S&P Global
Market Intelligence

Everest Re Group, Ltd. NYSE:RE

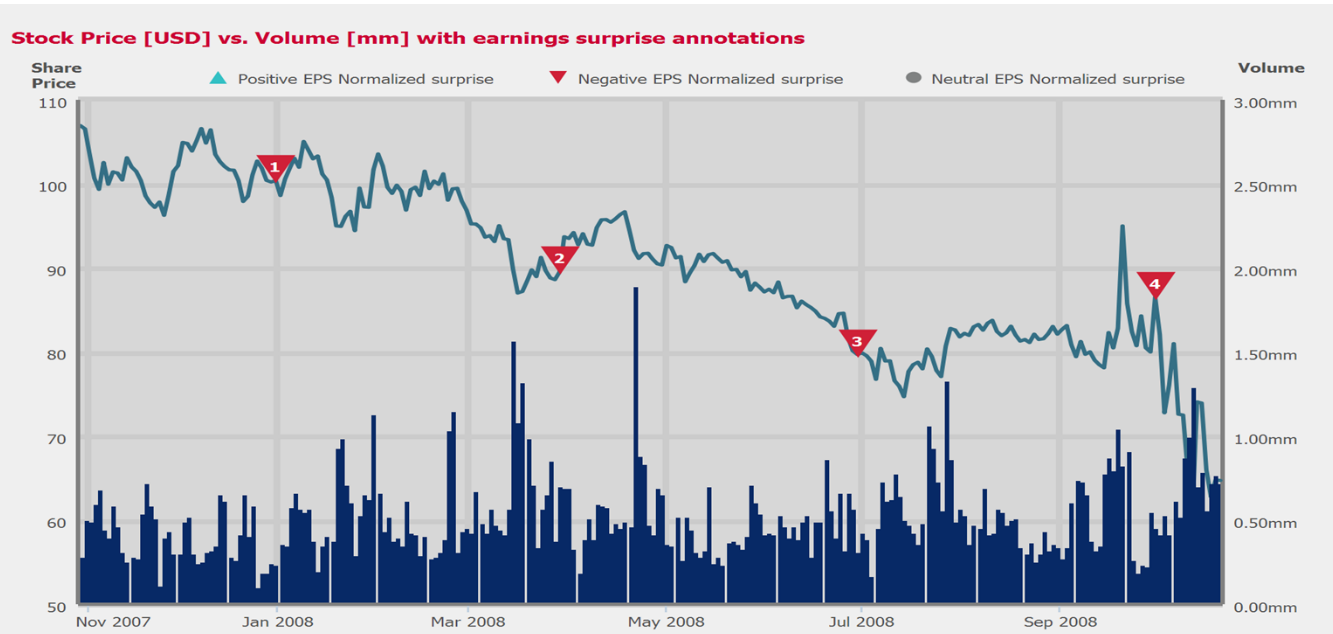
FQ4 2008 Earnings Call Transcripts

Thursday, February 12, 2009 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2008-			-FQ1 2009-	-FY 2008-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	2.78	2.93	5.40	3.20	9.09	9.12
Revenue	-	-	(4.58 %)	-	-	-
Revenue (mm)	881.60	841.20	-	844.45	3545.62	3505.21

Currency: USD
Consensus as of Feb-12-2009 12:42 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2007	0.99	1.00	1 (15.97 %)
FQ1 2008	3.46	3.03	2 (12.43 %)
FQ2 2008	3.23	2.90	3 (10.22 %)
FQ3 2008	0.24	0.21	4 (50.00 %)

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Call Participants

EXECUTIVES

Craig E. Eisenacher

Elizabeth B. Farrell
Vice President, Investor Relations

Joseph Victor Taranto
Chairman of the Board

Ralph E. Jones III

Tom Gallagher

ANALYSTS

Craig Eisenacher

Elizabeth Farrell

Jay Gelb

Joseph Taranto

Joshua Shanker
Citigroup

Vinay Misquith
Credit Suisse - North America

Presentation

Operator

Good day, everyone and welcome to the Fourth Quarter 2008 Earnings Release Call of Everest Re Group Limited. Today's call is being recorded.

At this time, for opening remarks and introductions, I'd like to turn the conference to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead, ma'am.

Elizabeth B. Farrell
Vice President, Investor Relations

Thank you. Good morning and welcome to Everest Re's fourth quarter and full year 2008 earnings conference call. With me today are Joe Taranto, the company's Chairman and Chief Executive Officer; Tom Gallagher, Vice Chairman and Chief Underwriting Officer; Ralph Jones, President and Chief Operating Officer; and Craig Eisenacher, 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.

Joseph Victor Taranto
Chairman of the Board

Thank you, Beth. Good morning. Thank you all for joining us. In the fourth quarter, operating earnings after taxes were $179 million and for the year, operating earnings were $563 million. This yields a 10.5% ROE for the year.

When you consider that underwriting results included over $300 million of catastrophes led by Hurricane Ike and investment income was reduced by roughly $80 million from losses on equities from limited partnerships, our 2008 operating earnings was solid and evidenced the underlying strength of our portfolio and of our franchise.

We ended 2008 with surplus of $5 billion or $81 per share. Our $5 billion of surplus amply supports our business plans for 2009. Once again when you consider the hurricanes we experienced, the global financial meltdown and its impact on assets, the devaluation of foreign currencies which reduced surplus by $193 million and factoring that we bought $151 million back in stock and $119 million were paid in dividends. The $5 billion in surplus represents a solid result and again points to the underlying quality of our organization.

We ended the year with a very strong balance sheet. Our reserves for our liabilities continue to test well. And our invested assets, 94% of which are now either in cash or fixed income are high quality and diversified.

Our bond portfolio as at 12/31 we derived from trades in an extremely tight market. Given the market and the quality of our portfolio, we believe it is likely values will increase and this is exactly what we've experienced so far for the first half of the first quarter.

Our liquidity remains robust between positive cash flow, maturing bonds, liquid assets, and our credit line. Our liquidity is well in excess of what is needed for our business plan.

In 2008, we had an insurance and reinsurance market that was in decline. Everest maintained its underwriting discipline which resulted in us doing less business than in 2007.

We expect improved conditions for 2009 and accordingly anticipate growing our business in terms that offer better expected margins. We are pleased with the January 1 renewals. Tom Gallagher will provide more detail by underwriting area shortly.

But the areas we predicted would harden at 1/1 did so. So far the market has played out exactly as we had anticipated. The retro market was as hard as it has ever been. Property cat rates increased particularly for peak zones and we expect this movement will continue.

By mid-year, reinsurance capacity for the Florida market and the Gulf will be extremely costly. Little capacity outside the traditional reinsurance routes has come into the market. Energy rates both onshore and offshore are rising. At January 1 on sure tell business, the improvements were more for reinsures than insurers.

Insurers will need to get their rates up and pass along the increased reinsurance costs or they will operate in the red.

The causality market, both at the insurance level and reinsurance level, showed some stabilization, with some pockets such as FI, D&O showing improvement. Both in the U.S. and in the international markets we have seen a continued flight to quality which benefited Everest.

Some of our competitors experienced market dislocations which gave us increased opportunities, some of our clients, whose surplus suffered in 2008, were in need of additional reinsurance.

We mentioned our entry into Brazil last quarter and that's continuing to develop. As well we expect to have an Ireland company licensed in the near future and we are planning to establish a small office in Germany, both aimed at increasing our visibility and access to opportunities in Europe. We expect continued improvements in the market in 2009 and additional opportunities for Everest.

I an upbeat about 2009, not only because of the market opportunities, but also because of some of the internal changes we've made to strengthen our bench, which brings me to Ralph Jones, who joined us as President and Chief Operating Officer, two months ago and has been an instant contributor to the cause.

Ralph is a highly respected executive with a distinguished career at Chubb, Hiscox and Arch. Tom has known him for many years and I've had the pleasure of getting to know him in recent years. It's been great having him on board, having his insights, his industry relationships and his overall management abilities.

I asked Ralph to particularly focus attention for the first couple of months on our insurance operation, Everest National. I will ask him to comment on his plans in this area for 2009 and beyond.

Ralph E. Jones III

Thank you, Joe. It's a pleasure to be here. While I've only been on board a couple of months, I've been a customer of Everest for over 25 years, so the strong reputation of the company and the caliber of the people is nothing new to me.

The reinsurance operations which are our principal profit engine are quite well known and highly regarded. Tom Gallagher will comment on our reinsurance market conditions in just a few minutes.

Our direct insurance business which trades as Everest National is not insubstantial. We wrote nearly $800 million in premium in 2008 and employed over 400 people in our insurance operations, with offices in Atlanta, Charlotte, New York, Tampa, Oakland and Orange County, California.

It's principally a program operation with 13 major customers or program managers with half the business concentrated in three large underwriting agencies. Most of the business is casualty focused with a concentration on niche programs. About a quarter is workers compensation and about 10% is property.

I'm very happy with the 13 contracts that we have. You can do well in the program business if it is tightly controlled and you follow the pricing like a hawk. I was very pleased to find that we have some substantial strengths in our ability to monitor pricing and oversee both the claims and underwriting process. Good metrics will distinguish the winners and losers in the underwriting game and we also have the dexterity to move quickly upon new opportunities.

Our emphasis in 2009 will be to make a bit of a larger play in California, workers compensation market, pricing will edge up during the next year as early filings have shown and between our program managers and our two direct offices, we could write up to $300 million in this segment if terms and conditions and pricing holds as we expect.

I also see opportunities to expand in a few specialty areas. We have an environmental team that is up and running and have just added a small financial institutions group.

As you can imagine the FI, D&O, E&O market is in great dislocation creating big price increases and tight terms and conditions. Rates are up dramatically, for any... will be up dramatically for any level of serious capacity, particularly for strongly rated carriers. So we will take a highly focused share of that in 2009.

D&O capacity for both commercial and financial businesses will grow in demand as the current litigation from the subprime claims moved through the last settlement process. Board members are very keen to keep coverage and limits in place. Market turmoil created by question marks for two of the D&O market leaders will create opportunities.

Everest has an excellent reputation and financial strength rating and brokers will favor us as we put the right underwriters in place. So in expansion a very targeted segments, environmental, professional liability programs and D&O and E&O will be some of our building blocks for 2009.

As Joe commented in prior calls, we'll also look to acquire teams or possibly specialty underwriting companies that share the same philosophy as we do, which is to concentrate resources and expertise on market opportunities that make sense, where pricing and policy terms and conditions are better than average. So I am enthusiastic about our prospects for 2009.

Next, I will turn it over to Tom Gallagher.

Tom Gallagher

Thanks Ralph. In the last call, I noted that the market was poised for some positive changes citing the current environment of increased loss activity, rise in combined ratios and the financial crisis. All would have an impact on the world market.

We didn't expect the change to be dramatic or for all segments, but it would come and take hold throughout 2009 beginning with the January renewals. First sign to change are evident. We are pleased to report that based on our results for the renewal season, the market is clearly in transition with positive and directional change noted in the marketplace.

Let me take you through some comments on our January business. Approximately 50% to 55% of our reinsurance business renews in January, though this varies by line of business in territory. Overall, we had about $1,540 billion up for renewal in January and we wrote roughly about $1,575 billion, an increase of roughly 2.3% including the impact of foreign exchange.

If we use the constant foreign exchange rate, we estimate our increase would be over 5%. The results vary by operating area but the end result is a well balanced portfolio business reflecting what we believe should provide us excellent returns and position us to take advantage of the opportunities that we believe will emerge in the future.

A few points to make in general regarding the market. It has shown much more stability than we've seen in a long time where rate reductions have slowed noticeably, and with increases achieved in a number of areas with improved turns. Market uncertainties have resulted in an increase in new business activity.

Also what stood out was a more disciplined (ph) reinsurance market, which displayed a prudent use of capacity. Lastly as Joe indicated, there is clearly a flight to quality, all of which serves us quite well.

Let me make some specific comments by segment, first, for our international reinsurance. Overall, our international units including business written out of our international units and our Bermuda operations had a very successful January 1 with written premiums up 2.5% to about $1 billion, including the impact of foreign exchange. Approximately 65% of our international business renews in January.

This increase resulted from a combination of some new business, increased shares on renewals and rate increases. Most offices obtained some new business or increased shares to seceding companies, increased concerned about financial security, which allowed us some negotiating leverage in our renewals.

Along proportional covers, terms and conditions were largely unchanged, that includes in Asia, Europe, Latin America and Middle East with some adjustments and commissions depending on the results, except for some very large programs where we obtained some major improvements.

Primary rates are beginning to stabilize and we would expect to benefit from some of these increases in primary rates in various markets in the future. This will have a positive impact on results as they work their way within the system. As respect to cat rates, this varies by country with the overall trend moving upward.

For example, in Asia we saw rates from flat to 5%. In Canada we saw a plus 7%, Continental Europe of flat to up to 5%, in Latin America up 5%.

Now, looking at the London market, it did show some signs of improvement, where rate reductions have slowed down. And we were able to get more attractive terms on some contracts.

There was a positive movement in excess business in putting risk excel, cat excel and casualty, anywhere from a plus 5% to a plus 15% rate increases. The greatest movement was in the D&O financial institutional area and credit markets, where loss experience is showing a real need for immediate action.

Also in London, we did have a noticeable uptick in new business, as clients were concerned about security of other market participants, with the largest impact on our casualty portfolio there where we were able to obtain better signings.

Let me move on to the U.S. reinsurance business. We wrote roughly $415 million of business through our reinsurance operations in the U.S. and Bermuda in January which equals to our expiring premium, which represents about 43% of our annual U.S. business written.

Though the results were equal to last year, overall the make up of this portfolio has improved, especially, in the property and retro areas where the rates have moved up and our exposures have been reduced.

Let me highlight some points on each of these areas. As respects treaty property and worldwide retro, this is a place we have seen some of the most meaningful improvements in price terms and conditions, as well as usage of capacity.

Whereas we have written less premium in January it translate into a much better portfolio, less exposed with improved pricing and making more capacity available for the future.

Some specifics on renewals, on proportional business we saw a much tighter occurrence caps and the occurrence limits down significantly. For cash, the average rate on line on our portfolio went from 15% to 23%. We did note shortfalls were evident, particularly on the very large national programs.

Our exposures in peak zones have flattened or reduced. In the retro area, we saw our increased retentions on virtually all of our deals with the rate on line profiles moved from just under 30% last year, with lower layers, to just over 35%. In balance, is an effective increase was over 30%. Overall, the market is being much more prudent on its use of capacity.

Moving on to the U.S. casualty business. On balance, we had a good renewal season, recognizing that this segment has just begun to stabilize. We anticipate that we will see further improvements later this year.

We had renewed most of our major accounts and wrote some new business, which resulted in a small increase in our premium volume with some improvements in terms.

Here again sheeting companies were very interested in the quality of reinsures when assigning shares which served us well. Clearly, the flight to quality has resulted in a increase of new business here as well.

Again the D&O and financial institution market is a segment that we right now characterize as the leader in this trend of upward movement, towards improvement in insurance and reinsurance pricing and terms. Going forward, into 2009 we see the current market dynamics as presenting promising signs for renewed growth in this portfolio.

Let me move on to the specialty operations. In our specialty operations, which include accident and health, marine, aviation, and surety, we wrote approximately $124 million in premium, which represents an increase of over 8%. Our marine, aviation and surety areas were basically equal 2008, with the increase coming in our A&H area, where we wrote some new business. Approximately 46% of our annual premiums in this segment renews in January.

Looking at this business, the A&H and surety markets were relatively stable with no significant changes in price, capacity or retention. We did see some positive rate movement on the aviation side.

The only area of note is the marine business, where we saw rate improvements some in the neighborhood of plus 10% to 20% but we also noted much stress on the Gulf of Mexico business with most programs done excluding this exposure. As a consequence our Gulf, our grids are down.

We would expect to see attractive opportunities mid-year when offshore energy business is predominantly ready. All in all, I believe it was a very satisfying renewal season for us. Clearly, the reinsurance world is in a midst of positive change, which should get stronger as we progress through the year.

We are very well positioned to benefit from this trend with our strong financials, grid ratings, a seasoned staff and locations around the globe. We're looking forward to these developing opportunities, would expect to prosper in this environment.

Now, I'll turn it over to Craig.

Craig E. Eisenacher

Thanks Tom and good morning. Our 2008, gross written premium was down 10% compared to 2007 and that's consistent with the guidance that we've provided since the beginning of the year.

Gross written premium for the quarter was 15% lower than in the fourth quarter of 2007 but about half of that was due to the inception of the brownstone program effective at the end of 2007. That resulted in a one-time $76 million inward premium portfolio in the fourth quarter of 2007 which didn't repeat in 2008.

The U.S. insurance segment shows a 37% decline for the quarter however, if you adjust for the brownstone distortion, the decline is 13% and that decline is due to a couple of program cancellations and lower writings from the C.V. Starr program.

Looking briefly at the other segments, U.S. reinsurance was flat with the fourth quarter of 2007 and down 20% for the year. Both casualty and property were down as we responded in 2008 to softer market conditions. International reinsurance was up 16% in the quarter and 12% for the year, driven by generally more stable to stronger pricing and a flight to quality as Siemens (ph) looked to upgrade their reinsurance security of their panels.

Bermuda was down 36% in the quarter and 15% for the year. And about 10 points of the quarter's decline was from foreign exchange.

Specialty reinsurance was down 3% for the quarter and 4% for the year. Our after-tax net operating income was $179 million or $2.93 per share for the quarter.

Our net operating income was $563 million or $9.12 per share for the year. For the fourth quarter and the year as a whole, we reported net losses of $17 million and $19 million respectively including net realized capital losses.

Our operating return on equity was 13.8% for the quarter and 10.5% for the year. Underwriting income at the group level was very strong. Combined ratio was 83.5% for the quarter and 95.6% for the year as a whole. We recorded $42 million of favorable reserve development in the fourth quarter and strengthened reserves by $24 million for the year as a whole.

We had light catastrophe losses in the quarter. We had $20 million of loss cost but only $8 million net of reinstatement premiums. We recorded a loss of $257 million net of reinstatement premiums for Hurricanes Gustav and Ike in the third quarter. We took great pains at that time to develop an estimate we believe could be adequate.

We've monitored and analyzed the ensuing reported losses and we have concluded that our original overall estimate still represents our best estimate. Investment income was disappointing at $75 million for the quarter and $566 million for the year. Our limited partnership investments lost $73 million for the quarter and $64 million of that $73 million was from the partnerships principally focused on public equities.

We significantly restructured our investment portfolio during the fourth quarter and at year-end, 94% of our investment assets, invested assets are in fixed income or cash.

We have a $137 million in our equity portfolio and $156 million in limited partnerships that are invested principally in public equities. So in total about 2% of our invested assets are exposed to public equities at this point. The reduced asset risk and volatility will allow us to better capitalize our 2009 business opportunities.

We recorded a derivative expense of $34 million in the quarter and $21 million for the year. That's on the equity put options, because both the AAA corporate interest rates and the S&P 500 Index declined both in the quarter and for the year as a whole.

Cash flow from operations was $55 million for the quarter and $663 million for the year.

Just to summarize the quarter's operating results, underwriting results were excellent but investment results were poor as a result of the drop in the equity markets.

Our GAAP equity ended the year at $5 billion down $76 million for the quarter. We had $179 million of net after-tax operating income and this was reduced by $77 million of after-tax investment losses, a $126 million in currency translation losses, and a $29 million dividend paid out to shareholders.

Our capital adequacy is very strong relative to our own internal economic capital measures and those of the rating agencies as well. Our liquidity is strong with over $2 billion in cash and short-term investments.

In addition our cash flow is positive. We have significant maturing bonds and available credit lines. All in all, our balance sheet is strong with ample capital, great liquidity, reserves that are strong and assets that are high quality. We are pleased with our January 1 renewals and we expect continued opportunities during the year. Accordingly, we expect to continue strong performance in 2009 and beyond.

Joe would like to comment on our rating status with S&P and then we'll take questions. Joe?

Joseph Victor Taranto
Chairman of the Board

Yes, a quick update with regard to S&P. We are meeting with S&P late next week to discuss our rating. We expect that they will finalize their decision shortly afterwards whereas we hope to keep our AA-. If we do not... I do not anticipate any meaningful impact on our business.

Let me explain why. First, the worst outcome is an A+ S&P rating which is still a very good rating. Second, our best rating is A+ Excellent and most of our customers use that. Third, our clients know us and our strength; we have been dealing with many of them for 30 plus years.

When we went through credit watch in late December, during the renewal season, I did not hear from even one underwriter that it was a factor in any of our deals. Having said that, I believe we are deserving of a AA- rating and I hope S&P does as well.
We'll now take your questions.

Question and Answer

Operator

The question-and-answer session will be conducted electronically. (Operator Instructions). Our first question will come from Jay Gelb with Barclays Capital.

Jay Gelb

Thanks and good morning. Joe, on the gross written premium growth for 2009, is the 2% or so growth that was generated for the January renewals, is that a good run-rate for the full year or should we consider other one-time items?

Joseph Taranto

I guess, we would hope there would be a little bit greater than that as we see continued opportunities and improvements during the year. Plus, I think as Tom noted, we reduced the exposure in some areas at January 1, even though we wrote more premium.

Part of what you're seeing at January 1 is the dollar having increased in value until when we you get done with translation, had it not changed it would have been more probably 5% or 10% growth in January and we did a little less business with AIG. So when you put those two things together that's part of why you saw the number at 2% for January. Our hope would be that it will be greater than that for the year.

Jay Gelb

Okay. And then next question on investment income and realized gains and losses, how should we be thinking about that going into 2009?

Craig Eisenacher

Well, we don't really project realized gains and losses. I guess I would comment that since the end of the year, our bond portfolio has appreciated and obviously we're watching that. Our equity exposure has reduced and there is, as a result of that reduction hasn't had much of an impact so far this year.

In terms of looking at investment income, our run-rate of investment income exclusive of the limited partnership investments was about $630 million as of year-end. The limited partnership investments interestingly enough if you look at the internal rate of return on those investments since inception is over 10% despite the fact that 2008 obviously was a dismal year. We tend to plan those at about 8.5%, so if you were to look at it that way, there would be another $30 million - $40 million to add.

We are holding approximately $2 billion in short terms or we where as of year-end. Obviously, short-term rates particularly in high quality securities are very low. We're looking to put some of that money out and in fact have invested about $500 million at an average duration of approximately one year and a rate of about 5%. And principally, we are doing on agency CMOs very short high quality credit enhanced structures involving credit cards, prime auto loans et cetera.

They're a bit difficult to find, difficult to do, difficult to do in size but we feel that we want to stay relatively short with the portfolio. And we are not satisfied with the 1% yields where we are looking for ways to enhance that by some amount.

Jay Gelb

Okay and--

Craig Eisenacher

Do you feel that's helpful?

Jay Gelb

Yes, it is thank you. And then finally Joe, I don't know if you can update us on succession planning?

Joseph Taranto

Well, I think the Board is still working on that but I think the important of the update there is with Ralph and some of the other senior members that we are thrilled to have at Everest. Now on board we really have the future management team in place.

Jay Gelb

Okay. Thanks very much.

Operator

(Operator Instructions). We will go next to Vinay Misquith with Credit Suisse.

Vinay Misquith
Credit Suisse - North America

Hi, good morning.

Craig Eisenacher

Good morning.

Vinay Misquith
Credit Suisse - North America

Historically, you've had a significant Florida pro rata book. I was just curious as to what do you think the impact of what's happening with (inaudible) would have on your business. If the Florida homeowners' insurers have to pay more money for private reinsurance, would that hurt your margins there with the pro rata riders or where do you play in the tower for these pro rata riders in Florida?

Joseph Taranto

That said, it's an excellent question and it's one that we will have to determine the answer on in the next few months. Our Florida business comes up for renewal in June and July. But you are correct, if they don't have the same structure that they had before, if they have to buy more outside reinsurance, the state provides less.

There will be a high cost to some of that outside reinsurance and that will reduce the profit levels for the homeowner companies and if you are a pro rata rider, that would then reduce your profit margins there as well. So you would have to try to adjust for that in the deal. But the flipside of that is we can be excess reinsurers as well and we are and so we may just change the mix when it comes to June or July where we will become more excess and less pro rata. But all of that remains to be seen as we see how the Florida story unfolds in the course of the next four months.

Vinay Misquith
Credit Suisse - North America

Okay, that's fair. The second question is on the S&P ratings. It's nice to hear that on January 1 there was not much of an impact. Would you say that the impact will be more in the Europe than the U.S., because they focus more on the S&P ratings?

Joseph Taranto

Well, there is no question that in the U.S. people tend to use the best grading and S&P does get used more when you get outside of the U.S. So that is the case. But once you get outside the U.S. as well we're dealing with a lot of clients of ours that have known us and dealt with us for many, many years.

So the worst case scenario is we still have a very high rating with people that we've been dealing with for a very long time that know we have strong capital, $5 billion of surplus. So if it didn't have any impact during the renewal season, I just don't see it having much beyond that. But once again having said all of that, it is our hope to maintain the AA- nonetheless.

Vinay Misquith
Credit Suisse - North America

Thank you. One final question if I may. Could the hiring of Ralph... do you sense that your company is moving more to the primary insurance side versus reinsurance?

Joseph Taranto

We will be maintained both. We have historically been more of a reinsurer. That will probably at least remain our orientation for the next year or two. But there are opportunities on the insurance side that with Ralph's help, we can now tackle that I think we couldn't tackle before. So I am quite hopeful that you will see us with more business in the wholesale and retail space and even on the NPA side that you will see us framing out a bit there as well.

Ralph, do you want to add anything on the insurance side?

Ralph E. Jones III

No, I think as you saw in my opening remarks that the insurance operations here principally been a program operation which are good. So we are happy with them. But as we look into these new opportunities that will be kind of expanding out more in the direct side with brokers and agents in these special areas where we think the opportunities make sense. So it's more of a change in emphasis as opposed to major change in strategy.

Vinay Misquith
Credit Suisse - North America

Thank you.

Operator

We will go next to Josh Shanker with Citi.

Joshua Shanker
Citigroup

Thank you. Yes, I just was anxious, talking about where you get your implied volatility quotes from a long-term puts and what implies volatility in the marketplace, right now?

Craig Eisenacher

We use the volatility, we get volatility quotes from Deutsche Bank, our investment advisor. And I think while we use long-term volatilities to basically in conformance with the maturity on the puts to do those calculations, so current volatility is not so much of a factor.

One of the things that impacts our valuations of these is when we initially book, the S&P puts we booked them to a much higher volatility, than was indicated at the time. And basically what that did is it caused the booking of the puts, not to generate any profit up front.

So we're using a higher volatility than market volatilities would indicate and that volatility is coming down overtime which seems counterintuitive to what's going on in the markets. But it's as a result of the volatility that we had to initially use, so that there was no initial gain or loss on the puts and that whatever profit or loss there, it would be emerge over their lives. Does that make sense?

Joshua Shanker
Citigroup

Yes, well, let me rephrase, what is the long-term volatility that you are using currently?

Craig Eisenacher

It's in the 20s. I want to say 25% - 26% and it varies depending upon the maturity. If you want to go, I can go offline with you later and I can give you the exact numbers but it's in that magnitude.

Joshua Shanker
Citigroup

And it's reasonable to say that over the last six months that hasn't escalated (ph) very much?

Craig Eisenacher

No, I think what we used to do the calculation has actually come down a little bit because it amortizes downward overtime.

Joshua Shanker
Citigroup

Okay. And thank you very much.

Craig Eisenacher

Welcome.

Joseph Taranto

Well, let me add to that and perhaps a less technical answer is, those puts were stress tested I think as much as they could be by 2008, which led to $20 million change for the year in that evaluation. We still expect to make money on these puts. And frankly the way that I look at it is that change in valuation is just something that would get undone as we go forward.

Joshua Shanker
Citigroup

Thank you.

Joseph Taranto

You are welcome.

Operator

(Operator Instructions). We have no other questions at this time. I would like to turn it back to our presenters for any additional or closing remark.

Elizabeth Farrell

Thank you for joining us today. And certainly if you have any questions, please feel free to call me or Craig Eisenacher. Again thank you.

Operator
That does conclude our call. We would like to thank everyone for their participation. Have a great day.