

## Q3 2014 Earnings Call

### Company Participants

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

### Other Participants

- Amit Kumar
- Jay H. Gelb
- Josh D. Shanker
- Kai Pan
- Meyer Shields
- Michael S. Nannizzi
- Vinay Misquith

## MANAGEMENT DISCUSSION SECTION

### Operator

Good day, everyone. Welcome to the Third 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, Kim. Good morning, and welcome to Everest Re Group's third quarter 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>}

Thanks, Beth. Good morning. We are pleased to report another very strong quarter. Operating earnings per share of \$6.12 is 46% above the prior year's third quarter. And on a year-to-date basis, the \$17.46 of operating earnings is 15% above the prior year pace. These operating results produced an operating ROE of 16%.

The lower level of cat losses versus last year in both the quarter and the year-to-date numbers was undoubtedly a contributor. However, it is important to highlight the fact that the attritional results remained quite strong.

The underwriting income on a year-to-date basis, excluding cats, has risen to \$697 million from \$665 million in the prior year. This is the result of portfolio management, which includes diversification both by product and geography, shifts between pro rata and excessive loss, new products, changing attachment points to focus on the best priced layers; and finally, use of outside reinsurance through various capital market platforms, including our own, to achieve better risk adjusted returns.

Another factor, but not inconsequential, is a disciplined expense culture. Our expense ratio, amongst the lowest in the industry, improved year-over-year. Maintaining a firm grip on expenses will enable us to withstand the impact of any market softening, but more importantly, enabled us to entertain business opportunities at levels which are still accretive to us but perhaps not to others.

One other contributing factor to the results for the quarter was an increase in investment income over previous quarters due to timing on some of our limited partnership investments. Nevertheless, as may be obvious, investment income will continue to drift lower as older investment years mature and funds get invested at today's interest rate levels.

We have deployed a number of alternative asset strategies to blunt to this, and while they have worked well, we are getting close to our asset risk appetite as defined by our capital position.

Regarding operational highlights, our best-performing and largest segment continues to be our U.S. reinsurance operation with a recorded combined ratio of 72.6% this year.

Our international reinsurance segment, while typically an excellent performer and still quite profitable, is down relative to last year. Most of the cats and other smaller events not classified as cats have been occurring in regions outside the U.S. These will include events like the Chile earthquake that occurred in the second quarter and Hurricane Odile in Mexico this quarter among others. Nevertheless, the combined ratio on a year-to-date basis still stands at an 88% for this segment.

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Our insurance operation had an underwriting loss for the quarter due solely to our U.S. crop business, which, again, is having a difficult year because of commodity prices and hailstorm events. Excluding this portfolio, the remainder continues to improve in profitability and growth, with five points of underwriting margin and 12% growth in the top line. This growth is a combination of rate increases as well as success in our business expansion efforts in E&S lines and specialty classes of business.

John will give further details on the operation, but we are well-positioned in each of our units to achieve return superior to the industry. While it is still uncertain what pricing will be at the next upcoming renewal season, we have thought through the various scenarios and will adapt depending on conditions at that time.

Each of these strategies is with an eye towards maintaining the return levels we have been accustomed to through this cycle. These strategies include reducing business in certain areas, introducing new products, utilizing capital markets, expense control and managing capital levels through share repurchases.

Our strong and sizable capital position, along with our underwriting talent, allows us the flexibility and market presence to be a significant factor in the marketplace. From this position of strength, we can continue to find the best opportunities and provide above average risk adjusted returns despite what many see as market challenges.

Thank you. And now, Craig will give you 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 \$275 million, or \$6 per diluted common share. This compares to net income of \$235 million, or \$4.81 per share, for the third quarter of 2013. Net income includes realized capital gains and losses.

On a year-to-date basis, net income was \$859 million, or \$18.47 per share, compared to \$895 million, or \$17.94 per share, in 2013. The 2014 result represents an annualized return on equity of 17%. Operating income year-to-date was \$812 million, or \$17.46 per share. This represents a 15% increase over operating income of \$15.22 per share last year. These operating results were driven by a strong underwriting result and lower income taxes compared to the first nine months of 2013.

The results reflect a slight increase in the overall current year attritional combined ratio of 81.9%, up from 81.1% for the same period last year. This measure excludes the impact of catastrophes, reinstatement premiums and prior period loss development.

Gross written premiums of \$4.3 billion on a year-to-date basis were up 11% compared to the same period last year. All reinsurance segments reported underwriting gains for the quarter and on a year-to-date basis. Total reinsurance reported an underwriting gain of \$588 million for the first nine months of 2014 compared to a \$487 million gain last year, an increase of 21%.

The insurance segment reported an underwriting loss of \$13 million on a year-to-date basis compared to a gain of \$9 million in 2013. The 2014 results reflected a crop loss of \$42 million for the year, which included estimates to reflect the decline in corn commodity prices and losses related to hailstorms this quarter.

The Mt. Logan Re segment reported an underwriting gain of \$28 million for the quarter and a \$47 million gain year-to-date. Everest retained \$5 million of this income and \$42 million was attributable to the non-controlling interest of this entity. This compares to \$1 million that Everest retained year-to-date last year.

The overall underwriting gain for the group was \$622 million on a year-to-date basis compared to a gain of \$500 million for the same period last year, an increase of 24%. These overall results reflect \$30 million of current year catastrophe losses in the third quarter of 2014 compared to \$75 million of cats during the third quarter of 2013.

On a year-to-date basis, catastrophe losses were \$75 million in 2014 compared to \$165 million in 2013. Of the \$30 million total for the quarter, \$20 million related to Hurricane Odile on the Baja Peninsula, and we included an additional \$10 million for the second quarter earthquake in Chile; now a total of \$25 million for that event.

Our reported combined ratio was 83.7% for the first nine months of 2014 compared to 85.6% in 2013. The year-to-date commission ratio of 21.5% was slightly up from 20.9% in 2013, primarily due to higher contingent commissions.

Our expense ratio remains low at 4.6% on a year-to-date basis. For investments, pre-tax investment income was \$142 million for the quarter and \$397 million year-to-date on our \$17.6 billion investment portfolio.

Investment income year-to-date declined \$26 million from one year ago. This decrease is primarily driven by the decline in limited partnership income and by the low interest rate environment, also the capital used for share buybacks and redemption of debt contributed.

Limited partnership income is down \$16 million year-over-year. The pre-tax yield on the overall portfolio was 3.2% as compared to 3.6% last year. Duration has moved from 3.2 years to three years.

The first nine months reflected \$47 million of net after-tax realized capital gains compared to \$136 million of gains last year. These gains are mainly attributable to the fair value adjustments on the equity portfolio. There were \$4 million of derivative gains during the first nine months of 2014 compared to \$33 million of gains in 2013. This is related to our equity put options and is a function of the change in interest rates and indices this year.

On income taxes, the decrease in the effective tax rate was primarily driven by additional foreign tax credits utilized in the quarter, relating to both the 2013 and 2014 tax years. The year-to-date operating income effective tax rate decreased from 14.4% in the second

quarter to 12.3%. A 12% to 14% effective tax rate for the year is in line with our expectations, given our planned cat losses for the remainder of the year.

Strong cash flow continues with operating cash flows of \$926 million for the first nine months of 2014 compared to \$825 million in 2013. This is primarily due to lower catastrophe loss payments.

Shareholders equity, at the end of the quarter, was \$7.4 billion, up \$414 million or 6% over year-end 2013. This is after taking into account capital returned through \$400 million of share buybacks and \$103 million of dividends paid in the first nine months of 2014, representing a total return of capital to our shareholders of over \$500 million so far this year. Book value per share increased 11% to \$163.14 from \$146.57 at year-end 2013.

Our continued strong capital balance positions us well for potential business opportunities as well as continuing stock 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 are pleased with our continuing strong results in the third quarter of 2014. Our group gross written premium was \$1.67 billion, up \$200 million or 14% from Q3 of last year, with growth coming predominantly from the U.S. and international reinsurance segment. Our net written premium was \$1.52 billion, which was up \$128 million or 9% over Q3 last year.

For our global reinsurance segments, including both Total Reinsurance and Logan, gross written premium was \$1.3 billion for the quarter, up 19.5% from Q3 last year. Our growth in the third quarter was driven by new business opportunities both in the U.S. and internationally in both cat and non-cat risk related deals.

We wrote several new USA property pro rata deals. We took over as the lead reinsurer on one major international treaty, which was significant new business and new premium to us, and we also wrote several new specialty deals.

In addition, during the quarter, we closed several significant reinsurance deals, many of which have not yet been recognized in our earned premium, but will flow through in the next several quarters. Examples of these include a new large non-cat exposed risk deal for an international client, the extension of several strategic deals with global clients, a new large reinsurance treaty covering a highly diversified international professional liability book of business, and new alternative risk reinsurance deals that provide a variety of risk coverages.

As we've been highlighting for the last several quarters, we believe that we are successfully navigating this choppy market. This is despite market headwinds for several classes of business, including a declining rate environment in many lines, higher client

retentions, and new and different types of competitors in the space. We have and will continue to grow the franchise profitably, make meaningful underwriting profits, and build long-term shareholder value.

Our competitive strengths enable us to achieve these goals. We have the size, geographic scope and breadth, and the long-standing broker and client relationships over the last 50 years to be one of the few top reinsurers of choice. We have been and will continue to exploit this sustainable competitive advantage by providing to our partners a highly-rated lead reinsurer with very seasoned lead market underwriting teams that can respond quickly and creatively to deploying meaningful capacity in any class of P&C business around the world.

We continue to build strategic relationships with our clients, enter into distribution relationships with key brokers, and find new sources of distribution and revenue from both new clients and new products.

We are seeing underwriting successes in many different areas of our book, driven in part by our investments in several underwriting initiatives over the last several years, including Mt. Logan, our capital markets facility, to position ourselves for future long-term growth and profitability.

Mt. Logan continues to help us execute our longer-term strategic goals. As we are now managers of third-party capital, we have more tools in our underwriting arsenal to help us achieve our objective of being the go to broker reinsurer for all brokers and clients around the world.

The additional capacity provided by Logan and other hedges has enabled Everest to grow the top line without materially increasing the risk to our balance sheet, and at the same time, has allowed us to generate fees. In turn, Logan's investors have enjoyed superior returns relative to similar vehicles in this space.

In fact, Logan exceeded its return targets to investors in its first full year of operation. This was driven in part by a relatively benign catastrophe loss season, but more importantly, it was a function of the broadly diversified portfolios that Logan, in partnership with Everest, can create for its investors.

We continue to have significant interest from new investors for Logan and expect to grow Logan in both dollars of assets under management, as well as the number of new Logan investors throughout 2015.

With Logan, the Kilimanjaro cat bonds, ILW purchases and other traditional and retrocessional protections and hedges, we are succeeding in lowering the cost of capital required to support our property catastrophe book, creating fee income for Everest to enhance our underwriting income and building a very attractive risk-adjusted portfolio for our shareholders. And that helps us find more business that is accretive to earnings on our current level of capital. To highlight this for our overall property catastrophe book around the globe, our net ROE is up compared to our gross ROE.

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Turning to insurance operations, insurance premium was \$364 million in Q3, down slightly from Q3 last year. As mentioned previously, this is due to a decrease in crop premium in Heartland from lower commodity prices. Stripping out Heartland in both periods, our Q3 insurance gross written premium is up 15% this year compared to Q3 last year, with growth coming from virtually all segments within our insurance operations.

Rates are mixed within the insurance operation with casualty, environmental and nonstandard auto rates up. While rates are also up in workers' comp, we saw additional capacity come into that market and thus, saw lower rate increases than in prior quarters.

Property insurance rates were slightly down or slightly up depending on the type of risk and territory. And new capacity in the professional liability space in the U.S. continues to be aggressive in capacity and price, so we remain cautious there.

As discussed in previous quarters, we continue to see profitable growth opportunities in our insurance book and we will continue to develop these areas, including casualty, contingency and event cancellation, non-program workers' comp, property E&S and DIC, and accident and health.

In addition, we have been expanding distribution relationships to roll out new accident and health and specialty and contingency insurance products. Bottom line, insurance results had an underwriting loss for both the quarter and year-to-date, but this was due to our crop insurance book.

The insurance book had a loss of \$21 million for the quarter with a \$31 million loss in the crop book. This crop loss was caused by reduction in commodity prices, particularly corn, which was down approximately 30% from the base rate in February, a loss in our largest crop state, Minnesota, due to a cold wet start to the planting there, which resulted in some preventive planting claims, and therefore yields that were not able to offset the commodity price decline, as well as crop hail losses stemming from significant Midwest hailstorms in the quarter.

We continue to look to grow the Heartland operation to build economies of scale and diversify its geographic spread of business, and rollout enhanced IT systems to improve operating efficiencies and to make it easier for our agents to do business with us.

Excluding the crop results, the insurance segment continues to see improvement with an attritional combined ratio of 95.6% for the quarter and 94.5% for the year.

We remain pleased with the underlying trends in our insurance book, with noted improvements in both loss ratios and expense ratios in many segments due to our insurance profitability initiatives over the last several years. We expect these trends to continue with both top line and bottom-line growth in our insurance book, as we continue to focus on expanding distribution, rolling out new products, and enhancing our platform capabilities to deliver a wide range of insurance products to our customers on both an admitted and non-admitted basis.

Our disciplined, opportunistic culture is focused on achieving the best risk-adjusted returns across all of our business segments. And our strong underwriting bench, high ratings and strong balance sheet, along with our efficient distribution platform and competitive expense ratio continues to enable Everest to generate double-digit returns for our shareholders.

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

**Elizabeth B. Farrell** {BIO 1986541 <GO>}

Kim, we are ready to open up the floor for questions.

## Q&A

### Operator

Thank you. And we'll take our first question from Michael Nannizzi of Goldman Sachs.

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

Thanks. Just a question on the U.S. reinsurance book and the Bermuda book. In U.S. reinsurance, just trying to understand what is the profile of the business that you're writing more of? And is it a sort of different profile than your legacy book? And how do the modeled returns on that new business compare? Thanks.

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

I mean, the book, we write all classes of business. Within the U.S, we write pro rata, risk, cat, retro and we have a product called purple, and we will deploy different amounts of capacity to each of those depending on where we see the best returns. And the returns, while down, are still north of a 20% ROE.

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

Michael, the book has not changed considerably over the years, particularly as it relates to some of the peak zone areas. The reality is that we've actually diversified the book a bit more. Our casualty book, for example, is a little larger than it was a couple of years ago, but still not at the heights that it was at in 2002-2003 timeframe. We also have written a number of pretty good growth in our regional client sector, as well as a little bit of growth in our facultative book as well. But it's not a significant change.

Most recently, in the last year, as John pointed out in his talking points, we did write some new property pro rata quota share deals. Many of those were in non-cat exposed areas. And there are shifts from time-to-time in the portfolio depending on where the opportunities are. I hope that - I don't know if you have a follow-up to that?

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



Yeah. I guess, the question is, how much of your sub-70 underlying combined growing - you grew the book almost 20%. How much is, for example, just the fact that weather has been light, how much of that has driven that result? Just trying to understand, I mean, is this where you were sort of modeled returns, where you expect returns to be or how much sort of help did you get from light weather?

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

Well, the results of ourselves, as well as the rest of the market, are always helpful when catastrophes are low. Particularly in the U.S., while there wasn't any major cat event, we also benefited this particular year in the U.S. due to a lower level of attritional cats. And we define that as any event to us that's less than \$10 million. So that you see a year-over-year improvement in the U.S. book in part due to that.

On the other hand, we had a higher level of attritional cats in our Latin American book. And then, in our Bermuda book, that was a little worse than the prior year due to purchase of ILW's. So - but you're going to have that impact in any one particular segment from time to time, I think the point is that the overall book is the well diversified and that's the point of it, right, better diversified than we have been ever in our history, I would say.

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

Got it. And to the extent that Mt. Logan also is growing, does your appetite or has your appetite for business changed now that Mt. Logan is online and sort of scaling up? Or do you still seek the same type of profile business that you would have without the presence of a Mt. Logan? Thanks.

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

We - as you may or may not know, our participation in Mt. Logan is proportional to our own book. In other words, the risk that we put into Mt. Logan is also partly retained within our portfolio. So our interests are aligned. So that means that our appetite for our portfolio, Logan does not change our appetite. What Mt. Logan allows us to do is actually, for lines of business or classes of business or territories that we think are attractive, it allows us to expand our capacity in those areas. So that's the appetite part of it, but it doesn't change our return appetite.

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

Okay. So the return threshold for Mt. Logan is the same as Everest?

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

Correct.

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

Okay. Got it. Thank you.

**Operator**

We'll move on to our next question from Amit Kumar of Macquarie.

**Q - Amit Kumar** {BIO 19777341 <GO>}

Thanks, and good morning, and congrats on the quarter. Just a quick follow-up, I guess, on the last question. If I heard you correctly, you mentioned north of a 20% return number. Is that sort of the average number you were talking about in terms of the new business that you have written or is there a range around that north of 20% number?

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

Well, I'll ask John to follow-up as well on this, but just to clarify that - and it's excess of 20%, and that's on our allocated capital based on our modeling. Of course, we carry more capital than what the models would imply. And we have differing appetites or different return objectives by classes of business for sure. I don't know if, John, you want to -

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

Right. I think the simple - the short answer is, absolutely, there's going to be, in every class of business, not just property, not just cat, casualty, reinsurance, insurance, there's going to be a wide range of returns, combined ratios and return on equity in every class, and we build books of business. And there's different attachment points, different ways we play different products that all have different returns that crystallizes into that total we're talking about.

**Q - Amit Kumar** {BIO 19777341 <GO>}

I guess a follow-up to that would be why would someone be walking away from that business, which Everest is able to capture? Is there more to it or is that what you said that you were the lead and hence you're just seeing more opportunities? I guess what I'm trying to figure out, it's a tough market out there. Others are shrinking and yet you have found these specific opportunities. And I'm trying to figure out, is it more Everest-specific or is there an industry issue, which is helping Everest more than its peers?

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

We've said on many quarters and I think you're seeing it in the numbers, we continue - I mean one of the examples is some of the bigger clients, they want to do more business with fewer people and that means that there's some diversification away from the big directs and then there's also a consolidation of the panel. We have been a direct beneficiary of that. We can't really comment on other people's view. We have our capital model. It's been the same capital model we've had for many years, but we think that we have enhanced opportunities with some of the consolidation that's going on. That certainly would drive part of what you're seeing.

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

Certainly, we can't comment on what other market participants are seeing necessarily, but some of the decrease that occurs in some of the other markets is not just under-priced business, it's also, as John points out, in some of the larger programs, lines that are lost. And so that's certainly a factor.

And don't misunderstand, I mean there are lines of business that we shrink and pull back from as well. It's not that we're seeing every class of business, every attachment point, every layer being appropriately priced. So there are places in our portfolio that are contracting, and there other places which are expanded.

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

And one other point I'd like to add is, and we've said this before, but you can't underestimate the importance, we write a lot - unlike a lot of our competitors, we write for a lead market property reinsurer and write that book of business from the U.S. And that gives us better access to clients, better ability to visit with them, meet with them, negotiate with them onshore, and that is very helpful. And sometimes business gets done domestically and then doesn't go to other jurisdictions to get completed.

**Q - Amit Kumar** {BIO 19777341 <GO>}

Got it. Fair enough. I'll stop here. Thanks for the answer.

**Operator**

And we'll move on to our next question from Jay Gelb of Barclays.

**Q - Jay H. Gelb** {BIO 21247396 <GO>}

Thank you. For the crop insurance book, you highlighted the impact in 3Q. What's your expected impact in 4Q?

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

Jay, this is Craig. We do expect to see some change because the commodity prices have changed from our estimate from where we booked these numbers for the third quarter. However, we still would expect a loss in the fourth quarter. We'll still have expenses coming through and again, expect a loss in that quarter as well.

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

It will be modest though I think to your expectation.

**Q - Jay H. Gelb** {BIO 21247396 <GO>}

Okay. And there was a \$31 million loss in crop in 3Q?

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

That's correct, for the quarter and \$42 million year-to-date. Now, that's for both MPC I crop, as well as crop hail. There were several storms - hailstorms that happened during the quarter and we took a fairly large loss, which represents about half of the loss for the quarter, Jay.

**Q - Jay H. Gelb** {BIO 21247396 <GO>}

Okay. And then separately on Mt. Logan, given the sharp improvement in profit in 3Q, is there a way we could better project what the outlook for that is? I know there's some lumpiness, but my sense is it's tied, to some extent, to the amount of capacity that's provided. So is there any pretty straightforward way for us, as outside observers, to be able to project that?

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

You're talking gross or net, because we've got -

**Q - Jay H. Gelb** {BIO 21247396 <GO>}

I was talking - I would say probably gross and then also on the underwriting gain.

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

I mean, it's partly reflective of the marks that go to the Mt. Logan portfolio, but I let John to comment on that.

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

Right, I mean, clearly, there's seasonality component to it in terms of where we are. So it's very much cat dependent. That book is - the business that we currently have in Mt. Logan is 100% property catastrophe reinsurance. So it's going to be very much a focus. It's very much a function of what is the cat business that's happened.

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

From an underwriting gain perspective, on a net basis, in other words, after non-controlling interest, it's not that significant. For the nine months, it was \$5 million, I think.

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

Correct.

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

So, I wouldn't expect a material change from that into the fourth quarter. To me, that's really the best way to look at it. Of course, we've got the underwriting income for managing that portfolio that comes in as well.

**Q - Jay H. Gelb** {BIO 21247396 <GO>}

Okay.

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

In terms of what sticks to us, it's not - I don't know that it's material enough that we can give you a better answer than that.

**Q - Jay H. Gelb** {BIO 21247396 <GO>}

Okay. That's a good starting point. Thanks.

## Operator

And we'll go next to Vinay Misquith of Evercore.

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

Hi. Good morning. The first question is on the accident, your combined ex-cats and the reinsurance segment, that ticked up this quarter. Was curious if it was sort of by choice that management has written a lot more diversifying business and so it's more of a business mix issue or is it more of the pricing issue?

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

Vinay, as I think I've mentioned perhaps before, but just to clarify, what's happening in the overall reinsurance book is, and particularly this quarter, is the Latin American attritional cats, so we had a tick up in that. That probably was the biggest driver. And then in Bermuda, we had purchase of ILW's. There is some mix issues going on as we write - we wrote some more U.S. proportional business, non-cat exposed. So that does have an impact. But overall, the biggest change is due to the Latin American attritional cats in the reinsurance book.

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

Okay. Sure. So would you say that this quarter was slightly higher than average and what you would expect for the future?

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

Yes. As far as the attritional number, absolutely.

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

Sure. And just looking at where pricing is going, we're hearing that ceding commissions are increasing for every non-cat business. How much should we expect the combined ratios to go up next year, for more than a couple of points or a couple of points be reasonable?

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

We're not really - we don't really forecast the combined ratios for - we don't disclose that. Frankly, we're still closing out our planning process for next year anyway. But clearly, that would be pretty close to giving you an earnings number and we don't disclose that.

But let me just make a comment about that, generally. Certainly, the market is difficult. There are many areas where it's very competitive. What we have managed to do is write different products in the property cat space in particular, which is probably where your question is coming from in part.

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We have moved to different layers, changed attachment points, gone outside, as John pointed out, purchased retrocessional protection, diversified our book further all with an eye towards trying to maintain the same return levels. And it's certainly entirely possible that if some of this business doesn't meet our return objectives that we will begin to withdraw with certain capacity. And if that means that we manage our capital more aggressively, then we'll do that. So there's lots of levers that we can pull into this marketplace.

With respect to ceding commissions, a lot of that, frankly, ends up in the casualty treaty area. That would be the largest impact to us, the impact of increased ceding commissions. And in many cases where ceding commissions have reached extraordinary levels, we've actually even non-renewed or not participated in those offerings. So that does put some pressure on the treaty casualty writings for sure into next year, if that continues, and we will see.

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

Sure. And just simple numbers question, the corporate expenses, I think, doubled this quarter. Were there some one-time items or is this the level for the future?

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

Corporate expenses doubling this quarter, I'm not sure that I see that on an overall basis.

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

Yeah. Sorry, the corporate expenses were \$10 million this quarter. Was it about \$5 million in the year ago order? So just curious if there were some one-time items in there?

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

In which segment, Vinay?

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

Overall.

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

Just overall corporate expenses, it's a small line item, just a \$10 million number.

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

That's just normal fluctuations. I don't expect any. There's no continuing trend there that we can point to.

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

Okay. Thank you.

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

I would look at that number on more of an annualized basis as opposed to a quarter number.

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

Sure. Thank you.

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

Thank you.

**Operator**

And we'll move on to our next question from Joshua Shanker of Deutsche Bank.

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

Yeah. Good morning, everyone.

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

Good morning Josh.

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

Morning. Everyone's going to be always confused by the writing of all these premiums and there's nothing we can do about it. But I did think to myself that driving in the past, you guys have talked about the proportional treaties onshore, which you mentioned a little bit on the conference call. I would think that would be driving your tax rate up over the long run. You had some foreign tax credits come in this quarter that came as a surprise to me. Can we talk a little about the tax situation and whether I'm wrong to think they're going up over time? And how one-time in nature these foreign tax credits were and how I should think about that?

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

Josh, this is Craig. So, the nature of the foreign tax credits is this. First, you need - in order to take foreign tax credits, you need to be a taxpayer. We just filed our 2013 tax return in September and became a taxpayer again, utilizing all of our loss carry forwards on a tax return basis. So that's the first thing you need is to become a taxpayer.

The next thing you need is foreign source income and we have been earning income where our branch locations are outside the U.S., namely Canada and other places like that. So, we have been earning the income. So now we get to take those foreign tax credits against the tax - the actual tax on the tax return. So that's number one. We got to take those for both 2013, as well as the 2014 year this quarter. What I would expect to see going forward is about \$10 million per year of foreign tax credits. So, not a big number, but it is an ongoing number.

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

And then, as it relates to the higher amount of onshore pro rata risk, is that driving the attritional tax rate up over time?

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

What would drive that attritional rate up traditionally for us that we've mentioned in the past is more catastrophes. So, in other words, the less catastrophes we have here located in the U.S. and taxed in the U.S., the more taxable income we would have, therefore the higher the tax rate. Right now, the tax rate has been relatively high, if you will, 14.4% last quarter, because of the lack of cats in the U.S.

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

Okay. No, that's good. And one just quick question, something I've been looking at. Have you guys appointed the independent director or independent directors to Mt. Logan yet?

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

We are in the process of doing that.

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

Okay. Thank you.

**Operator**

Our next question comes from Kai Pan of Morgan Stanley.

**Q - Kai Pan** {BIO 18669701 <GO>}

Thank you and good morning.

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

Morning.

**Q - Kai Pan** {BIO 18669701 <GO>}

So my first question is on the crop side. And just wondering if you have any commodity hedging? And if you do have it, is that part of your like loss ratio or operating numbers? And then on crop, if you think about longer-term, a normalized weather year, what's your sort of like normalized or expected combined ratio for that line of business? And next year, if the commodity price staying the same as it's right now, do we expect a big drop in terms of the premium you will be able to collect?

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

First of all, on the crop side, we have no hedges in place - commodity hedges in place. That addresses that. From a expected loss ratio on an expected basis for crop...



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

Around 80%.

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

80%, high 70% would be what we would expect. The price levels stay where they're at. What would happen to the premium? I don't know that there would be any material change in premium.

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

No. Assuming that we kept the same policy account, we would expect the premiums to stay the same. We are and have talked about trying to grow the policy count with additions of staff in different areas that will help us do that.

**Q - Kai Pan** {BIO 18669701 <GO>}

So just to clarify that, so premium will stay the same even though the commodity price like the next several will be like 30% lower than earlier this year?

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

There's a lot of moving parts, including the volatility factor, that's been lower in the last couple of years. So we don't know where that will end up being for next year.

**Q - Kai Pan** {BIO 18669701 <GO>}

Okay. Then on different topic, on the sort of we saw the alternative capital, the basic supply going, now they're talking about some of the primary company may see less into the open market. So, from your perspective, just wanted to hear your thoughts about, one, in the near-term where do you see the January 1 pricing going? Are we bottoming out on that? And then longer-term, how do you think the industry will evolve and how is Everest repositioned for that?

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

Okay. Well, that's a very heady question and a big topic for sure. First of all, relative to what's going on in the alternative capital space with - and what you're asking is less ceded premiums into the marketplace, a lot of that premium, if you're speaking about hedge fund type structures, typically the premium going into that - those types of vehicles will be more casualty-focused business, which frankly for us right now has not been a growth area for us. So we'd not anticipate any major impact from some of those early movers into that space.

There is some - it's still early days with respect to hedge fund capital coming in. My early view on it is, is that it's very difficult to raise capital into these structures. That doesn't mean that it doesn't exist, but it's not clear to me at this point that it'll be a huge part of our business, at least at this point. If, in fact, that evolves to be something different and it's likely that it will be more attractive to investors to invest into that space, Everest would certainly be prepared to consider that as one of its platforms, not unlike what we've done

with Mt. Logan. Mt. Logan, for us, is where we see more immediate term growth in the alternative capital space. As John pointed out, we still would expect there to be increased assets under management there. And for us, that is a strategic play where we're actually, as I mentioned before, able to deploy more capacity through the use of that facility. So we see it as a tool not a threat, and it's just another form of capital. It allows us to manage our own capital more efficiently, if that be the case.

In terms of pricing, certainly, in the capital market side, there seems to be some evidence that we're certainly trading near a bottom, particularly as you look at cat bond pricing, and even some of the things that we see going on in our capital market facility in Mt. Logan, where investors are hitting some floors with respect to the returns that they expect.

Hard to say what impact that might have on traditional pricing or any pricing at January 1. As you probably know, next week is PCI, but more recently, coming from - we have some folks at Bodden & Bodden, but before that in the CAIB and before that in Monte Carlo, there seemed to be less talk about price decline and more talk, frankly, from many of our ceding company clients about maintaining traditional panel, maintaining relationships and making sure that their panels were highly rated. So, all that conversation to me suggests that we are floating somewhere around the bottom at this point, but we will see in the next 60 days.

**Q - Kai Pan** {BIO 18669701 <GO>}

That's great. And if I may ask one last question on buybacks, looks like slowdown a bit in third quarter and while your earnings have been great. So are we expecting a pick up in the fourth quarter that will still targeting probably return 100% to shareholder payout ratio in 2014?

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

As you know, we don't give guidance on our share repurchases, but I will point out that we historically in the third quarter, given that it's our highest cat exposed season, that we have typically lightened up on share repurchases and this past third quarter was no different than what we've done in others. And so we would certainly look favorably on increasing that in the fourth quarter relative to the third quarter market conditions, both pricing of our stock as well as market conditions on the pricing side. If those are all favorable, then we would look to increase our share repurchases, but we do not forecast or give a number on what that might be. We do it a week at a time.

**Q - Kai Pan** {BIO 18669701 <GO>}

Thank you so much for all the answers.

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

Thank you.

**Operator**

And we'll move on to our next question from Meyer Shields with KBW.

**Q - Meyer Shields** {BIO 4281064 <GO>}

Thanks and good morning.

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

Morning.

**Q - Meyer Shields** {BIO 4281064 <GO>}

Dominic, the trend of panel consolidation that you're seeing, is that sort of a one-time issue that's going to wash through or do you see it sort of incrementally benefiting companies of your size for the next few years?

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

I think it's likely to continue. I don't know what the next few years. It's a difficult time horizon to - on that, but I would see that accelerating or continuing on some level for sure. Unless there's some consolidation in the industry so that our larger capital providers, then I would expect that trend to continue. And I think that's probably why you see some execs predicting or suggesting there should be greater consolidation within our space.

**Q - Meyer Shields** {BIO 4281064 <GO>}

Okay. That makes sense. The slowing rate increases in workers' compensation that you mentioned, are they still running ahead or in line with loss cost trend?

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

Yes. I think it was around 8% or 9%. 8% for the first nine months of the year.

**Q - Meyer Shields** {BIO 4281064 <GO>}

Okay. And lastly, I guess this is probably for Craig, when I look at Mt. Logan and sort of compare the reported underwriting profit to the net loss attributable to non-controlling interests, it looks like a higher percentage of the underwriting profits went to the investors than in past quarters. Is there a good way of modeling that going forward?

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

Well, I think as Dom mentioned before, it's not necessarily a material number to us yet, but it is seasonal because of the property cat losses. So we would expect after we get through the season that you may see some additional results flow into Everest profit commissions things like that that would flow through, but right now it's more seasonal.

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

It also is due to us, the investment - the initial investment that Everest put in and then growth of third-party money. So the share of Mt. Logan is higher to external investors.

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**Q - Meyer Shields** {BIO 4281064 <GO>}

Okay. Where is it right now?

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

We remain at 50%.

**Q - Meyer Shields** {BIO 4281064 <GO>}

Okay.

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

And remember, we were a higher percentage of that in the early days. And of course, as we attracted more funds, that gets diluted. Obviously, the percentage gets diluted.

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

Initially, we were 50% of \$250 million and now we're 50% of over \$400 million.

**Q - Meyer Shields** {BIO 4281064 <GO>}

Got it. Okay, perfect. Thanks so much.

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

Thank you.

**Operator**

And that does conclude our question-and-answer session. I would like to turn the conference back over to our speakers for any additional or closing remarks.

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

We'd like to thank everybody for participating in the call. And if for some reason, we're not able to get your question answered, please feel free to give us a call. Thanks.

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

Thank you, all, very much.

**Operator**

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

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