

FINAL TRANSCRIPT

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RE - Q1 2010 Everest Re Group, Ltd. Earnings Conference Call

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Joe Taranto

Everest Re Group, Ltd. - Chairman and CEO

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PRESENTATION

Operator

Good day, everyone, and welcome to the first-quarter 2010 earnings release call of Everest Re Group, Ltd. Today's conference is being recorded. At this time for opening remarks and introductions, I would like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead, ma'am.

Beth Farrell - Everest Re Group, Ltd. - VP of IR

Thank you, Casey. Good morning and welcome to Everest Re Group's first-quarter 2010 earnings conference call. With me today are Joe Taranto, the Company's Chairman and Chief Executive Officer; Ralph Jones, our President and Chief Operating Officer; and Dom Adesso, our Chief Financial Officer.

Before we begin, I will preface our comments by noting that our SEC filings include extensive disclosures with respect to forward-looking statements. In that regard, I note that statements made during today's call which are forward-looking in nature, such as statements about projections, estimates, expectations, and the like are subject to various risks.

As you know, actual results could differ materially from current projections or expectations. Our SEC filings have a full listing of the risks that investors should consider in connection with such statements.

Now let me turn the call over to Joe Taranto.

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Joe Taranto - Everest Re Group, Ltd. - Chairman and CEO

Thanks, Beth. Good morning. In the first quarter, the industry experienced record losses including the largest insured loss ever in Latin America. While these losses had significant impact on our quarter, they are manageable given our expected earnings and our \$6 billion of capital.

Our total return for the quarter including dividends paid was essentially zero as strong investment income plus strong underwriting results excluding catastrophes and depreciation on our investment portfolio offset the impact of these catastrophes. Such a result given the magnitude of these catastrophes attests to the fundamental strength of our franchise.

Further attesting to our strength, we were pleased that S&P raised our counterparty credit rating during the quarter. Don will take you through the financial highlights for the quarter momentarily.

Gross written premium for worldwide operations increased 2% versus 2009 and eliminating foreign-exchange changes was flat year-over-year. Reinsurance premiums were flat with last year, but adjusting for foreign exchange and reinstatement premiums were down about 5%. Lower premiums from US casualty reinsurance, crop reinsurance, marine and European business offset growth in US property reinsurance, South America, and Asia-Pacific markets.

US insurance premiums were up 11% as direct specialty business continued to provide opportunity. Ralph will comment on the underwriting particulars shortly, both for our insurance and reinsurance operations, including April renewals and our view of the upcoming Florida renewals, where we expect our clients and accounts to continue to do well.

The marketplace remains very much a mixed bag. Some pockets, most notably portions of the US casualty market, are underpriced and to be avoided. While other areas including property catastrophe reinsurance remain reasonably priced.

The quarter's catastrophe losses will precipitate changes including rate increases in the areas and on the accounts that were hit. It's less clear what impact there will be beyond these loss areas as ample capacity remains for well rated programs. However, these losses remind reinsurers of the need to charge appropriately given the volatile nature of the business.

We will continue to emphasize disciplined underwriting, only looking to grow where it makes sense and cutting back where it doesn't. Without meaningful market change, I do not anticipate much topline growth on our underlying book.

Cash flow from operations was very strong for the quarter at \$271 million. In the quarter, we repurchased 562,000 shares (Sic-see press release) at a cost of \$47 million. Since January 2007, we have repurchased 7.1 million shares or 11% of the outstanding shares. 7.9 million shares remain available under the current repurchase authorization.

We plan to continue to repurchase our stock in the second quarter as we continue to see this as an attractive way to increase shareholder value. As usual, we will not predetermine the amount, as this allows us to better respond to changing conditions. Ralph?

Ralph Jones - Everest Re Group, Ltd. - President and COO

Thank you, Joe. Let me take this opportunity to discuss the trends in each of our operating segments.

The international segment was up 10% in the quarter to \$275 million, continuing the trend from the January renewal season. The combination of rate increases in Australia, continued expansion of our business in Brazil, some indigenous growth in China, and reinstatement premiums in Chile were the main factors in our growth overseas. The international portfolio was about \$1.1 billion on an annual basis, with about a third coming from Latin America, about 20% each from Canada and Singapore, and the balance from the Middle East and Africa.



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The combined ratio was heavily impacted by catastrophe losses in the first quarter, which Dom Addresso will outline in detail in a moment.

Excluding cats, the attritional combined ratio was 84.4%, up 2.5 points over last year. The big renewal season in April comes from Japan. We saw catastrophe rates come in flat to down slightly from last year. The impact of the earthquake in Chile will improve rates and terms in Latin America, but we did not see any appreciable impact on the cat market in other parts of the world so far.

The US reinsurance business was down 8% at \$244 million in the first quarter. Treaty property was up and treaty casualty and the crop reinsurance business were down. We still like the crop business for 2010, but there is uncertainty as to the future margins in this segment as the dust has not settled on how the government subsidies will impact crop insurers and the insurance agents who produce this business going forward.

Once the SRA negotiations have been completed, we will have a better picture of what all of this will mean over the next year or so.

Casualty rates and underlying terms and conditions are in a slow downward decline in the US, causing us to trim our treaty casualty ratings, which impacted growth in the quarter. We are still seeing opportunities in treaty property, which was up 13% in the quarter. This principally came from several single state programs incepting in January. Rates for catastrophe [prone] business are still pretty good in the US and the next big renewal date is June 1 for the business in Florida. We expect a very active month or two coming up with the Florida renewals in negotiation. For the property catastrophe XOL renewals, of which we have 16 clients, we expect rates to be about flat.

The two quota share accounts are more stable because their reinsurance is such an integral part of the capital structure for these primary companies. State regulators have been buffeted by the changing political winds coming out of Tallahassee but as we sit here today, I anticipate a fairly steady renewal season in June.

The combined ratio for the overall US reinsurance business was 92.4% in the quarter. Excluding cats, the attritional combined with 79.3%, up 3.9 points over last year.

Our specialty business was up nearly 12% in the quarter. This was driven by strong demand in our accident and health segment. More and more employers are self-insuring their medical programs leading to more opportunities for us in the medical stop loss business. It is an evolving space as people try to measure the impact of healthcare reform, but change usually means opportunity, so I expect continued growth for us in A&H.

Our marine book continues to shrink as fewer profitable opportunities are apparent to us in this line. The explosion and sinking of the Horizon oil rig in the Gulf looks like a total loss and we expect our share to be about \$20 million in the second quarter. This loss should impact the offshore energy market, which have many contracts renewing in July. We are not a big player in the offshore market, but there may be some new opportunities.

The combined ratio for the specialty segment was 95.6, about the same as last year. The Bermuda operations were down 5.3% in the quarter to \$207 million. This includes London and Continental Europe as well as Bermuda. London was up 13% and Europe was down about 27% from last year. We are seeing significant competition in Europe particularly in the property lines. The impact on the market from the storms coming from Xynthia should become evident in the next couple of quarters as they were very significant losses sustained in France, Spain, and Portugal, should impact the market going forward.

The combined ratio for Bermuda was, as you know, heavily impacted by the European storm Xynthia, but the attritional combined was 84.2, up 2.5 points over last year.



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The last segment to comment upon is the US insurance business. Gross premiums were up 11% to \$228 million. Much of this growth comes from our direct specialty operation in New York, which really began in April 2009. I expect the proportion of direct specialty lines to increase as a percentage of our total insurance writings as the year progresses.

Prices for general liability products were flat year-over-year but workers' comp was up on an average of about 8.5% for the quarter. Results for the insurance segment have stabilized at 99.1% combined ratio resulting principally from management actions to improve the expense ratio for both underwriting as well as claims management.

I expect these trends that I have outlined to continue for the balance of the year as we play offense on the property lines and international development of our business but we will play defense in the casualty as well as the marine markets. And overall growth probably flat to modestly up as we go forward in 2010.

Now let me turn it over to Dom.

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

Thanks, Ralph. Good morning. As noted, earnings for the quarter were most affected by first-quarter cat losses of \$354 million. This led to a net loss of \$22.7 million for the quarter. Nevertheless, comprehensive income for the quarter was \$6.3 million, led by an unrealized gain on the bond portfolio of \$34.6 million after tax. This increase to book value was offset by share repurchases of \$47 million and dividends of \$28 million in the quarter, resulting in an overall decline in shareholders equity of \$64.8 million to \$6 billion or \$102.46 per share.

Turning to the P&L, you just heard from Ralph on the details of premium by segment. Overall, there was an approximate 2.6% positive impact to gross premiums written in 2010 in currency movements as the dollar weakened compared to last year's first quarter.

From an incurred loss standpoint, the total cat losses of \$354 million for the quarter breaks down as follows, \$290 million for Chile, \$30 million for Xynthia, and \$35 million for the two hailstorms in Australia. These losses equate to 38.2 points on a combined ratio.

The estimate for Chilean losses was based on the average of three valuation methodologies. First, after consulting with our clients and visiting with them in Chile we conducted a detailed review of our contracts as to where and how they were exposed. Damage ability factors would then apply to these contracts based on the client discussions and observed events.

The second method entailed running the cat model event set against our portfolio. The final technique was determining an estimate based on the industry range of \$4 billion to \$10 billion and our market share.

An average of the high and low of each of these methods was calculated and an average of all three methods was used for our loss estimate. The two extreme points in all of these methods was \$238 million and \$386 million.

From a more market share perspective at the low-end of the industry range, we have estimated that our market share stands at approximately 6%. At the high end of the industry loss, our estimated market share drops to approximately 3%. This difference is first the result of our XOL contracts, which generally attached lower and are fully exhausted as the loss rises.

Second is that our proportional covers contained risk limits which required facultative support above certain values. As the loss rises, it is more likely that the larger values which are placed in the facultative market are likely to be a disproportionate share of that increase.

Finally, we were not a significant writer of facultative reinsurance in this region, so we were less exposed to the larger risks.



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The current year attritional losses equaled 59.5 points on the combined ratio as compared to 55.7 one year ago. While this reflects consideration of marketplace loss trends along with relatively flat pricing particularly in the reinsurance segments, the overall combined ratio for the current accident year excluding cats is still quite positive at approximately 87 points.

When added to the cat losses of 38.2 points, this accounts for virtually all of the total combined ratio of 124.9. The expense ratio for the quarter improved 1.1 points to 27.1 as a result of improved terms on certain reinsurance contracts and the effective reinstatement premiums on which there is no brokerage.

The net of these items that I just covered resulted in an underwriting loss for the quarter of \$231 million compared to a gain of \$100 million in the prior year's quarter. The largest year-over-year differences were \$321 million in cat losses and \$33 million in current year attritional losses, offset by a positive swing of \$13 million in commissions and a \$17 million favorable variance in prior-year losses.

Investment income for the quarter was \$161.5 million compared to \$68.8 million one year ago. The primary reason for the difference was due to our income from limited partnerships. In 2010, our income from this asset class was \$16 million compared to a \$73 million loss one year ago.

The main component of our investment income, that being from fixed-income securities, had a slight increase this year to \$145.2 million. This increase was muted somewhat by small reallocation of our portfolio into equity securities with an emphasis on dividends. This resulted in an increase of \$2 million in income from equity securities.

Other miscellaneous items in our P&L include a net derivative gain of \$3 million for the quarter compared to a loss of \$20 million in the prior year and a currency gain included in other income of \$5.5 million in the quarter compared to a \$5.6 million loss in 2009.

Income tax expense for the quarter declined to \$12.9 million compared to \$24.5 million in 2009. Despite the loss before income taxes, there is nevertheless a tax expense reported for the quarter due in part to taxes on realized gains for the quarter. The tax benefit on the pretax operating loss of \$82.5 million at an effective tax rate of 10.5% is not sufficient to offset the statutory taxes on realized gains of \$72.7 million.

In summary, the above cited details resulted in total comprehensive income for the quarter of \$6.3 million compared to \$105.8 million in 2009. This results in a shareholders equity account which was not diminished by the significant cat losses from the quarter and leaves us with more than sufficient capital to grow our portfolio and consider share repurchases as the opportunities arise.

Finally, it should be pointed out that the \$200 million of 8.75% senior notes outstanding at year-end mature in the first order. This borrowing was not refinanced and was redeemed out of operating cash flow.

Thank you, and with that I will turn the call back to Beth for a Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you. The question-and-answer session will be conducted electronically. (Operator Instructions). Jay Gelb, Barclays Capital.



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Jay Gelb - Barclays Capital - Analyst

Thanks, good morning. I wanted to go back to the Chile earthquake loss. What's the risk here that Everest could have adverse development on that claim given the complex nature of it?

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

Jay, this is Dom Adesso. Well, we certainly have gone through a rigorous process of coming up with our point estimate and it is still very early days in determining what the total losses are to the industry. But I think we have been reasonably conservative in coming up with our point estimate and if you think about the industry loss estimates of somewhere between \$4 billion and \$10 billion, our point estimate centers around approximately \$7.25 billion of an industry loss estimate.

But nevertheless as I've described, we believe that as the loss increases, as the industry loss increases, we would have a decreasing share, market share, of any rising loss. So it is difficult to determine where that loss might go from here, but nevertheless we think we've done a pretty rigorous job of coming up with our point estimate. That being said, it is an estimate and we'll see where it goes from here.

Jay Gelb - Barclays Capital - Analyst

Okay, and then two other points. The first is can you -- I was just a little confused in terms of what the potential is for the remainder of the year on topline growth, on gross written premium. There were a couple of numbers there.

Second, Joe, could you comment on how this type of loss should match up with your expectations for this type of industry event with regard to risk management practices at Everest?

Joe Taranto - Everest Re Group, Ltd. - Chairman and CEO

Yes, your first question, topline growth, we are up a little bit in the quarter and I kind of noted there are some pockets where we still can see growth and see profitable opportunities. But going against that, there are other pockets of the world, as I noted US casualty, where it's getting tougher. And so in that sense, the likelihood is less business.

So it gets a little bit difficult to put it all together and I guess what I kind of noted to you was flattish, if you will, at the end of the day. We may be up if things work out a little bit better than that. But we are not talking about a year of a lot of topline growth I think is the bottom line.

Jay Gelb - Barclays Capital - Analyst

Is that inclusive of the first quarter, which obviously includes a reinstatement premium, so flattish for the year including the first quarter?

Joe Taranto - Everest Re Group, Ltd. - Chairman and CEO

Well, I guess I am more talking about the next month, next nine months since you already have the first quarter, but I think it's going to be pretty much the same scenario. We may be up 5%. We may be down 5% at the end of the day. I can't really be much more precise than that.

I think to me the most important thing is growing where it makes sense to grow and decreasing where, frankly, that's the right answer as well. You know, you saw last year how we were able to grow nicely where we had a little bit of a wind to our back in

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some of the sectors and certainly had some market opportunities. There's less of that this year as we move into a market where large parts of it continue to slowly go down, if you will.

Large parts of it remain adequately rated, but it's not a climate where I think I could convey to you -- nor should you expect -- any sort of meaningful topline growth.

As far as the Chilean loss, I will start and maybe I'll have Ralph add to it, but I think you have to remember that we have been a very important part of the Latin American market for many, many years going back to the Pru Re days. We are really one of the major reinsurers in Latin America.

And so I think you have to expect if there's a major loss there that yes, we are going to have a participation in that. We've made a lot of money in Latin America, including Chile, through the last number of years. We expect to continue to work with our clients to do very well and be profitable in the coming years. So I think when you put all of that into the right context, it's not particularly surprising the loss that we did have.

It's frankly good to know that with this loss and throwing on top of that Australia and on top of that European storms that nonetheless essentially our book value per share, everything in, is pretty much the same, which gets you back to just the strength of the Company.

Ralph, anything you wanted to add to that?

Ralph Jones - Everest Re Group, Ltd. - President and COO

I would just say that the Chile loss as it stands is pretty much what we expected within our model to PMLs, and it's part of the overall risk management review that we do of every country. But as you know, as Joe mentioned, we have a very significant international operation. You've got annualized premiums of \$1.1 billion in just the segment that I described plus an additional big component out of the Bermuda ops segment, which is really London and Continental Europe. So it's more like \$1.5 billion overall.

Joe Taranto - Everest Re Group, Ltd. - Chairman and CEO

And an 8.8 quake pretty close to the capital of Chile, not our usual event.

Operator

Anything further, Mr. Gelb?

Jay Gelb - Barclays Capital - Analyst

No. Thank you.

Operator

Matthew Heimermann, JPMorgan.

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Matthew Heimermann - JPMorgan - Analyst

A couple of follow-up questions on Chile. The first thing with all the numbers you gave, are those net loss estimates including or excluding reinstatements?

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

Matt, they would be gross losses excluding reinstatement.

Matthew Heimermann - JPMorgan - Analyst

Gross losses ex (multiple speakers)

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

Pretax.

Matthew Heimermann - JPMorgan - Analyst

And then how does gross and net compare?

Joe Taranto - Everest Re Group, Ltd. - Chairman and CEO

Net of reinstatement in tax?

Matthew Heimermann - JPMorgan - Analyst

No, no, no, I mean is gross loss equal net loss ex reinstatements?

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

The reinstatement premium on Chile is approximately \$20 million and so we have a \$290 million gross loss. So net of reinstatements, that would net to \$270 million pretax.

Matthew Heimermann - JPMorgan - Analyst

No, that's helpful, but I guess I was asking do you have any outwards reinsurance that is applicable to this?

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

No, no.

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Matthew Heimermann - JPMorgan - Analyst

And then the other question I had, well, the other question was when I look at the loss range that you have, that 238 to 386, I know you average a bunch of things, but your \$290 million is I think below what would be a midpoint of \$312 million. Why in the low-end relative to high-end, given that most of the risks seem to be the upside rather than downside?

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

Well, of all the methods that we use, most of the estimates around the other methods kind of clustered around the \$290 million. The \$386 million that I gave you was really only one point in all the point estimates and all those methodologies, and that was the outlier. But it clustered around the \$290 million.

Matthew Heimermann - JPMorgan - Analyst

Okay, what method drove that?

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

The three methods that I outlined, market share, underwriting --

Matthew Heimermann - JPMorgan - Analyst

Which one corresponded to the \$386 million?

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

I'm sorry, the underwriter estimates.

Matthew Heimermann - JPMorgan - Analyst

Okay. And then with respect just to the accident year loss ratios in the US reinsurance and international segment, those increased pretty dramatically versus the full year 2009 levels, and you'd mentioned that there was \$33 million of attritional current year loss. Is that the delta in those or is there other -- something else at work?

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

That was the year-over-year difference in current year attritional losses.

Matthew Heimermann - JPMorgan - Analyst

What was the absolute number I guess then? Because I'm actually comparing it to full year '09 rather than just last year's quarter.

Ralph Jones - Everest Re Group, Ltd. - President and COO

Three points on total year.

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Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

Give me one second.

Matthew Heimermann - JPMorgan - Analyst

Okay. And the other question, I was just going to throw out another numbers question was just can you remind us how much crop business there was last year? Like \$140 million is sticking in my mind, but I can't (multiple speakers) recall where that's coming from.

Ralph Jones - Everest Re Group, Ltd. - President and COO

They annualized crop writings last year was about \$80 million and we renewed most of the programs so far this year. We lost one -- a good one through a company that was very recently acquired and didn't buy that quota share.

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

The dollar amount of attritional current year losses in the quarter were \$551.6 million.

Matthew Heimermann - JPMorgan - Analyst

All right, than anything else I want to hit? Could you just on the development -- basically was neutral in the quarter, but any pluses and minuses?

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

Well, there's lots of what we call IBNR group or loss reserve groups that we would look at over.

Ralph Jones - Everest Re Group, Ltd. - President and COO

Over 100.

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

And so there's movement all the time in all of those. If I had to point to a couple of areas that still gave us some development was in our professional -- in our subprime area, and that one of course was offset by a number of other areas. There isn't any one that I can really point to.

Matthew Heimermann - JPMorgan - Analyst

Okay, and if I recall, subprime is now, what, \$100 million or \$120 million reserve? That was I think what it was that year-end. Where does it stands now?

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Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

It's about \$11 million higher.

Ralph Jones - Everest Re Group, Ltd. - President and COO

Yes, \$110 million.

Joe Taranto - Everest Re Group, Ltd. - Chairman and CEO

But if anything, I think we are feeling better and better about the potential losses coming out of the subprime area. We have a formula that kind of dictates what we put up there. It doesn't I think perhaps feed in too much in terms of the current underwriting feeling that it seems to be shaping up better than originally thought.

Matthew Heimermann - JPMorgan - Analyst

All right, that's helpful. Thank you.

Operator

Ian Gutterman, Adage Capital.

Ian Gutterman - Adage Capital - Analyst

Just I guess first following up on Chile, the \$20 million in reinstatement due, is that in the international segment, in Bermuda? Is it both?

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

It would be both.

Ian Gutterman - Adage Capital - Analyst

Both. Okay, do you have a split on that or a rough split?

Ralph Jones - Everest Re Group, Ltd. - President and COO

It's roughly \$13 million in the international segment and some of it comes from treaty property in the US segment. And just a little bit in Bermuda.

Ian Gutterman - Adage Capital - Analyst

Got it, okay. Thank you, that helps. Just as far as where your losses came from, can you give us a feel for quota share, sort of what the quota share component was versus what XOL and if any retro kicked in. And were you insuring sort of the indigenous Chilean carriers on Chile only contracts or were these sort of global cats for the large European companies who are down there



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that maybe have larger limits than a solely Chile country. You know what I mean? I am just trying to get a feel for sort of what types of contracts are out there.

Ralph Jones - Everest Re Group, Ltd. - President and COO

Yes, there were seven XOL contracts and seven proportional contracts and of the seven proportional, two were international companies and the rest were smaller Chilean companies.

Ian Gutterman - Adage Capital - Analyst

Okay, great. Out of the XOL, where those sort of -- were those area specific or do they tend to be global, global non-US covers?

Ralph Jones - Everest Re Group, Ltd. - President and COO

About the same split.

Ian Gutterman - Adage Capital - Analyst

Okay, so it doesn't sound like you have a lot of exposure then to -- I guess the ones that I hear about having the most risk of average development are sort of these global covers for the big Europeans that have big limits because they were not necessarily written for Chile. They were written for Australia or whatever it might be and that there's more risk of limits -- of having a lot of room left on limits than there would be on an addition to the Chilean carrier. Is that a fair assessment?

Ralph Jones - Everest Re Group, Ltd. - President and COO

Yes, that's probably fair.

Ian Gutterman - Adage Capital - Analyst

Okay, and any retro exposed?

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

We don't believe so.

Ian Gutterman - Adage Capital - Analyst

Okay, good. In Florida, can you talk a little bit about -- obviously there's a lot of concern about the takeouts or capital bid offs or whatever we call them these days. As far as they're a stop and see and their results and what have been cat years and so forth. Can you just talk a little bit about the quality of your book down there and how you get comfortable that you have picked the right [cedence] down there, that you are not going to get surprised, that someone doesn't either just go out of business without event or that if there is a storm that they are going to perform a lot worse than maybe you expected because maybe a little bit more of a fly-by-night than you realized.

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Ralph Jones - Everest Re Group, Ltd. - President and COO

This is Ralph. We have been in Florida pretty heavily for a number of years and we have 16 clients that we write XOL programs for and that makes up about 50 some odd million in premium. The process to review them is significant every year. Certainly we watch what's going on in the underlying rates and the politics coming out of the office of insurance regulation, but those 16 are good. They've gone through the vetting process the last few years and it's survival of the fittest down there for these guys.

So we might renew a couple less going forward based on the credit review, but we like the ones we've had and we have had very really minimal any write-offs that we wrote off about 150,000 on one installment last year and another company got acquired.

But I think more importantly from the underwriting standpoint for us is the two quota shares and we are very actively involved with these two guys and like the managements and like what they are doing. We think they are going to be sound.

Ian Gutterman - Adage Capital - Analyst

Okay, out of the 16 clients, how many of them were formed after Katrina as part of this capital build up program?

Ralph Jones - Everest Re Group, Ltd. - President and COO

I would say 80% of them are what you would consider the capital build up. It characterizes capital built up companies (multiple speakers) very hard from the outset. There's 60 people in the universe of companies that Demotech reviews. That just gives you a flavor. We only do 16.

Ian Gutterman - Adage Capital - Analyst

Okay, how do you decide -- I guess I'm trying to get a feel for how you assess that 2006 startup X. Is it better than 2006 startup Y? It just seems some of these -- once they went, some of the more maybe a little bit obvious but some may be surprising people too.

Ralph Jones - Everest Re Group, Ltd. - President and COO

Well, I think if you wrote a higher proportion of the 60 and you haven't done a credit review in depth on each one, you're going to be more susceptible to the folks that have trouble. But the review process is quite significant looking into the financials and exactly where made their money.

A lot of these are private companies. So you don't -- you have to go way beyond the statutory statements to see what's actually going on and where the money is coming at into their MGAs arrangement and so on. And what kind of reinsurance program they buy.

We visit with them and spent a lot of time with them and go through their underwriting plans. In many cases the fact that we are proportional makes that a much more important thing to do. So we are pretty close to the companies. We've had no real problems with those that have kind of had some financial problems up to date. But no, the ones that we in fact have done have done well and as I said, we are very close to them, not only their financial statements but their underwriting plans and their management.

There are certainly a number of reinsurers that are just XOL that really don't spend the time with these companies.

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Ian Gutterman - *Adage Capital - Analyst*

Okay, great. Thank you very much.

Operator

Brian Meredith, UBS.

Brian Meredith - *UBS - Analyst*

Good morning. A couple questions here. On the investment income, if I take a look at your fixed maturities, sequentially actually a pretty good increase. Was there something unusual in this quarter or the fourth quarter that I'm kind of missing? It looks like the run rate portfolio is up pretty significantly.

Dom Adesso - *Everest Re Group, Ltd. - EVP and CFO*

There was nothing unusual in this quarter. When you say sequentially, you mean compared -- I'm assuming you mean compared to fourth quarter?

Brian Meredith - *UBS - Analyst*

Fourth quarter '09.

Dom Adesso - *Everest Re Group, Ltd. - EVP and CFO*

And in the fourth quarter we had in part some adjustment in some amortization adjustments and then we also carried a little bit more cash than we are carrying now in the fourth quarter.

Joe Taranto - *Everest Re Group, Ltd. - Chairman and CEO*

I think if there was anything unusual it was in the fourth quarter, not the first quarter.

Brian Meredith - *UBS - Analyst*

Good. Next question, Joe, you mentioned terms and conditions starting to slip a little bit here. I'm wondering if you can kind of drill down a little bit and exactly where are you starting to see the terms and conditions slipping? Has it gotten worse here in the first quarter? I assume you are also referring to some of the underlying business.

Joe Taranto - *Everest Re Group, Ltd. - Chairman and CEO*

Well, to be honest, the battle to date has been more on the rate side than it has been on the terms and conditions side. You don't like to see it either way and the history has been that you do start to erode on terms and conditions as well. But I would again just point you back to the US casualty side where there are a lot of classes.

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Now there are some classes -- Ralph mentioned California comp, where there are some positive signs for the last few months, and there some other small pockets, but most of the general liability in the umbrella business and the routine, if you will, nonspecialized casualty, we are seeing rate go down and maybe a little bit of slippage in terms and conditions.

It's kind of a tough thing to read through, but on the umbrella programs, it's the attachment points and the attachment points over some of the tougher exposures like auto. So -- and any transportation exposure. So as that happens, you really start to erode the potential profitability.

And then of course when you get into the reinsurance track transaction and buying treaty protection, there's a lot of pressure on the ceding commissions. Those would be the kind of two areas of focus for our guys.

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

And we have had actually improvement in the ceding commission, so depending on whether you include ceding commissions in that category of terms and conditions, that's actually been an improvement for us year-over-year. So --

Brian Meredith - UBS - Analyst

And then on the Chile business and focusing the losses -- and kind of focus on what do you think the prospects are going forward down in South America? What changes do you anticipate in the marketplace? And I am also curious, when do your contract renew? And do you expect any kind of big shakeup down there?

Joe Taranto - Everest Re Group, Ltd. - Chairman and CEO

I do expect the market to change in South America. It will certainly change dramatically in my opinion in Chile, but I think it will be extended into the other cat areas within South America.

Now there will be less impact as you get away from South America. A number of our contracts come up, midyear, July, and then we have a few that come up in January. So we are right now having our own discussions with regard to the upcoming July renewals, but I expect meaningful change within South America.

Brian Meredith - UBS - Analyst

Great, thank you.

Joe Taranto - Everest Re Group, Ltd. - Chairman and CEO

Before the next question, I would just like to go back to -- we had some questions on the change in the attritional and a lot of that got into the numbers. But I think I'd like to ask Dom to provide a little bit of color as to just why we chose a different point, if you will, for the attritional loss ratio this quarter.

Dom Adesso - Everest Re Group, Ltd. - EVP and CFO

I think the first thing that we consider going into a marketplace that has been pretty difficult here for several quarters is to certainly try and be as conservative as we can be kind of in the early part of year picking that current year accident pick and I think we've done that. And that is in part the most significant reason why you see the rise in the current year attritional year-over-year.



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Also remembering that we are not that far away from our fourth quarter reserve review and of course coming out of that reserve review we have a view on what that most recent accident year was. So essentially the process that we engage in here now is to look at that most recent reserve review and in effect bridge it into the first quarter by building some loss trend into the new year as well as overlaying on that loss estimate rate increase and/or lack thereof.

So then on top of that, try to be as conservative as reasonably possible to reflect what we think are our market conditions. And its early years, but we felt it was the most prudent thing to do as we begin the year.

Operator

Vinay Misquith, Credit Suisse.

Vinay Misquith - *Credit Suisse - Analyst*

Thanks, just to follow up on that, on the attritional losses once again. On the US reinsurance and the international reinsurance segments, the loss picks or the attritional loss picks are up around 5 points. So I just want to get a sense versus the fourth quarter of last year and versus the full-year numbers, I just want to get a sense is pricing down 4 to 5 points this year versus last year? Is that why you are taking your loss picks up?

Dom Adesso - *Everest Re Group, Ltd. - EVP and CFO*

Well in particular on those two segments, and this may be some detail that's you wouldn't have seen last year, but those two particular segments had some loss development in -- coming out of prior years, so they talked about kind of our methodologies. That was more leaning towards trying to take a conservative view of those segments as we begin the year as opposed to any dramatic price movement.

In fact, those are probably the areas where we have had some year-over-year probably the property lines, they are either flat to up. So it really didn't have anything to do with pricing. It had (multiple speakers)

Joe Taranto - *Everest Re Group, Ltd. - Chairman and CEO*

It's basically been a more cautious outlook. That's the summary.

Vinay Misquith - *Credit Suisse - Analyst*

Okay, fair enough. The second question was on the Chilean loss. Just curious as to when you will be required to pay those losses and how we should expect the development for that?

Dom Adesso - *Everest Re Group, Ltd. - EVP and CFO*

Well, we have actually already paid some losses, approximately \$40 million of paid losses so far, partly not because of -- it's not just because of actual loss notices as much as some of our contracts allow for cash advances. And so we have already paid some losses.



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Vinay Misquith - *Credit Suisse - Analyst*

So I just want to get a sense for how long do we have to wait for us to get to the final resolution on this? How long -- will it be six months, a year before we can be sure to put this to bed?

Dom Adesso - *Everest Re Group, Ltd. - EVP and CFO*

Well, my expectations would be that certainly by the end of the year we would have a very, very clear picture of where the total loss stands. Now in fact how those losses pay out would be very difficult to project at this point, but I would certainly expect by third to fourth quarter we would have a much better handle on where the industry losses are coming in, notwithstanding the fact that we think we have done a pretty rigorous job of estimating it to date.

Vinay Misquith - *Credit Suisse - Analyst*

Sure, thank you.

Operator

A follow-up from Matthew Heimermann, JPMorgan.

Matthew Heimermann - *JPMorgan - Analyst*

A couple follow-ups, actually. On the Horizon loss, I'm correct, right, that's all going to be in the specialty segment in 2Q?

Joe Taranto - *Everest Re Group, Ltd. - Chairman and CEO*

Yes.

Matthew Heimermann - *JPMorgan - Analyst*

Okay, then with respect to the attritional loss commentary you had, is that specific to one product category broadly like casualty or property? Or is it kind of all lines?

Dom Adesso - *Everest Re Group, Ltd. - EVP and CFO*

It's across the board, Matt, all lines.

Matthew Heimermann - *JPMorgan - Analyst*

The last thing was on the US insurance segment, the retention dropped a lot and I'm assuming a big driver of that is probably mix because I think you are reinsuring the new lines a little bit more aggressively. But my question was when I think about retention in that line for the balance of the year, should we expect retention to drop in subsequent quarters as well or is there any timing issues that make 1Q bigger than the rest of the year?

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Ralph Jones - Everest Re Group, Ltd. - President and COO

We reinsure one particularly large casualty program which is the big gross to net swing in the quarter, and that would be a similar outlook through the course of the year.

Matthew Heimermann - JPMorgan - Analyst

All right, that's it. Thanks.

Operator

(Operator Instructions) Ron Bobman, Capital Returns.

Ron Bobman - Capital Returns - Analyst

It's a painful wait hearing all those questions from Heimermann. I just had a question, one question. In the area of sort of offshore energy rig operators, generally speaking would companies that buy cover for property and I guess liability as well, would their reinstatement coverage be largely of a like size as the first event cover?

And then how is the pricing generally on the reinstatement amount? Is it basically at a comparable amount or a marginally higher? Then I had follow-up, thanks. Again, generally speaking. I'm not looking into trying to find out Transocean's program, but just generally speaking.

Joe Taranto - Everest Re Group, Ltd. - Chairman and CEO

Yes, well, you know Ralph and I kind of have this confused look with each other here as we hear that question and I think the reality is we will speak to our marine experts and get back to you on that to give you a better idea than I think the two of us could give you.

Ron Bobman - Capital Returns - Analyst

Okay, okay. Thanks a lot and best of luck.

Operator

At this time we have no further questions. I will turn the conference back over to Ms. Farrell for any additional or closing remarks.

Beth Farrell - Everest Re Group, Ltd. - VP of IR

Thank you for participating in our conference call. Certainly if you have any questions, please feel free to call me after the call. Again, thanks.

Operator

Thank you. Ladies and gentlemen, this does conclude today's presentation. We appreciate your participation and you may now disconnect.

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