth for the remainder of the year?

**A - Joe Taranto** {BIO 1495653 <GO>}

On the international side, what you are seeing -- some of that is rate increase coming out of Australia, coming out of Japan. A little bit continuing in Latin America. But we have been very strong on the international front for years. Again, I think much of what you are seeing there most recently is rate increase on the XOL side.

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## Operator

Vinay Misquith, Evercore Partners.

### Q - Vinay Misquith {BIO 6989856 <GO>}

First question is on the crop insurance. You mentioned that you are writing at a 95 combined ratio. What is your loss ratio for the business that you are looking at right now?

### A - Joe Taranto {BIO 1495653 <GO>}

I think the combined is the 95. The way we book it, it's 95 combined.

### Q - Vinay Misquith {BIO 6989856 <GO>}

So the loss ratio would be similar to the combined ratio, correct?

### A - Dom Addesso {BIO 1428096 <GO>}

You have got the commission piece in there. We will get you that number in a second.

### Q - Vinay Misquith {BIO 6989856 <GO>}

The reason I ask is, the stop loss is at a 110 loss ratio, so I was just wanted to find out the apples to apples.

### A - Dom Addesso {BIO 1428096 <GO>}

The stop loss ratio works off of the entire combined. Excluding our internal expenses, which are small. The loss ratio is 75%.

### Q - Vinay Misquith {BIO 6989856 <GO>}

All right, but looking at this apples to apples, it's 110% loss ratio versus say 90% to 95% that you are booking at right now, correct? That's the potential upside of loss that you might have?

### A - Joe Taranto {BIO 1495653 <GO>}

Well 95 could go up another 15 points before the stop loss would begin.

### Q - Vinay Misquith {BIO 6989856 <GO>}

The second question was on rate increases. You have had very strong rate increases and that's flattening out right now. Where do you see rate increases going out next year, should we have a benign cat season?

### A - Joe Taranto {BIO 1495653 <GO>}

I think they are going to level off if you have little to no cats. If they stay where they are at, I think they would be leveling off at a very reasonable place where there will still be some

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very good opportunities. I would not expect them to continue up way beyond what they have done in the last couple of years if there was little in the way of catastrophes.

## Operator

There are no further questions. I'd like to turn the conference back over to Mr. Joseph Taranto for any additional or closing remarks.

### A - Joe Taranto {BIO 1495653 <GO>}

I will make one comment. We didn't talk much about the casualty market, and Dom certainly noted that, whereas we are seeing rate increases there and it is getting more promising, it's still not exciting enough for us to make some bigger bets there. I would remind everyone that we certainly have the fire power, distribution, and people to do so should that end of the market, begin to get more interesting. We have the fire power, both on the insurance side and the reinsurance side.

We are hoping that many who are predicting that, that end of the world will continue upward and will continue to improve, we certainly hope that, that is the case. If that is the case, we will be able to do more there. I thought I would comment on that since we really hadn't addressed it whatsoever. Other than that, thank you for joining us today.

## Operator

That concludes today's teleconference. Thank you for your participation.

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