S&P Global
Market Intelligence

Everest Re Group, Ltd. NYSE:RE

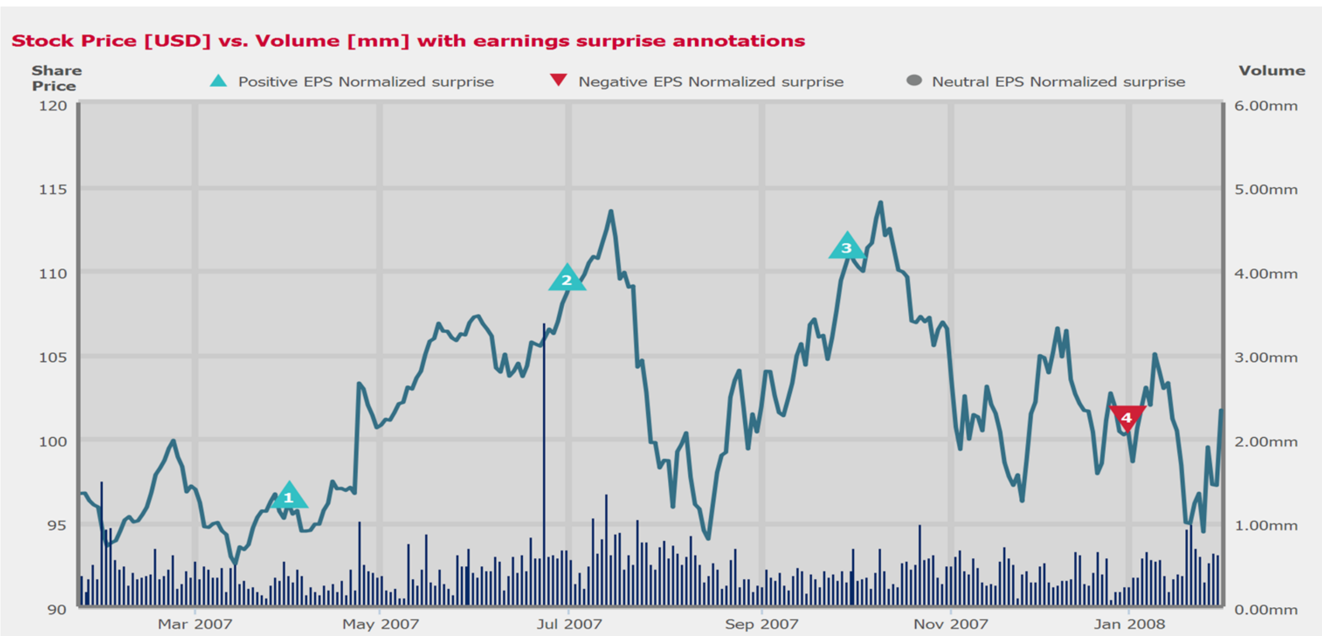
FQ4 2007 Earnings Call Transcripts

Thursday, January 31, 2008 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2007-			-FQ1 2008-	-FY 2007-			-FY 2008-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.99	1.00	(15.97 %)	3.43	12.22	12.21	(2.24 %)	13.23
Revenue (mm)	943.53	955.46	1.26	949.81	3906.53	3919.40	0.33	3764.48

Currency: USD
Consensus as of Jan-31-2008 9:32 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2007	3.06	4.13	1 34.53 %
FQ2 2007	3.34	3.36	2 0.60 %
FQ3 2007	3.09	3.68	3 19.09 %
FQ4 2007	0.99	1.00	4 (15.97 %)

COPYRIGHT © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Table of Contents

COPYRIGHT © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved
spglobal.com/marketintelligence

Call Participants

EXECUTIVES

Craig E. Eisenacher

Elizabeth B. Farrell

James H. Foster

Joseph Victor Taranto

Thomas J. Gallagher

Unknown Executive

ANALYSTS

David Small

Jay H. Gelb

Joshua Shanker

Matthew G. Heimermann

Susan Spivak

Thomas V. Cholnoky

Unknown Analyst

Vinay Misquith

William Wilt

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Presentation

Operator

Good day everyone. Welcome to the fourth quarter 2007 earnings release call of Everest Reinsurance. Today's conference is being recorded. At this time for opening remarks and introductions, I would like to turn the conference to Ms. Beth Farrell. Please go ahead, ma'am.

Elizabeth B. Farrell

[Technical Difficulty].

...on our business operations and current market conditions. Next Craig Eisenacher, our CFO will review the fourth quarter and year-to-date results. This will be followed by Jim Foster, Senior Vice President of Claims, who will discuss in detail the previously announced asbestos claims review; also in attendance for questions, is Tom Gallagher, our President. We will open up the call to questions following these prepared comments.

I will preface these 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, estimate, expectations and the likes 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 Taranto.

Joseph Victor Taranto

Thank you, Beth. Good morning. We are pleased to report net income of 839 million for 2007. When you consider the strengthening of our asbestos reserves that's a great result and highlights the quality of our underlying portfolio. We are pleased to our written 4.1 billion of premium, which is a modest increase over 2006. Considering the challenges posed by the market, we are happy with that achievement as well. Further, we end the year with our balance sheet extraordinarily strong.

Now onto 2008; reporting on the January 1 renewals, first our international reinsurance, which represents about one-third of our worldwide book of business. Here we have seen the following. Underlying insurance rates continuing to decline modestly, perhaps 5%ish, generally less than the reductions we are seeing on U.S. business. Reinsurance terms had very little change, tax rates were modestly down in areas with no recent losses, up in areas that have losses, such as Mexico, the U.K., and Australia. Our rating experienced personnel and quality relationships continue to service well and we get to see and participate in the best business offered in the sector. In short, I expect another good year with the quality of the portfolio much the same as 2007.

Next, I will review our U.S. property reinsurance portfolio, which represents about one-fourth of our worldwide business. Roughly 40% of this book or 10% of our worldwide premium renewed in January. Some observations: first, commercial insurance rates continued to trend down of 10%ish. Risk with the cat elements are declining less than risks without a cat exposure. Second, reinsurance cat rates were down perhaps around 15%. Note however that pure U.S. excessive loss cat business represents a very small portion of our overall book.

Third, retro cat rates were down about 10% with the better deals still offering reasonable opportunities for reinsurers. Fourth, we did see increased competition among reinsurers, including for a single state pro-rata homeowner reinsurance deals. We saw some examples, where major reinsurers aggressively offered improved terms to decline to win the account. Keep in mind the substantial amount of business in this category for us is Florida business that renews mid-year. Accordingly, that business will run at the existing terms to the first six months of the year. In summary on the sector, although we see some rate decline and increased competition, our book is quite unique and should remain a quality portfolio into 2008.

Next I will comment on the U.S. casualty reinsurance book, which represents about 15% of our worldwide book. Here we continue to see underlying insurance rates going down. For many classes, rates are significantly off their highs of two and three years ago. We also continued to see many seeding companies keeping more business net and buying less

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

reinsurance. Whereas we have witnessed a disciplined reinsurance market up until now, we are starting to see some done deals getting done. This segment of our book decreased in 2007, and we expect it will decrease again in 2008 as we remain disciplined and respond to market conditions.

Next our insurance operation, which represents about 20% of our worldwide book; most of our business is causality, but it's a very specialized book. And many of our programs are composed of small premium accounts. This is the end of the market that's seeing the least softening. As we reported last quarter, we recently added three new accounts that will flow into 2008. I expect us to maintain our diversified specialized quality insurance book top-line and bottom line in 2008.

Our specialty book of Accidents and Health, Surety, Marine, and Aviation completes our worldwide operation. I expect the Marine and Surety book to remain steady and profitable in 2008. We have reduced our aviation writing substantially as we see market rate is wholly inadequate. We do not expect significant improvement soon unless spurred by increased losses. Our A&H division is likewise down significantly from where it was a few years ago as we have responded to the weakness in the market, particularly on the medical stop loss business.

We don't expect any major changes in the A&H landscape in 2008. But our writing should be stable as we have previously taken the underwriting actions necessary. When this market does improve, we will be fully prepared to grow our book.
In summary, we expect to see more competition in 2008. Our ratings, people, and distribution will allow us to continue to participate in the better end of the market. Our unique portfolio will insulate us to somewhat from the market decline. We will remain disciplined and respond to the market changes appropriately.

Now, I'll hand it over to Craig.

Craig E. Eisenacher

Thanks Joe. Our after-tax net operating income for the quarter was $63 million or $1 per fully diluted share. And last year's fourth quarter, we reported after tax operating income of $201 million or $3.07 per share. As we pre-announced, we strengthened our asbestos reserves by $325 million on a gross basis. Net of reinsurance and federal income tax, the charge was $235 million or $3.72 per share. We also experienced roughly $100 million of favorable development during the quarter on our poor reserves. So our underlying operating results for the quarter were quite strong. After tax operating income prior to the asbestos reserve strengthening was $298 million, which equates to $4.72 per share. Our net income, which differs from after-tax operating income only $51 million of net after tax realized capital losses was $12 million or $0.19 per share. In last year's fourth quarter, our net income including realized capital gains and losses was $206 million or $3.15 per share.

I would like to comment on the realized loss. Our realized loss is under the old definition of realized losses that is gain or loss on sales of securities plus other than temporally impairments were significant. Our equity portfolio lost approximately $59 million of market value during the quarter while our bond portfolio appreciated by about $81 million. However, because our equity portfolio is recorded as fair value changes in its market value whether actually realized or not are recorded as realized gains and losses for the P&L. Changes in bond values, on the other hand, are recorded net of tax directly to shareholders equity. So when reality changes in the market values of portfolio holdings, net it to a $23 million gain after taxes. Losses due to sales and our write down were near zero for the quarter. We don't make rules, but we are trying to explain to you exactly what happened during the quarter.

Moving on to 2007 as whole, it was clearly a terrific year. We reported after tax operating income of $777 million or $12.21 per share even after significant strengthening our asbestos reserves. It should be noted that we strengthened our asbestos reserves in the second and third quarters as well. So the total strengthening for the year was $388 million. We will discuss in detail the asbestos study and charge a little later, but right now I would like to comment on the favorable development we experienced on our attritional reserves.

We experienced favorable development of about $100 million for the quarter and $189 million for the year as a whole. But we have comparison; we booked $243 million of favorable development on our attritional reserves in 2006. Our reinsurance segments particularly U.S. has seen strong positive development on their reserves reflective of the favorable market trends in recent years. This is becoming increasingly evident as these reserves mature. Accepting the strengthening we did in the year for centric, the insurance segments reserves are also developing favorably. We have expanded our quarterly financial supplement and we now provide to a breakdown of incurred loss components including prior year development by segment. So for details, please refer to the supplement, which is available on our website.

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Our 2007 accident year results were very strong with the combined ratio of 86.4%, consistent with the accident year results for 2006. Our catastrophe losses were light in 2007 at $160 million. Our expected cat loss is based on our portfolio were 8 to 9 points for the year. So actual losses, which equated to about four loss ratio points were favorable.

Our GAAP equity grew by $577 million to 5.7 billion at year-end. Our book value per share increased to $90.43 or by 15 % from $78.53 at December 31st, 2006. While growing our GAAP book value, we returned $363 million to our shareholders, a $121 million in dividends and $242 million in share repurchases. The share purchases represent 3.9% of beginning outstanding shares providing incremental growth going forward in our earnings per share and book value. In addition, we issued $400 million of subordinate debt in the second quarter at a very attractive 6.6% yield, and we used half the proceeds to call in higher coupon trust preferred. Net-net, we decreased our borrowing costs, and we increased our financial flexibility.

Looking at the year as a whole, our gross written premium grew a modest amount to $4.1 billion. And for the full year, our combined ratio including the assess charge was 91.6% compared to 89.7% for 2006 as a whole. Our operating return on equity was 14.6% for the 12-month period, and our net income return on equity was 15.7%. S&P removed its negative outlook from our AA minus financial strength rating. AM West reaffirmed us a plus and Moody's reaffirmed its AA3. So now, all of our ratings contain stable outlooks.

For the fourth quarter, our gross written premium was $1.1 billion. Our U.S. reinsurance operations reported gross written premium of $240 million down 31% from the fourth quarter of last year. We have been taking about the softening casualty market for some time, and we continue to see casually...we continue to see less casually business that we believe make sense to write. Property was lower in this year's fourth quarter as well; largely the result of higher seeded reinsurance costs on one large Florida property deal, and the continued run off of non-renewed accounts.

U.S insurance recorded gross written premium of $278 million in the fourth quarter, up by $75 million over the fourth quarter of 2006. The growth M&As from the Brownstone program, which we have talked about in prior quarters, we assume through a reinsurance transaction, the December 31 unearned premium on this program, which added $76 million to our gross written premium for the quarter. Specialty was up 22% for the quarter to $69 million. Marine and Aviation and A&H were up to the quarter impart to the premium on two new quarter share programs. Surety was down continuing the trends we have been seeing in recent quarters.

International recorded $216 million of gross written premium for the quarter that's up by 13.6% over the fourth quarter of 2006. The largest gain was in our Latin American book although Asia and Canada each showed gains as well. Stronger foreign currencies in relation to the U.S. dollar were a significant growth factor compared to last year's fourth quarter. Foreign exchange gains represented 9 million or about one-third of the $26 million increase in this segment. Otherwise the positive trends for the quarter are mirroring what we have seen all this year as this segment continues to benefit from economic growth and insurance growth in many international markets.

Our long-term relationships and strong ratings are an advantage in garnering new opportunities and expanding core relationships. Bermuda, including London, was up 30% to $247 million with both the Bermuda and London books growing nicely. Increased premium on several on several large London contracts as well as the impact of foreign exchange added to the growth in this segment. As well, Bermuda continued to benefit from the addition of one large contract new for 2007 and growth in its business with existing clients.

The economic fallout from the sub-prime to [Banco] appears to be far from over, clearly has affected the market values of our stocks and bonds in a general sense. But more directly, we have largely avoided any significant impacts on our insurance and re-insurance results and our invested assets. From an underwriting standpoint, we posted an additional $13 million in losses during the third and fourth quarters of this years related to sub-prime exposures. And we have been conservative in setting and holding reserves on our treaty casualty book for the 2007 accident year in line with the sub-prime issue. Otherwise, we have not seen a significant activity, doesn't mean we want, but thus far we have not.

Moving on to investment results, net investment income was $174 million for the fourth quarter of 2007 compared to $184 million for the fourth quarter of 2006; and that's down by about 5%. The largest factor in the decline is income from our limited partnership investments, which was 9 million in this year's fourth quarter compared to $27 million in last year's fourth quarter. The annualized return on limited partnership investments was 7.4% for the quarter. Clearly, the equity markets have not been attractive to play, and we anticipate the first quarter 08 limited partnership results will likely be negatively impacted by the equity markets' performance.

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

For the full year, net investment income was $682 million compared to $629 million for 2006; that's an increase of 8%. The growth was in line with our growth in invested assets, which grew by about $1 billion or 7% over the 12-month period. We are very small investor in sub-prime structured paper. Almost all of what we own is AAA rated; and to-date we have not experienced any significant problems here. The total December 31st, 2007 book value of our securities with underlying sub-prime credits was $25.9 million and the related market value was $25.4 million. During the fourth quarter, we recorded impairments of $3.4 million, $1.5 million related to sub-prime and $1.9 million related to the housing sector.

In addition to the sub-prime exposures at December 31st, 2007, we held securities backed by all day credits, which had a cost of $49.8 million and related market value of $49.2 million. The book and market values of our remaining asset backed securities at December 31st, 2007, those would be credit card balance student loans, auto loans et cetera were $269.4 million and $267.4 million respectively. All of these securities are investment grade. As far as our mortgage-backed securities are concerned to December 31st, 2007, we held agency issued residential mortgage-backed securities with the book value of $1.03 billion and a market value of $1.02 billion. We held non-agency mortgage-backed securities with the book value of $611.3 million and a corresponding market value of $606.1 million.

As well our investment portfolio includes $3.6 billion of long-term municipal bond securities of which $2.6 billion are insured by monoline financial guarantors. Despite the market concerns about these guarantee companies at December 31st, 2007 our insured muni portfolio was in an unrealized gain position overall. The book value and market value at December 31st of these securities was $2.49 billion and $2.58 billion respectively, so all in the $90 million unrealized gain. As of December 25th, that is last Friday, the unrealized gain on our insured munis was $120 million. At present insure municipal bonds are trading on their underlying credit quality.

The market is not according any value the insurance graph at this point, so future monoline performance would not seem to pose any threat to the insured muni market values going forward. In the aggregate, we have a very high-quality investment portfolio and we always have with 85% or $12.7 billion with the portfolio invested in fixed maturities, short-term investments, and cash. Of the total, 98.3% or $12.5 billion is investment grade. The embedded yield for the portfolio is 4.7% pretax and 3.9% after tax and it has a duration of 3.9 years.

Rounding out our investment portfolio, at December 31st, 2007, we held approximately $1.5 billion of equity securities, which as previously mentioned carry to fair [ph] value. During the early part of January of this year, we sold $200 million of our holdings. Nevertheless, we estimate the equity portfolio lost approximately $136 million of market value between year-end and last Friday. The value of our limited partnership investments at December 31st, 2007 was $654.4 million; and the yield on these investments for 2007 was 13.5%.

The returns allowed the partnership investments fluctuate depending upon the performance of the individual investments made by the partnerships as well as movements in the equity markets. As I mentioned, we expect below average returns for the first quarter of 2008. Cash flow from operations was $236 million for the fourth quarter of 2007 compared to $142 million for the fourth quarter of 2006; lower catastrophe loss payments $86 million this quarter down from $188 million in the fourth quarter of 2006 explain almost all of increase.

Lastly, I would like to comment briefly on our asbestos reserve strengthening and Jim Foster will comment more fully on the work done and the conclusions drawn. As we pre-announced and disclosed in our earnings release, we strengthened our grosses asbestos reserves by $325 million in the quarter. That $325 million was split, $250 million reinsurance and $75 million insurance. After honoring [ph] reinsurance, the pretax charge for the fourth quarter was $311 million; and for the year as a whole, we incurred $388 million. An enormous amount of work supports the estimate of our ultimate liabilities. Our current department undertook an exhausted defendant-by-defendant analysis and work it through all of our reinsurance contracts. And our actuaries developed nine different methodologies to project our ultimate liabilities.

We developed projects based on internal data and assessments. We extrapolated nonpublic and publicly available data for our seeding companies, and we benchmarked ourselves against the industry. To put my summary on it, we did a thorough job, very confident and very thoughtful. We made what we think is a strong provision for ultimate losses. And we believe our reserve levels are now strong as any in the industry.

To put in context, our net asbestos reserves now aggregate $763 million. The survival ratio on the reinsurance side is 13.6 years, and on the direct side 8.2 years excluding the impacts of settlements in place. For AM West, the industry aggregate for all insurers and reinsurers was 8.9 years. Domestic industry aggregate survival ratio was 8.9 years as of 12/31/06; and for reinsurers alone, it was 9.5 years. So relatively and absolutely, we believe we are in a good position at this point. I think you will be impressed to the extent quality and thoughtfulness of the work we have done here.

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

And with that, I would like it turn over to Jim foster, our Senior Vice President of Claims, who will provide you with more detail perspective. Jim?

James H. Foster

Thank you, Craig. With that introduction, I will get right into the study and provide some color on study. In planning the study, we made two fundamental decisions early on. First features the conducted study internally rather than retain an outside consultant. That approach very utilized the expertise we have in house and we believed produced the better product. Second, we decided to study it to combine the efforts of our claim actuarial legal and financial staffs.

In approaching the claim portion of the study, we focused on a number of Bellwether [ph] policyholders, who is experienced was potentially significant in themselves and which we thought would be indicative of the potential development across the entire book of business. In choosing policyholders to study, we focused on companies who felt this experience was mature enough that there was information available to study and on which we felt we could crate a reasonable estimate of their ultimate exposure. This led us to choose a couple of dozen policyholders. Among those policyholders, Everest claim experience ranges from having already paid tens of million of dollars having further little by a way of loss experience.

Having searching the target policyholders, we then pull to gather all of the available information and insights concerning those policyholders, including information actually reported by our seeding companies, general market intelligence, information developed in our role as a direct insurer of many of the policyholders, and from other sources including our attorneys were appropriate. For each policy holder, we constructed an estimate of not only its ultimate liability, but also how that liability would be allocated across the insurance coverage, which is purchased.

With those estimates as a starting point, I will then turn to my reinsurance claim staff, which in intimately familiar with the business that Everest wrote to our major clients. The staff took the estimated liability and allocation at the insurance level and analyzed the potential exposure to each reinsurance contract that was issued to the major insurers of that policyholder. That process involved the painstaking review of hundreds of insurance contracts...reinsurance contracts by years and layer on many of which we have never received any claims. This allowed us to create a preliminary estimate of the potential reinsurance exposure we might face when each of the subject policyholders.

Then, together with our actuaries, I reviewed the preliminary estimate on each policyholder and attempted the factor into the estimate of wide variety of uncertainties and limitations inherit in this kind of study. For example, based upon the facts unique to each policyholder, our level of confidence in the initial estimates of policyholder liability and insurance allocation might well vary. In addition, we needed to take account of significant factors such as the potential application of coverage defenses at and either the insurance or reinsurance level, as well as the impact of additional reinsurance, which our seeding companies may have purchased, and which would work to reduce the exposure to our reinsurance trees.

This secondary level of analysis not only allowed us to refine our estimate we respected the target policyholders, it helped clarify for us some of the issues relevant to the process by which we extrapolated from the study group through remaining book of business. We also then had to assign a range of confidence to these estimates. As you can probably tell from even a fund nail sketched the process, this was a very intensive effort. As we went through the process, we became more comfortable with our initial decision to handle the study internally rather than relying on a third party.

There are two main reasons for that comfort. First, we felt that accident will be critical that the analysis of the reinsurance exposure be handled by people, who not only know expenses liabilities in general, but also know our seeding companies and our book of business. Only that level of familiarity, which would never be duplicated by an outside consultant, allowed us to consider the many nuances applicable to some of these decisions. Second, if we would retain a consultant that consultant would most likely rely impart one data, which it had from other assignments and/or a proprietary model, and we might not have had access to the data or the inner workings of that kind of model.

By doing the study ourselves based on the information in our hands and based on our intimate knowledge of our business, I feel that we had a much greater sensitivity not only to the projections being made, but also to the significant and often sudden uncertainties embedded in the projections. In other words, conducting the study ourselves leaves us with a much better understanding of both the strengths and potential weaknesses in the projection. Because of the inevitable uncertainties and projecting asbestos liabilities, we believe that forcing ourselves to get to this exercise yielded a much better foundation for the judgment as to how to restart our reserves. Of course, the process we went through on the claim side, there was only one aspect of the study.

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

We also had our actuarial staff working in parallel with our claim staff. Although it's well-known that asbestos liabilities do not lend themselves to analysis to customary actuarial reserving techniques, our actuaries took a very proactive approach in looking at a wide range of techniques that offered some promise of helping us analyze the potential exposure. They not only looked at this from the perspective of projecting our exposure solely on...they also looked our projection of our exposures by examining industry positions.

Without going into our gained details at only an accelerated level, the methods applied to directly estimate our potential exposures in addition to the work based on the claim study included a technique using report your analysis; and that approach claims are slotted into the year, in which they are first reported a triangle of those used to developed and then carry forward reflects future years and create an estimate of potential IBNR, although the forward-looking aspect of this technique relies on judgment test of the future number and severity of claims, which might be reported. We felt that having gone to the reclaim portion of the study we are in a better position to make those judgments.

The actual results looked our potential exposure based on assumption as to varying levels of survival ratios, which might be booked. In addition, using estimates of exposure prepared for prudential back in 1990s, we compared our actual paid loss development to the estimated paid development in the earlier studies to project a new ultimate based on our actual experience. Among the several techniques that were exclusively based on industry related comparisons, our team went through and exercise to look at the bulk IBNR carried by some of the major national insurance companies and calculated how that IBNR might slow through the claims that might eventually you put in adverse.

Our actual results also looked at the comparison of Everest's claim aversions to avoidance across the entire industry. Further, they looked at how Everest survive ratio might look if we book the same level of adequacy as the entire industry. We respect the several techniques that were based on industry data. One important feature that we feel adds a significant element of conservatism through our approach is that we did not assume that the industry is adequately reserved. As you may know, in its recent report, AM West estimated the industry as a whole to be deficient by $2.8 billion.

In making our estimate relative to the industry position, we read a number of scenarios, including scenarios assuming that the industry is currently at an adequate level, assuming the $2.8 billion deficiency assuming my AM West and assuming a deficiency of $10 billion or nearly four times that assumed by AM West. Although we do not rely exclusively on any of these techniques, in broad terms the reserves that we booked correspond to an assumption of an industry wide deficiency of $10 billion. That reference point gives us a lot of additional comfort that our figures are conservative one.

Putting all the elements of this study together, we are able to provide Joe, Tom, and Craig with a variety of analytical perspectives during both by claim specific and actuarial methodologies. In light of the uncertainties surrounding asbestos in general, we obviously would have not have considered any one of these techniques to be definitive. That's why we try to provide as many perspectives as possible. The fact that techniques in which we have greater confidence generated IBNR indications that we are in the same ballparks of each other gave us greater confidence that this multi-faceted approach provided the best possible basis from making a judgment in an area that admittedly carries uncertainty.

Overall, well of course we would prefer that the asbestos environment become more benign rather than less so, we faced those changes collectively. I am confident that the creativity and collaboration among the staff generated the best study possible. While we are not pleased to having to post the reserves, we are very pleased with the analytical work that underlined the decision. All these comments up until now related to our soon reinsurance business. As Craig has indicated, a portion of the charge related to our direct to our direct insurance business in Mt. McKinley.

Our approach to this in McKinley necessarily differs from that on the reinsurance business. McKinley's insurance business at this point is relatively small with much of the potentials exposure concentrated in a small number accounts. Each year my staff at McKinley performance review when which we look all the policyholders from whom we have received asbestos claims. While we regularly attempt to attain information from policyholders, it can be very difficult to I think at extended period of time to get information. The focus of our annual review is to take a fresh look at the information we have been able to gather on a given policyholder and reevaluate the significance of that information. Where we have been able to get additional information either informally or encourage litigation that information can also be taken into account.

In addition, the annual review attempts to refine our estimate of potential exposure to expenses as well as loss payments. For 2007, the review suggested some incremental exposure and just a couple of policy holders. That normal development plus some increment additions with respect to expenses constitute a portion of the charge on McKinley. Because of the McKinley book is fairly small, to a certain extent, McKinley's potential exposure is dependent on the most significant individual accounts. However, some of these accounts present such uncertainties that is simply not possible to calculate

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

and expect that exposure. Instead, some of the more significant accounts represent situations in which we believe that there is and should be no exposure, but where the circumstances have not yet allowed those issues to be fully litigated.

As a result, the portion of the charge of McKinley is not attributed to any specific case but reflects the decision that the uncertainties McKinley suggest the prudence of reserving in a more conservative level. In the some then, just like other companies, we have rustled with the uncertainties related to asbestos. In working over the past couple of month to push the envelope in estimating our potential IBNR exposure, we are very pleased with the study to put together and feel comfortable that the provisions we have announced places in a very strong position both in the absolute and relative to any benchmarks in the industry.

With those comments, I will turn it back to Craig.

Craig E. Eisenacher

Thanks, Jim; great job. As you just heard, we have thoroughly examined our exposures and made what we believe is a strong provision for the ultimate liability. We believe we are strongly reserved both absolutely and relative to the industry and relative to our peers. This should be behind us now recognizing of course that you can never 100% assured in this area. In summary, I noted earlier a myriad of accomplishment for 2007. I do believe 2008 will be much tougher year for us both from an underwriting perspective as well as an investment prospective.
Having said that, I really believe we are very well positioned with strong reserves, our conservative investment portfolio, ample capital and financial flexibility strong financial ratings, well controlled pricing and underwriting operations and a well-diversified insurance and reinsurance portfolio. And while we see increasingly competitive conditions pretty much across the board, we expect our 2008 results absent catastrophes will be quite good. And with that, I would like to open it up for questions.

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Question and Answer

Operator

[Operator Instructions]. We will take our first question from Tom Cholnoky with Goldman Sachs.

Thomas V. Cholnoky

Good morning. Jim, I was wondering if you could kind of repeat couple of your presentation there. I just...well, let me just ask one or two questions if I can. On the asbestos, is that fair to assume now and I just...I am probably asking the obvious but let me just ask it anyway that given what you have done in the fourth quarter, which was obviously a very exhaustive study that the chances of you having to make any meaningful adjustments to your asbestos reserves over the next couple of years is going to be pretty minimal. Is that...I am not to put words in your mouth, but is your level of confidence pretty high that should be something minimal outside of some extraordinary events?

James H. Foster

That's our intent, and hopefully much more than two years.

Thomas V. Cholnoky

Okay. Let me just ask a question then if I can on the sub-prime the D&O insurance exposure. How different is the environment today for you from an underwriting perspective than it was back in the late 1990s and with the tech bubble and all the D&O claims that came out there? Why should we feel comfortable that the very minimal losses that you have thus far are not going to balloon in some fashion? Have you done anything different today versus what happened back then?

Joseph Victor Taranto

Tom, I don't think that we can guarantee you that there won't be more to come out but guess I would start by saying that the D&O portion of our book is really not that bigger portion of our worldwide book. And I am sure that's less than 5% of our overall premium. Plus, there was such a stock market bubble as you point out at that time that affected so many stocks that had done so overvalued that I just think to my mind that was going to cause more shake out than this, which is very specific item that affects a very specific number of stocks. But let me ask Tom Gallagher to give you little bit more color as well.

Thomas J. Gallagher

Well, also the world that changes, we changed our underwriting; our claims have changed their underwriting. We cut out most of the big banks, the big financial institution that's been thanking. So, we limited our downside risk, and we also put out less limits exposed what we did right.

Thomas V. Cholnoky

Okay, I guess it's the only other last question I have, and I will get back and if I need to, is just in terms of the capital management, Joe, obviously you didn't back...buyback much stock in the quarter. And you are going to generate if you meet anywhere close to consensus number this year, I mean somewhere between 900 and... let's call 900 million of income potentially. How should we think about that? Because you are not growing the top-line all that much, and what are you going to do with all that cash?

Joseph Victor Taranto

Well, let me...you are right for fourth quarter. Although we bought that roughly 4% of the stock during the year, which I think was percentage wise more than most we are buying back in our sector. That's something that will likely continue to do into 2008. And we will take a look at that continually and also the business opportunities. But as we have done in the past, Tom, that's not something that we are going to give guidance on. That's something that we continue to want the flexibility each quarter to say what are the business opportunities, what do we need to support our ratings and make a decision at that particular point in time.

Thomas V. Cholnoky

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Okay. Sorry, one just one last question on D&O just to wrap it up; are you...your limits exposed to D&O lower today than they were back in late 1990s.

Joseph Victor Taranto

Yes, they are.

Thomas V. Cholnoky

Okay, all right, you want to give some idea of magnitude.

Joseph Victor Taranto

We will have to get back to you on that, Tom. But I think some of it was just the D&O market impart raised our going down in 2005, and we started cutting back at that particular point of time, some on the basis of just rate decline.

Thomas V. Cholnoky

Okay, great.

Joseph Victor Taranto

It is down pretty significantly from a couple of years ago.

Thomas V. Cholnoky

Okay, great. Thank you.

Operator

Next we will go to Joe Shanker with Citi.

Joshua Shanker

Thank you, good morning.

Unknown Executive

Good morning.

Joshua Shanker

Looking at the...you guys have been very candid about the rate environment somewhat more than some other sayings that insurance rates down 10%, reinsurance potentially down 15%, but excluding the new program that you are writing...your writings are about flat and do you expect us to process or do you think your exposure...your actual premium should drop in the 10 to 15% range is there some loss to that for 2008?

Joseph Victor Taranto

Well, it's getting tougher. As you've kind of heard and me describing things and there will be parts of our business that we currently expect will begin I guess I will start with our U.S. casualty business, where underlying insurance rates are often people are keeping more net and just the general reinsurance competition is becoming a little bit tougher. So, we declined in 2007 over 2006. I think we were down something like 25% in that portion of our business. And we see that shrinking again by probably again a reasonable percentage in 2008.

Property reinsurance in the U.S. probably be down a bit as well. And now impart it's because we have to just a stellar year in 2007. We really grew that book; some of that was Florida business some of that was retro business, some of that was other single state opportunities. We had a terrific year, and we expect to do most of the deals we did in 2007 to renew in 2008, but probably not all. So that might be off a bit too. Our insurance operation, there I think we have some opportunities, so I won't predict any sort of reduction. International operation continues to go well. I won't predict anything there and same for the specialty book. When you do put it all together though, I do think will be down in 2008 on a worldwide basis. And if I have to offer you a guess, it would be 5 to 10% remains to be seen if there is a lot of the year to go just yet. Tom, maybe you want to comment on the January renewals as to book that we renewed versus last year.

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Thomas J. Gallagher

Yes, when we look at the January 1 renewals, the overall portfolio, we had about 1.7 billion for renewals, which is about 55% of our overall portfolio. When we put the tally together just this week, it looks like we did about 16...a 1.6 billion in premium, a little higher. So we are off about 5 to 6% for one month. The majority of that decrease really came out as Joe said on the treaty casualty side. Our property is up slightly in the U.S. or A&H and specialty business were about even. Internationally, we were up, but in some places, we were slightly down one thing being specifically the place. We are...we showed increased retention and much more competitive environment. All and all, it's a very good market.

Joshua Shanker

Okay, well. Thank you for being so frank. And one other quick question I think given where the equity markets are right now, given potential opportunities in credit markets, do you see any portfolio management strategy changes in terms of the way that you are investing your flow?

Thomas J. Gallagher

No, the Fed has managed to push short rates way down, so we have been a little more aggressive in trying to put some money to work. And we are working...we kind of worked that portfolio off. We are really trying to stay very short in terms of our fixed income investments. It just seems to us that there is significant interest rate risk in the market either the stimulus package works, and interest rates go up, or the stimulus packages doesn't work and we have inflation and interest rates go up. And who knows what the timing of that might be. But as we put money to work, we are trying to keep it on the short end. I think I mentioned in my remarks that we pulled a couple million dollars out of the equity markets early in January and that was again reaction to a situation, where we thought that the downside risks looked...didn't look unattractive relative to the upside potential. So we are going to continue to be conservative investors, high grade, probably shortest maturities until there is more evidence in terms of where this is headed.

Joshua Shanker

Thank you for all the disclosure, appreciate it.

Operator

Next we will go to Jay Gelb with Lehman Brothers.

Jay H. Gelb

Thanks, and good morning. I had a couple of numbers questions for you. First, Craig, on the partnership income, is that or the other income on page 9 of the supplement, or is it part of that other income?

Craig E. Eisenacher

It's other investment income. It goes through the investment income line. Other income on P&L is primarily foreign exchange gain and loss.

Jay H. Gelb

Right, right. So, on page 9 of the supplement where there is other income with a net investment income. So if the numbers didn't exactly match up, I guess maybe there is some other revenue flow coming through that. Could you give us by quarter the 2007 partnership income as you track it?

Craig E. Eisenacher

That is it, isn't it on page 9?

Jay H. Gelb

Okay. Because I was looking at December 31st, 07, you said 11.7 million.

Craig E. Eisenacher

Yes, I don't know why that...is that...I don't know if the...I know the 29...is there anything else to go through there?

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Unknown Executive

Some minor items.

Craig E. Eisenacher

Yes, there is some other...I guess there is some other minor items, but it's almost all of it in the partnership income.

Jay H. Gelb

Okay. So even though you are saying first quarter 08 partnership income is going to be challenged, there was 11 million in the first quarter of 07. So, are the comps going to be that difficult versus year-ago in the first quarter?

Craig E. Eisenacher

I think it's hard to say; that income...we report that between a month and a quarter behind, depending on when the limited partnerships report to us. And a portion of our portfolio is long, short funds. More of the portfolio is what we would call infrastructure; it's healthcare, power, energy et cetera. And then there are some of the out funds as well. And it's more of the long, short funds that I think are likely to have poor results. I think it's hard to comment on how we would expect it to perform against the first quarter 2007, but it's going to be weaker than it's been, I would think.

Jay H. Gelb

Okay. So if you had 70 million or so partnership income in 07, could you venture to guess directions what that...

Craig E. Eisenacher

Beyond the first quarter, no. I mean I have some insight into the first quarter, because it's...a lot of it's going to be based on what happened in the fourth quarter, right, because we are a quarter behind. Beyond that, it's...I really can't forecast.

Joseph Victor Taranto

No, I think when you look at the whole year, we are not suggesting less. And we are still very happy with a lot of the partnerships that were in. And many of them are still coming up with some very good returns. So I think Craig was just indicating a couple of them in light of what's happened in the market in the last couple of months might have some tough sliding for the first quarter; but overall for the year, no significant implications.

Jay H. Gelb

Okay, that's good. And then the effective tax rate, what's your sense for 2008 given some of the quarterly gyrations in that number?

Craig E. Eisenacher

I guess I would expect it to be fairly similar to this year as a whole, maybe a little lower, because we took the expenses charge in the fourth quarter and a lot of that income. That affected the tax rate for the year.

Jay H. Gelb

So on operating income 17 to 18% range?

Craig E. Eisenacher

Probably a reasonable guess.

Joseph Victor Taranto

In the neighborhood.

Craig E. Eisenacher

Yes, reasonable guess.

Jay H. Gelb

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Okay and then could you explain the uptick in the combined ratio in the Bermuda segment for the quarter and how that business is going?

Unknown Executive

Yes, that would be the results of the asbestos charge.

Jay H. Gelb

May... if its... if you have the numbers now but if you would have the asbestos impact by segment that would help us maybe get a better baseline on the underwriting results?

Unknown Executive

Yes, it is always direct. And it is in the... it is on the segment page as well I think.

Elizabeth B. Farrell

Yes, underwriting stuff.

Jay H. Gelb

Both on the supplements.

Unknown Executive

Yes, it's right. It's in each of the segment.

Unknown Executive

If you look at the segment pages and that they would start on page 5 I believe, maybe page 4. Page 4 of the settlement starts with total reinsurance and then total insurance. There is some asbestos in the environmental line and on the bottom.

Jay H. Gelb

Got it. Alright, thanks very much.

Unknown Executive

And that gives you the break down.

Unknown Executive

The effects on the Bermuda operation if you look the difference with and without the asbestos will probably go from a 94 down to about 82 combined ratio.

Jay H. Gelb

For the full year.

Unknown Executive

Yes.

Jay H. Gelb

Okay, thank you.

Operator

Our next question will come from Susan Spivak with Wachovia.

Susan Spivak

Good morning. I was hoping to get more of an outlook on the mid-year renewals specifically on the property side. Your comments make it sound like it will be much more challenging this June and July versus the year ago and so if you

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

could just remind us how much of your business renews them that would be helpful? That's my first question. Then I just wanted to explore whether there was any impact on your business from the Berkshire Swiss re-transaction, were you on any programs that might be taken over? And then finally Joe could you give us an update on your outlook for M&A whether some of the use of that $900 million in generated earnings this year could be used towards some new growth opportunities?

Joseph Victor Taranto

Yes Susan, on the Swiss really, I don't know of any impact on us. With regards to property renewals in mid-year I would guess that half of our U.S. property business, if I said U.S. property was 25% of our worldwide books and maybe half of that is in the mid-year, a lot of that is our Florida business, not all of this but lot of it is. We have established some very, very good physicians with some very good clients where it tends to be the market leader on the deals that we have done. We tend to cement the bond over the last two or three years as we have really helped these companies through a difficult reinsurance market particularly in Florida. So, I think we are in very good position, but you are right we are seeing more competition and in January we saw more competition across the Board. And we did see it on some single state pro-rata deals not Florida but other states. And just did a couple of done deals there as people who are aggressively reaching to get on new business.

So, we know that we will have to deal with in all likelihood more competition, but I think we are in very good shape. But I will have to report back to you in June and July just exactly what takes place. On the M&A front we look, we continue to look, we are finding at least on the insurance companies' side and even the agency side of things kind of pricey now a days. And on the reinsurance side we have seldom found operations that we thought were complimentary. So we haven't been big clearly in the last few last few years on the M&A side but we don't exclude it. We certainly have seen a couple of interesting stories and explored them. So yes, you always like to have the financials were withdrawal to tackle that if that is something that want to tackle. Let me go through the noodling on excess capital and beside you know what should we do in terms of buy back versus what should we say for business opportunity that's certainly one of the aims we have to contemplate.

Susan Spivak

Joe if I could just follow up again on your comments about some of the competition actually becoming undisciplined, its really you know one of the first comments we have heard about that and moving into the market and I'm just wondering is that stemming from more of the larger... the European players or is it coming from some of the new capital sources who are just struggling to get on program?

Joseph Victor Taranto

You know, it ends up being all of the above, Susan. I mean it should not be anything that's a surprise. Its something that comes I think with a normal market. I think it was nice to say everyone was being disciplined but it is almost unrealistic and do not expect to see some deals out there that are priced below what you really think is adequate. You take the U.S. casualty side where the pie is shrinking because more people are keeping that not mention insurance rates are going down. It stands to reason that what does come to the market might be a more fought over. So, yes, I have realized a lot of my brethren have kind of said, everyone has been disciplined. I am just trying to give you I think a more realistic view that not everyone on every deal is perfect according to us. And I am sure we are not perfect according to them sometime. But the world that we are entering is a more normal reinsurance market.

Susan Spivak

Your calendar is definitely appreciated. Thanks Joe.

Joseph Victor Taranto

You're welcome.

Operator

Next we will go to David Small with Bear Stearns.

David Small

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Hi, just one clarification and a question. Just on the insured fees, could you just explain to us the impact the Brownstone program had in Q4 and then I think in the last quarter call you said you expected that to be $60 million of annualized revenue, is that still what you expect it to be or you think it is going to be larger now?

Unknown Executive

I don't know if can comment, well.

Unknown Executive

No, I will comment on it. We have still about $60 million, we expect on annualized basis that will flow into 2008. Craig will take you through the fourth quarter.

Craig E. Eisenacher

We took on via reinsurance transaction, a portfolio transaction, the unearned premium reserve related to the Brownstone program as of December 31st. So that got booked at $76 million of gross written premium, and $76 million of unearned premium reserve. You will also notice in the balance sheet that our deferred acquisition cost ratio went up because there is higher commission ratio on that. And all that went into the unearned premium reserve.

David Small

Okay, great.

Unknown Executive

That's the primary impact.

David Small

Okay.

Unknown Executive

That business and that $76 million will earn off all of that business is not one-year policies or three year policies in there as well. So you can't view the $76 million as all subject to earnings if you will or the premium being earned in 2008.

David Small

Okay, that actually is very helpful, thank you. And then just in terms of as you look for growth in the insurance business, we've heard that competition for new MGAs is pretty intense out there. I know you guys have historically had tighter underwriting guidelines around new MGA programs than others, just can you give us some comments on what the environment is like for that?

Unknown Executive

Well, the environment for MGA business is no different in general than the rest of the insurance world, people looking for premium. If we are different in one respect, we don't focus on getting a lot of the everyday account, we as Joe indicated, we try to pick out the specialty business and it's worked for us. Over the course of time, we build up the portfolio whether be it Brownstone recently or security guards or forest tree landscaping, very specific programs that have less competition and once we do get them we lock them in for a multiple year of contract. So there isn't a lot of competition on those programs and if there were, for the whole program it will take a lot before it could change. The rates are getting pressured somewhat, but again as Joe indicated before, not as dramatically addressing the marketplace.

New programs are clearly tougher to find especially those that really meet our standards, but as far as what we have going for us in this space, I really think it's far more than most, certainly starts with an A+ invest rating which is very important. We call that as very good reputation in the MGA world. We tend to do deals with our agents where they are exclusive deals as Tom kind of noted, some of the people that we compete with may have multiple agents riding the same kind of business and that doesn't work as well for the agent as the deals that we tend to put together. And in the last few years we have just developed a very good back room that's very helpful to the business and to the agent. So I think we have some competitive advantages but yes there is no question that along with everything else is being more sought after.

David Small

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

And then just finally could you just give us a Centrix update?

Unknown Executive

Yes, we added $5 million to the Centrix reserve in the quarter, and it was something that we didn't necessarily have to do. The reserve that were holding or I guess what I should say is the bottom end of the range moved up such as the reserve that were holding was a little below the mid-point and we talked up to the midpoint of the range. The portfolio continues to run off. We are quite comfortable with where we are in terms of the reserves. There is continuing litigation over the program, over the period of years that we were on it, and we will see how it all turns out.

David Small

And can you just maybe also help us for how much kind of the detail about how much more there is to run off?

Unknown Executive

I think there is... while we are holding... I think we are holding at this point about $45 million of reserves. The portfolio of loans I think is down to 60, it's down to about $60,000 and the ageing of the loans if you will overall of course ages are quoted on average and so I would guess there is probably 24 months on average to go.

David Small

Great, thank you.

Operator

Next we will go to Vinay Misquith from Credit Suisse.

Vinay Misquith

Hi, good morning. There appears to have been a shift from... on your fixed income you released from AAA and AA to A and BBB, was that really because of rating downgrades on the secured release or did you actually put more money into the securities?

Unknown Executive

Not surely because of ratings downgrades. The biggest item effecting that was Washington Mutual. We had $23 million I believe of bonds that were downgraded to BBB, $5 million of that has since matured or also matures soon. Overall if you look at the quality characteristics of the portfolio relative to the third quarter it looks like it is down a little bit but if you look at it relative to last year the quality is actually stronger.

Vinay Misquith

Sure, what new securities did you buy?

Unknown Executive

Excuse me.

Vinay Misquith

What new securities did you buy, put the lower quality, do you think that the spreads now are sufficient that you want to get more aggressive with your portfolio?

Unknown Executive

Well, we haven't, I mean we haven't aggressively gone into BBB. We have looked at some hybrids not in the fixed income securities, but we participated in the Fannie Mae and Freddie Mac preferred. So we are going where we see relative value but we are not investing specifically in BBB securities. So junior securities if you will are good issuers of utilities but good names overall and as I said short maturities.

Vinay Misquith

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Sure, and on the D&O side, is it just a 2007 year issue because these are claims made policies and if you could give me a sense of how much IBNR you have on that business?

Unknown Executive

Well D&O is done on a claim made basis but that's... so there isn't any IBNR but that doesn't mean that you won't see more claims reported next year for the industry that will follow into 2008 covers.

Unknown Executive

Vinay, I think as I mentioned in my remarks well that as we looked at where we reserved the cash that we booked this year we thought we had some room in there, we opted not to take that down even if it is a question against what might be coming.

Vinay Misquith

Alright, thank you.

Operator

Next we will go to Matthew Heimermann from JPMorgan.

Matthew G. Heimermann

Hi, good morning. Not much left, but I thought Jim when... with respect to the reserve charge on the reinsurance side, I guess simplistically when I think about, what changes overtime and why estimates maybe higher or low, one is kind of the adequacy of the Cedant [ph]; two kind of claims and process claims that Cedant [ph] knows about, but there is a reporting lag; and then three just be the actual process for us. So with respect to the reinsurance increase there, could you maybe allocate by those three categories that $250 million if that's possible just to give a sense of how much is attributable to each?

Unknown Executive

No, I don't think we could sub divide it like that now. I think what we can say is that the decision to do this study was stimulated primarily, almost exclusively by external events that we were seeing in the market so to speak. In the sense that, through late 2006, end of 2007 we began to see changes in how claims were getting reported to us that suggested a difference in what... from what we had seen earlier. And that really suggested us that we needed to take a new look and a different kind of look. So frankly we don't know exactly why some of our companies were reporting to us differently. It maybe that they were taking some of their bulk IBNR and flowing it through and then reporting it to us and maybe that they were selling cases themselves more readily. It maybe that they were simply reporting to us something they totaled earlier but didn't tell us about earlier. We don't really know why but most of the issues are all in essence external stimuli that we were seeing that told us we have to do something.

Matthew G. Heimermann

Fair enough. Just one clarification on the insurance segment. Joe, you are talking about flat year-over-year, that's flat including the assumption of the Brownstone program in 08, because originally, I was thinking not hit 08, not offset what otherwise might be some decreases in the rest of the box, I am just trying to get a sense if it is flat, including the impact of the assumption in 07 or flat ex that?

Unknown Executive

Well it's very hard for me in January to be precise about the whole year. So flat kind of conveys you what our thinking was. And if it includes at least in my mind the portfolio into 2007, so us competing with that in 2008. But we maybe up a bit, we certainly hope to be, we certainly will look to do that as much of the year left. We have got some new programs that we are working on. We have some other ideas that we are working on. In some ways we have more opportunities on the insurance side where we are still a small player and in the U.S. much less the worldwide insurance schemes. Whereas on reinsurance side we really are an established matured player. But, yes, I guess I was generally thinking we will be able to match 2007 including the portfolio. Is that enough.

Matthew G. Heimermann

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Alright, appreciate it.

Unknown Executive

Thank you.

Operator

Next, we will go to William Wilt from Morgan Stanley.

William Wilt

Hi, thanks a lot, I will keep it quick given the time here. On the U.S. insurance, your extra detail in the supplement is great, the attritional looks like very modest adverse loss development in the prior years. Again U.S. insurance calendar year 07. Question really is the California workers comp reserves if I am remembering 02 to 04 for the years that are at the height of your involvement in the California workers comp environment call a commentary on how those reserves have developed as part of U.S. insurance?

Unknown Executive

Yes, they continue to look very, very good. We have actually released a little bit over the course of the year. I can tell you when we reviewed it at December 31, they continued to look strong. Now obviously we have released a good bit over the years so you can expect it to continue to be released and we have run out of reserves.

William Wilt

Sure, do you have a sense for about how much remains at this point or...

Unknown Executive

If I had a sense of that I would have booked it.

William Wilt

No, how much as of year end, do you want to answer that?

Unknown Executive

Our total reserves, off the top of my head I don't think I do know.

William Wilt

Alright, I will follow up.

Unknown Executive

Okay, I will follow up with you on that.

Operator

Next we will go to [Mark Serafin] from Citadel.

Unknown Analyst

Good morning, thanks for taking my question. Just the numbers question here, so with the new disclosures if I add up other underwriting expenses on all the segments that come up to about $47.3 million in the quarter and then if I compare that to what you guys reported on the income statement of $38.7 million, I get about a $8.6 million benefit in the quarter, what was driving that and when I look back at prior quarters this number has been averaging at about negative 7.5 in last quarter. It was negative 8.4 so that's about $17 million year-over-year swing?

Unknown Executive

I'm not sure I understand the question.

Unknown Analyst

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Okay. Are there underwriting expenses in all the segments you provide data on now?

Unknown Executive

Right.

Unknown Analyst

So if I add up that by segment I get $47.3 million in other underwriting expenses. When I look what's reported on the income statement other underwriting expenses is that $38.7 million. So somewhere there is an $8.6 million benefit in the quarter other corporate, I'm not really sure where that comes from, and if I do this math going back to 4Q 06 and 4Q 06 that was an $8.5 million expense, and the average has been about $7.5 million of expense over last four quarters. So the swing is somewhere around $17 million year-over-year, I'm just trying to get as sense for what that was from? And then what type of tax rate I could apply to that expense or benefit would be helpful as well?

Unknown Executive

You know, off the top of my head... I am sorry, I can't answer that question for you. Let me take a look at it and I'll get back to you. Can I do that?

Unknown Analyst

Sure. Its corporate expenses somewhere but I mean it's a $17 million year-over-year swings that was corporate income from somewhere and what type of tax rate would apply would be helpful?

Unknown Executive

Okay. Let me take that offline and I'll get back to you.

Unknown Analyst

Thank you.

Unknown Executive

Okay.

Operator

And our final question will be a follow up question from Tom Cholnoky with Goldman Sachs.

Thomas V. Cholnoky

Thank you. I guess I'm at both ends of the sandwich. But just to take you back on the D&O for a second, can you give us some idea Joe, I guess two questions one is just in terms of the types of programs you are attaching on. The primary guys have been also a lot more stringent, in another words they are applying... are they writing just side A, coverage or you are also covering side A, B and C that's first question? And then the second question I guess is, so far and I know we are still early in the reporting season, but everybody seems to deny that they've got huge exposures to D&O and if it turns out that you are correct and others are correct who has all this exposure?

Joseph Victor Taranto

Well, I think it's first of all unclear just how much D&O exposure there will be to begin with. I do believe it is true at least with regard to the big banks what you've been hearing from some others which is if there is a claim it will be mainly self-insurance. The bank will pay for it themselves probably because they just brought side A. Having said that, this exposure goes beyond the big banks, it goes to insurance companies, it goes to smaller banks, seems to be reaching overseas and clearly some of those companies may have D&O that gets hit, that they didn't self-insure. So that becomes less clear. And there may be some E&L claims as well. Clearly that gets, so we do expect some losses to come to the marketplace. But I know you've heard from some of the major riders of D&O and we are really fighter [ph] compared to those guys and with regard to this issue. We really had bracketed down as I said it is less than 5% of our worldwide work. We really have a couple of major accounts for the last couple of years and so we've had a good dialogue with them, and their feeling is that it's not a big deal for them. So if that's the case it won't be big deal for us. But having said all of that Tom, you know the story, nobody can tell you exactly what's going to shake out of this in the next year or two. So there is an element of

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

let's wait and see. But at this stage of the game, given what we have put up in specific reserves, what we have in kind of unspecific reserves, we feel like its going to be fine.

Thomas V. Cholnoky

Okay, well just had to ask the question.

Joseph Victor Taranto

I understand that.

Thomas V. Cholnoky

Alright. Thank you.

Joseph Victor Taranto

We will all sign off. We will thank you for joining us on the call. Realize this is a little bit longer than usual. But it seems to be unusual time, with some unusual things to talk about. But thank you for joining us.

Operator

Ladies and gentlemen, that does conclude today's teleconference. We appreciate your participation. Everyone have great day.

Copyright © 2022 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Copyright © 2022 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2022 S&P Global Market Intelligence.