

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

RE - Q2 2016 Everest Re Group Ltd Earnings Call

EVENT DATE/TIME: JULY 26, 2016 / 2:30PM GMT



CORPORATE PARTICIPANTS

Beth Farrell *Everest Re Group Ltd - VP of IR*

Dom Adesso *Everest Re Group Ltd - President & CEO*

Craig Howie *Everest Re Group Ltd - CFO*

John Doucette *Everest Re Group Ltd - President & CEO of Reinsurance Operations*

Jon Zaffino *Everest Re Group Ltd - President of North American Insurance Operations*

CONFERENCE CALL PARTICIPANTS

Michael Nannizzi *Goldman Sachs - Analyst*

Jay Gelb *Barclays Capital - Analyst*

Quentin McMillan *Keefe, Bruyette & Woods - Analyst*

Amit Kumar *Macquarie Research Equities - Analyst*

Elyse Greenspan *Wells Fargo Securities - Analyst*

Sarah DeWitt *JPMorgan - Analyst*

Kai Pan *Morgan Stanley - Analyst*

Josh Shanker *Deutsche Bank - Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to the second-quarter 2016 earnings call of Everest Re Group Limited. Today's conference is being recorded. At this time, for opening remarks and introductions, I would like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead.

Beth Farrell - Everest Re Group Ltd - VP of IR

Thank you. Good morning and welcome to Everest Re Group's second-quarter earnings conference call. On the call with me today are Dom Adesso, the Company's President and Chief Executive Officer; Craig Howie, our Chief Financial Officer; John Doucette, the President and CEO of our Reinsurance Operations; and Jon Zaffino, the President of North American Insurance Operations.

Before we began, 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 risk that investors should consider in connection with such statements. Now let me turn the call over to Dom.

Dom Adesso - Everest Re Group Ltd - President & CEO

Thanks, Beth. Good morning. We're pleased to report this morning another favorable quarter, particularly during a period where there has been a number of global cat events for the industry. Despite these events, we posted \$3.67 of net income per share for the quarter.



On an operating income basis, earnings were \$3.17 per share compared to \$5.03 for last year's second quarter. This difference is primarily due to cat losses, with a net impact of \$105 million after reinstatement premiums and taxes. Also impacting the quarter were foreign exchange losses of \$27 million, or \$0.44 per share, after-tax.

Excluding cats, the underlying attritional combined ratio is virtually the same at 86% in this year's second quarter versus last. Furthermore, the attritional loss ratio has actually improved year-over-year. This highlights the changes to business and product mix that have been achieved.

You will hear later from the business leaders describing some of those changes, but it is worth emphasizing, as we have in the past, that the flexibility and nimbleness of our business model continues to yield good outcomes. Of course, offsetting the decreased loss ratio is an increased expense ratio, as we invest in our insurance build-out.

As I mentioned in the first quarter, this will moderate through time, thereby allowing the improved loss ratio to work its way into overall combined ratio. This moderation is already occurring, as you note the decrease in the expense ratio from the first quarter to the second. Notable, however, is that the total expense ratio for the insurance segment, coming in at 28.3% for the quarter, remains several points lower than our competitors and we intend to maintain this advantage as we expand the operation.

That expansion is well underway. Growth in the insurance book is beginning to take hold as gross premiums increased by 32% for the quarter. On the other hand, somewhat offsetting this, is the decline in reinsurance segment. Rate levels and foreign exchange continue to affect the sector.

Nevertheless, as John Doucette will later detail, we continue to move our capacity to the better risk-adjusted business and new product areas, particularly, credit-related. I am always encouraged by our ability to remain bottom-line focused.

Another item of interest in the quarter was the recovery of investment income from the lower-than-expected first quarter due to improvements in our limited partnership investments. On a year-to-date basis, we are still slightly off of last year, but given the continued interest rate levels, this is completely within our expectation. The impact of lower rates will diminish over time, as older maturities come in.

While overall returns on capital continue to face pressure, we remain as one of the top performing companies in the industry. In an environment with a so-called risk-free rate as low single-digit, our returns are quite strong, with a 9.4% ROE and growth in book value per share of 7% in the first six months.

Our book value per share growth also benefited slightly from our continued share repurchases during the quarter. However, this was less than anticipated, due to a pause in buying when cat events began to emerge during the quarter. This was not a concern over the amount, but just the fact that we had knowledge of events affecting the quarter.

Finally, we would like to address our other announcement regarding our crop insurance business. As you may have seen, we have received a letter of intent for the purchase of our Heartland, our crop MGA, from CGB Diversified Service. This transaction creates an opportunity for us to more quickly expand and diversify our exposure to this business on a more efficient basis.

In the short-term, there will be no appreciable premium impact; however, it will now be recorded as reinsurance rather than insurance. In addition, we will see an expected improvement in margin, due to the benefit of a lower expense structure. Buyer scale creates a more efficient deal for us, and given their growing presence in the market, we should continue to benefit as a result of our strategic alliance.

In summary, we believe there are many great initiatives underway at Everest. Yes, there are many challenges, but we continue to work through many of them successfully. My colleagues will next offer up further details on the progress we are making. I look forward to your questions after that. Thank you. Now to Craig for the financial detail.

Craig Howie - Everest Re Group Ltd - CFO

Thank you, Dom, and good morning, everyone. Everest had a solid quarter of earnings with net income of \$156 million. This compares to net income of \$209 million for the second quarter of 2015. Net income includes realized capital gains and losses. On a year-to-date basis, net income was \$327 million compared to \$532 million for the first half of 2015. The primary differences were catastrophe losses and foreign exchange.

After-tax operating income for the second quarter was \$134 million compared to \$225 million in 2015. Operating income year-to-date was \$357 million compared to \$554 million for the first six months of 2015. The overall underwriting gain for the Group was \$234 million for the first half compared to an underwriting gain of \$370 million in the same period last year.

In the second quarter of 2016, the Group saw \$149 million of current-year catastrophe losses net of reinsurance. Of that total, \$90 million related to losses from the Canadian wildfires, \$36 million related to Texas hailstorms, and \$23 million related to the earthquake in Ecuador.

The 2016 cat losses were partially offset by \$25 million of favorable development on prior-year cat losses, primarily from the 2011 Japan earthquake. The net impact of these losses, after reinstatement premium and taxes was \$105 million. This compares with \$23 million of catastrophes during the same period from 2015.

The overall current year attritional combined ratio for the first six months was 85.7%, up from 84.5% for the first half of 2015. This is primarily due to the 1 point increase in the expense ratio. Our year-to-date expense ratio rose to 5.7%, as we anticipated with the build-out of the insurance platform and our Lloyd Syndicate, but it was below our first-quarter 2016 expense ratio of 5.9%.

Foreign exchange is reported in other income. For the first half of 2016, foreign exchange losses were \$31 million compared to \$44 million of foreign exchange gains in the first six months of 2015. Both of these results are unusual and represent a \$75 million pre-tax swing year-over-year. The 2016 foreign exchange losses primarily reflect the weakening of the British pound during 2016 related to the Brexit vote.

The foreign exchange impact is effectively an accounting mismatch, since it's offset in shareholders' equity through translation adjustments and unrealized gains due to the positive impact of holding foreign investments that are available for sale. Overall, we maintained an economic neutral position with respect to foreign exchange, matching assets with liabilities in most major world currencies.

Other income also included \$3 million of earnings and fees from Mt. Logan Re in the first six months of 2016, compared to \$7 million of income in the first half of last year. That decline essentially represents the impact of catastrophe losses during the first half of 2016.

On income taxes, the 11.9% year-to-date effective tax rate on operating income was lower than the 13.9% tax rate at this time next year. This was primarily due to the foreign exchange losses and the higher level of catastrophe losses in 2016.

Stable cash flow continues, with operating cash flows of \$674 million for the first half of 2016 compared to \$532 million in 2015, which in part is reflective of our strong reserve position compared to actual paid losses. As for loss reserves, last week, we released our sixth annual global loss development triangles for 2015. There were no major changes since 2014 release.

Our overall quarterly internal reserving metrics continue to be favorable. Shareholders' equity for the Group was \$8 billion at the end of the second quarter, up \$377 million, or 5%, over year-end 2015. This is after taking into account capital returns for \$186 million of share buybacks and the \$97 million of dividends paid in the first half of 2016, which combined, represent a return of 87% of net income.

Our strong capital position leaves us with capacity to maximize our business opportunities, as well as continued share repurchases. Thank you, and now John Doucette will provide a review of the reinsurance operations.

John Doucette - Everest Re Group Ltd - President & CEO of Reinsurance Operations

Thank you, Craig. Good morning. Despite a very active quarter for the industry, with property catastrophe losses around the world, our reinsurance book performed well, with \$97 million of underwriting profit. This outcome highlights both strong underwriting by our experienced underwriting teams and the benefit of a mature, well-diversified book of business.

We maintain a highly diversified portfolio by line and geography around the globe, which allows underwriting profits in one part of our book to offset losses that might arise in another part of the book. Our sub-90% combined ratio for reinsurance for the quarter demonstrates the value and robustness of the strategy despite all the cat events.

For our total reinsurance segment, net premiums were \$771 million, down 8%. On a constant currency basis, they are down approximately 6%, as we carefully manage our net reinsurance book with hedges, higher attachment points, and reduced exposures on deals with less attractive risk-adjusted returns.

Our reinsurance underwriting profit was \$80 million lower than the underwriting profit in Q2 2015. The difference driven predominantly by the \$85 million in cat losses this quarter in the reinsurance segment compared to \$27 million of cat losses in Q2 last year. As Craig indicated, cat losses this quarter emanated from Canadian wildfires, Texas hailstorm and flooding, and the Ecuador earthquake.

Underwriting profits were also impacted by lower net earned premium and exchange rate fluctuations. Drivers of lower net premiums this quarter were non-renewal and reductions on some property pro-rata treaties, which did not meet our risk-adjusted term requirements.

The attritional loss ratio this quarter is 53%, 2 points below Q2 last year and in line with Q1, as well as the full year 2015. Business mix and deployment of capacity in profitable areas such as mortgage and credit helped us maintain strong loss ratios despite tough reinsurance marketing conditions.

The Q2 attritional combined ratio of 82.1% is up slightly from the 2015 full-year 81.8%, but down 1 point when compared to Q2 2015. The improvement was largely driven by a 4-point year-over-year improvement in US reinsurance, which had been impacted by a higher level of attritional losses for weather and large risk events last year.

The international segment also improved with lower commissions in the quarter. The Bermuda segment, though, experienced a higher attritional combined ratio primarily due to commissions and changes in business mix.

Now some color on our June and July 1 reinsurance renewals, which reflect approximately 10% and 15% respectively of our full-year reinsurance premium. June 1 renewals are mainly Florida. Changes in programs vary, but the renewal process was orderly.

Some of the largest programs shrank, as we expected, and we reallocated capacity to larger and new layers for preferred clients. Rates were off by low single-digits. The Florida renewal market felt like it had found a floor, with more treaties not fully placed and more shortfall covers coming to Everest.

We are pleased with the overall results of our June 1 renewal, and with the reunderwriting of under performing treaties, we head into wind season with somewhat reduced net PMLs for southeast when compared to last wind season.

At July 1, the US property market also felt as though it had bottomed out and the rates were closer to flat. This provides a good start to the upcoming 1/1 renewal discussions.

Outside the US, the July 1st market conditions for short-tail were less rosy and still very competitive in Europe and Latin America. However, Asia and Australia renewals were better, as we found more attractive places to deploy our capacity.

In Canada, the Fort McMurray wildfire loss is the largest insured loss in Canadian history and reinsurance rates were up substantially. We seized the opportunity to deploy more capacity at higher pricing, particularly with the demand for back-up covers in this region. The other loss affected areas around the globe also had increased rates at July 1.

The market for 7/1 casualty business also felt as though it was finding a floor, with several renewing as expiring, more resistance by reinsurers to broaden terms and conditions, and some high profile treaties with low take-up were either pulled from the market or repriced with more favorable terms. Anecdotally, we have heard some broker conversation is now shifting to managing client expectations on renewal pricing, terms, and conditions.

We continue to find pockets of attractive long-tail reinsurance including auto liability business. We also continue to provide meaningful capacity in the mortgage space, where there remains a robust pipeline of attractive business.

In recent months, we continued to add strong talent to our reinsurance underwriting bench in Europe, US, Latin America, Singapore, Canada, and Bermuda, as well as further expanding our footprint into one-off structured risk solutions. These deals are complex, difficult to source, and require a broad set of underwriting, accounting, actuarial, legal, tax, contract wording, and structuring capabilities to execute them successfully.

These opportunities are diversifying and much more shielded from the broader market pressures, and therefore, provide meaningful margins and strong risk-adjusted returns, adding to Everest's bottom line.

We are also seeing several reinsurance opportunities driven by macro issues, including capital and solvency requirement created by the market turmoil including Brexit, Solvency II, Dodd-Frank, and related regulatory changes around the globe; profit and expense pressures at large clients who are now motivated to buy more reinsurance; Florida and other clients looking to expand geographically and need additional reinsurance capacity to support their growth; and some global clients are buying down retentions for individual risks or territories. Even in the midst of a tough market, these and other demand drivers provide accretive opportunities for Everest to capture as a leading global reinsurer.

In Mt. Logan, we increased the number of investors, opened new funds, and raised additional capital from existing investors. Overall, AUM is above flat compared to last quarter, given some redemptions. We expect long-term growth and interest by investors to continue given the unique Logan-Everest value proposition, which has resulted in best-in-class returns every year since Logan's launch.

As we reach Logan's third anniversary, new types of investors, which we have been engaging with for some time, open up to potentially invest in the platform. Through Logan, and additionally, Kilimanjaro cat bonds, traditional reinsurance, and ILWs, we continually optimize our net book, which remains well within our long-standing Group risk appetite.

We are pleased with the outcome of both our quarter's underwriting results in the face of several cat losses and large risk losses and the outcome of our June and July renewals, despite the current market conditions. We are well-poised for a solid finish in the back half the 2016. Thank you and now I will turn it over to Jon Zaffino to review our insurance operations.

Jon Zaffino - Everest Re Group Ltd - President of North American Insurance Operations

Thanks, John, and good morning. Everest Insurance continued its expansion in the second quarter, as we made steady progress on our core strategic initiatives. We experienced another quarter of solid growth across our global operation, marking the sixth consecutive quarter of underlying growth, with contributions from each insurance business unit. Echoing early commentary, the North American division's results, our largest insurance division, were impacted by cat activity within the quarter.

Despite this, our underlying attritional performance was solid and in line with our expectations. As announced yesterday, and discussed on this call, given the sale of Heartland, I will share 2016 numbers with you, excluding this operation. The full results including Heartland are outlined in the financial supplement released yesterday.

Our global insurance operations, inclusive of the North American division and Lloyds, gross written premium increased 23% quarter-over-quarter to \$405 million, while net written premiums grew to \$343 million, an increase of 19% over the prior-year quarter. Looking at the first half, again excluding Heartland, we produced gross written premium of \$764 million, an increase of 17%, and net written premium of \$652 million, an increase of 12%.

As mentioned in previous calls, net written premium growth slightly lags gross written premium growth primarily due to a marginally more conservative reinsurance strategy in our US operations as we add new businesses. The insurance segment GAAP combined ratio for the quarter ex Heartland was 109%, impacted by 13 points of cat activity, or \$38 million.

This was attributable to exposure within our US and Canadian property portfolios, from the Texas hail event in April, and the Fort McMurray wildfire. On an attritional basis, the calendar year combined for the quarter improves to 95.7%, while the attritional loss and loss expense ratio for the quarter improved 130 basis points over the comparable prior-year period of 66.9%.

I will now turn to the performance of our major insurance segments, provide an update on market conditions, and also briefly comment on the strategic expansions of the Everest insurance platform. Although the quarter was impacted by cat activity in the US and Canada, we remain very encouraged regarding our progress in the build-out of our global insurance operation, the results of the underlying portfolio, and the opportunities ahead.

Within our P&C operations, both our US and Canadian units demonstrated solid growth in the quarter. Gross written premium was up nearly 18% in the US and up 22% in Canada. Further, our Lloyds insurance operation contributed nearly \$11 million in gross written premium in the quarter to this segment, which we expect to accelerate in the months ahead.

Nearly every underwriting unit contributed to these results, although similar to the first quarter, the growth varied across units and lines of business. Of note in the second quarter, we were pleased to see a meaningful contribution of 5% of premiums from our various new North American underwriting units launched principally over the past six months. Again, it is early in the growth phase for these businesses and we remain optimistic about their trajectory.

Our A&H group experienced another strong quarter of growth, registering a nearly 42% increase quarter-over-quarter. Our efforts to enhance our platform via expanded product and distribution capabilities are proving successful and opportunities in certain medical stop-loss markets headlined this quarter's growth.

Turning to the rate picture, the second quarter evidenced many of the same dynamics and challenges as those in the first quarter. While we did experience marginally more rate pressure in the second quarter, actual results were mixed by line of business. As noted earlier, our attritional loss ratio continues to improve despite this pressure due to changes in our mix of business, various underwriting actions taken on select portfolios, and the achievement of positive rate in very areas, namely commercial auto.

Further, we continue to believe that for the majority of lines, we are operating within a relatively tight range, thus the magnitude of rate volatility is limited. In the US, the property market overall, continues to see low double-digit rate decreases on average; however, there are signs of moderation as the market seeks a bottom. Clearly, pressure from recent cat activity in the quarter is having an impact, but it is too soon to quantify this.

Additionally, we are also noticing some select tightening in terms, particularly in states prone to convective storm activity. Third-party casualty lines are mixed, with slight pressure or even flattening for both general liability and excess casualty availability lines, once again, offset by positive rate movement in commercial auto.

As in the prior quarter, management and professional lines continue to experience mid-single-digit decreases overall. There remains more intense pressure on excess layers with the rate reduction moderating on the primary.

The work comp market also experienced moderately more pressure in the second quarter with low to mid-single-digit decreases being common. There remain pockets of opportunity across classes, segments, and geographies, although we continue to note new and expanded competition in this market and we'll watch this closely in the months ahead. Within the A&H market, the medical stop-loss segment remains competitive other than for accounts with challenging loss occurrence.



Turning to Canada, the liability market mimics that of the US. Slight rate adjustments are noted, yet remain essentially flat year-over-year. The property market likewise, remains relatively flat. Post the Fort McMurray loss, there have been some pockets of increased rate adjustments within various territories and classes of business.

Although early, we're not seeing any wholesale firming across lines. We will keep a close eye on the market, to see if the tone changes as we near the 1/1 reinsurance renewals. So again, a mixed market landscape depending on the many factors influencing the various lines of business. That stated, due to our increased product depth across geographies, we are able to seize profitable growth opportunities, despite challenging marketing conditions.

Final thought regarding the strategic expansion of our global insurance operations. We continue to capitalize on the dislocation within the commercial market to build out our global specialty insurance capabilities with new and enhanced products, additional leadership in underwriting depth, and expanded geographic reach. Each of our operations are making excellent progress on their 2016 goals and we anticipate increased momentum from actions executed over the past year. With that, let me turn it back over to Beth for Q&A.

Beth Farrell - *Everest Re Group Ltd - VP of IR*

Operator, we're ready to take questions now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Michael Nannizzi, Goldman Sachs.

Michael Nannizzi - *Goldman Sachs - Analyst*

Thanks so much. Maybe start a bit on the insurance book and the growth there. Clearly, very nice growth. Are the dynamics in the markets that you are growing in, is there a shortage of capital that is allowing for you to pursue growth and continue to see profitability improve or what other dynamics are at play? Just because I have not seen a lot of growth in insurance from some of our other companies so far, so I just want to get an understanding of the dynamics there?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Michael, I do not think it is a case of capital. We all know that this industry is awash in capital. It really is taking the opportunity to -- there are certain markets, in particular, that are in disarray. Companies are changing and the marketplace is always in flux.

Brokers are, in particular, always looking for highly-rated carriers to come into the space to either replace markets that are reshaping their own portfolios or their distribution for one reason or another, or changes in their own teams. In addition, perhaps, upgrading some of the credit quality of markets that they offer to their customers. So it is not about capital; it's more about taking advantage of opportunities from what I would describe as dislocation and the offering that we can make to brokers of top quality paper.

Michael Nannizzi - *Goldman Sachs - Analyst*

Got it. Okay. So these are opportunities that you are not winning on price, specifically. You are able to come into the market to help fill a gap based on the profile of reinsurance counterparties either the brokers or the insureds want?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

What I was answering was an insurance question. I thought that is what you were referencing, correct?

Michael Nannizzi - *Goldman Sachs - Analyst*

Yes. Your insurance. So either the brokers -- you said that brokers like your rating and profile. So I would think either the brokers want you there, and that's part of the reason why you can write the business at attractive profitability or the insureds themselves want you there. Is that--?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

What I was specifically addressing, though, was the insurance segment, not the reinsurance segment, although some of the same qualities are there as well. Also remember that on the insurance side, we have hired some notable talent in the industry, and with that, comes relationships and business flows that way, as well.

Michael Nannizzi - *Goldman Sachs - Analyst*

Got it. I was saying insurance not insurers, but okay, that is fair. And then, is it possible to give us a little bit more color on the impact of the sale of the crop business? How much premium should come out of the insurance segment?

How much should be expect to come into one of the reinsurance segments -- I'm guessing US reinsurance? Just any context -- and was there a dollar amount for the sale or was it all part and parcel of an exchange of the franchise for a reinsurance agreement on the back of that?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

We are not, at this point, since it is just really a letter of intent, we are not disclosing (multiple speakers) of the transaction, but I can tell you that there will be no material impact, gain or loss, from the sale of the company. As I mentioned in my comments, the premium impact, at least in the short-term, to the Group, will be minimal. It will be about the same, in other words.

So right now, we have approximately \$200 million of premium in the insurance space. That will transition over to and be reflected in the reinsurance segment. It will be about the same, at least in the short-term, and then of course, going forward, our participation with the buyer on reinsurance arrangements could -- and their expansion could make that -- the reinsurance premium go up over time. But there (multiple speakers) significant premium change to the Group; it is basically shifting it from one segment to another at what we think is a [prudent] profitability.

Michael Nannizzi - *Goldman Sachs - Analyst*

Got it, okay. Great. Thanks, Dom. On the prior-year development of attritional cats, I wanted to understand, was there a reason that number -- the 2011 development did not go into a prior-year category and why it ended up -- I realize it's just accounting, but why it ended up in the current accident quarter attritional cat load?

Craig Howie - Everest Re Group Ltd - CFO

Mike, this is Craig. We show cats on one line. That is the only reason. We do not break out prior-year cats and current-year cat. That is the only significance. That is the reason we broke it out in our discussion topic for the call. That's where the cat loss got reported originally, so it flows through the same line item, if you will, on the segment reported.

Michael Nannizzi - Goldman Sachs - Analyst

Got it. So in the past, when you've had reinsurance prior developments, that has been casualty developments or underlying loss ratio development, but not catastrophe development. Is that the difference?

Craig Howie - Everest Re Group Ltd - CFO

That's correct.

Michael Nannizzi - Goldman Sachs - Analyst

Great. Thanks so much.

Operator

Jay Gelb, Barclays.

Jay Gelb - Barclays Capital - Analyst

Thank you. There was a fair amount of concern going into the second quarter around the catastrophe loss exposure, especially in Canada. When you think about the end result of roughly 10 points of earned premium and still generating around a 9% return on equity on an operating basis in the first half, how does that shake out relative to what you would have thought of a catastrophe of these magnitudes in the quarter?

Dom Adesso - Everest Re Group Ltd - President & CEO

How does that translate into earnings?

Jay Gelb - Barclays Capital - Analyst

No, is it -- would you expect it to be this size or when you go through your risk management process, would you expect it to be a bigger impact? Maybe that's just a jumping off point where you can talk about the risk management framework?

Dom Adesso - Everest Re Group Ltd - President & CEO

This loss and how it impacted our results was what we would have expected. We always speak to writing business with the best risk-adjusted return. As an example, in Canada, we tended not to write reinsurance deals with a heavy personal lines exposure. That obviously had some benefit to us.

In addition, at least for last renewal season, we tended to be in the higher attaching layers so the lower layers did not meet our risk-adjusted characteristics. So yes, it translated into what we would have expected and not -- given our presence in Canada, we did not experience any outsized



loss generally because we are directing our underwriting to those areas that we feel give us the best returns. I do not know if that is frankly what you are asking.

Jay Gelb - *Barclays Capital - Analyst*

It is, yes. That is helpful. Thank you. My next question was on the international reinsurance segments, the 14% gross written premium growth in the second quarter. Can you give us some insight in terms of what was driving that and whether we should anticipate growth at that level going forward?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

That was adjustments due to some large transactions that happened--

Craig Howie - *Everest Re Group Ltd - CFO*

That happened in 2015. This is -- the 2016 year is more consistent with what you would expect to see going forward. There were accounting adjustments made in 2015, which is causing that comparison.

Jay Gelb - *Barclays Capital - Analyst*

Okay, so just to clarify, that 14% growth is normalized for international?

John Doucette - *Everest Re Group Ltd - President & CEO of Reinsurance Operations*

Hi, Jay. It is John. The way to think about it is look at the entire six months of last year and compare it to the entire six months of this year. That is a more appropriate comparison because it was basically -- and we talked about it on the last quarter, it washes over the first six month of the year.

Jay Gelb - *Barclays Capital - Analyst*

Okay, so normalized down high single-digits gross?

John Doucette - *Everest Re Group Ltd - President & CEO of Reinsurance Operations*

Right. That is partially driven by the FX.

Jay Gelb - *Barclays Capital - Analyst*

Right, thank you.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Thank you, Jay.

Operator

Quentin McMillan, KBW.

Quentin McMillan - Keefe, Bruyette & Woods - Analyst

Thanks very much, guys. A quick numbers-related question. Dom, you had mentioned \$27 million in FX losses. I wanted to ask about Mt. Logan. Is the remainder of the other income expense bucket, the \$28.4 million, is that all just a small loss from Mt. Logan, basically?

Craig Howie - Everest Re Group Ltd - CFO

Mt. Logan actually had \$3 million of income year-to-date.

Quentin McMillan - Keefe, Bruyette & Woods - Analyst

For -- the number \$27 million, by the way, was after-tax. Right?

Craig Howie - Everest Re Group Ltd - CFO

No.

Dom Adesso - Everest Re Group Ltd - President & CEO

The \$0.44 was after tax. Okay, I'm sorry.

Quentin McMillan - Keefe, Bruyette & Woods - Analyst

My apologies. So the 28.4 million is a \$3 million gain from Mt. Logan and then a \$31 million pre-tax loss in FX? Is that about right?

Craig Howie - Everest Re Group Ltd - CFO

The \$3 million gain was for the year, Quentin.

Quentin McMillan - Keefe, Bruyette & Woods - Analyst

For the year, I apologize. For the quarter -- okay, the rest of the numbers are in 1Q so I can break it out that way. Okay, thanks. Secondly, Jon, thanks very much for talking about the cat-related losses in the quarter. I want to understand a little bit more.

It sounds like you were saying they came from Canada and then from the Texas hailstorms, but the \$38 million is a lot higher than we have ever seen out of that portfolio. Can you talk to us about why there might have been elevated property losses in the cat line this quarter? Should we expect a higher cat load in the insurance segment going forward?

Jon Zaffino - Everest Re Group Ltd - President of North American Insurance Operations

Quentin, I do not think it is really out of line, from our perspective. Remember, we've been steadily growing our E&S property book over the last several years. It has been incredibly profitable for us. We do manage all of our accumulation at the Group level, so in relation to a number of different benchmarks we look at, first and foremost, Group accumulation in our cats models.

But secondly, also, our representative market share. In any given market, the nature of the underlying events, both obviously two extreme events here with Fort McMurray and the Texas hail. The number might seem bigger than you've seen in the past, but in relation to the depth of these books of business, we think it is very much in line.

Quentin McMillan - Keefe, Bruyette & Woods - Analyst

Okay, so if I could say that a slightly different way is sometimes the wind does not blow your way, This might have been a little bit of an outsized quarter. Correct?

Jon Zaffino - Everest Re Group Ltd - President of North American Insurance Operations

That is fair.

Quentin McMillan - Keefe, Bruyette & Woods - Analyst

Okay. Then last question. Dom, you had mentioned in the first quarter, the 11% growth rate in the insurance segment was a little bit below what we should expect for the full year, but the 20% you had previously mentioned maybe not quite at that level. Given the strong growth in the second quarter, is it safe to assume that you guys are targeting more of a 20%-plus type growth rate or still no real change?

Dom Adesso - Everest Re Group Ltd - President & CEO

Our growth rate in the insurance sector will certainly be in the high teens. I do not know if we'd readily admit to over 20%, but again that is going to be based on what the market opportunity presents to us. If pricing continues deteriorating to any great degree, then perhaps we pull back in certain areas, but we have got a number of new initiatives that we are just getting off the ground, so the growth rate should be solid teens.

Quentin McMillan - Keefe, Bruyette & Woods - Analyst

Okay, great. Thanks very much, guys.

Operator

Amit Kumar, Macquarie.

Amit Kumar - Macquarie Research Equities - Analyst

Thanks, good morning, and congrats on the beat. Just a few follow-ups. The first question is on the Canadian wildfire. Can you tell us what industry loss you had used to compute that number?



Dom Adesso - *Everest Re Group Ltd - President & CEO*

Amit, we really do not go at it really that way. That certain can be one methodology, but we obviously had people on the ground assessing what was going on there, as well as reports from our clients. It is a little difficult with this type of an event, that the models not necessarily built for wildfires.

So basing an estimate off of an industry loss is, in our view, very difficult, and frankly, not really appropriate. You can use that as a benchmark, but at the end of the day, it really is about being within the site, as well as talking frequently to our clients and getting reports in from our clients.

Amit Kumar - *Macquarie Research Equities - Analyst*

Got it. That is a fair comment. And with Mt. Logan impacted by these cats?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

A little bit, yes, sure.

Amit Kumar - *Macquarie Research Equities - Analyst*

Did the reception -- I know that you were talking about the reception from investors. Did that change? Because as you mentioned, this is not a modeled peril?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Not to my knowledge. We've not heard any negative feedback from investors about these events.

John Doucette - *Everest Re Group Ltd - President & CEO of Reinsurance Operations*

Hello, Amit, this is John. We communicate a lot with them on regular basis, the Logan team does, and talks about the types of losses and exposures that they have. And the Logan investors get access to a global portfolio, and frankly, expect to get losses all over the world, not just from hurricane, not just from earthquake.

But again, given the returns that Logan has seen, Logan investors have seen, it is really best-in-class. It just highlights the strength of the diversification and the value proposition of the [mousetrap] that we've built between Logan and Everest. The investors -- there was nothing out of line from the investors side to the Canadian wildfires.

Amit Kumar - *Macquarie Research Equities - Analyst*

That is very helpful. Just moving onto capital management. I know you talked about buybacks were blacked out for maybe a period. How many days where you blacked out because I'm looking at the buyback number? It is higher than Q1. I'm just tried to reconcile that and asking myself, is [salvation] still attractive to ramp the buyback during the wind season or should we think differently about that?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

First of all, it is not technically a blackout period. What I had mentioned was that because we possessed material non-public information about cat events and the fact that those reports of what those losses might be were streaming in, it became frankly a little difficult for us to be in the market. Not because of the size of the event, but more because we were in the possession of material non-public information.

But I do not know that, that would technically a blackout period. As Craig pointed out, earlier we returned almost 90% between dividends and share repurchases, 90% of income. Frankly, that is not out of line with what we've said we would do in the past.

Amit Kumar - *Macquarie Research Equities - Analyst*

Got it. Okay. That is helpful. Finally wrapping up, I know there was this question on Heartland and I appreciate it is difficult to share all the mechanics. I'm curious what led to the decision? Was it a function of scale or was it A&O payments? What prompted it and was it shopped around? Some background on that would be very helpful because we've seen other companies also do these kind of things, so I'm curious as to the background?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

As we've said in response to questions about our crop operation for a long time, that we are always looking at strategic options. Those strategic options in the earlier days, many months ago, were more about how we could build scale and how we could diversify because those were the two things that we needed to do to be successful as a primary MPCl writer. Folks at Heartland certainly put forth a great effort, but given the market dynamics, it was very, very difficult, as we found out, to grow it organically and to diversify.

When we were presented this opportunity, this option from CGB, it was something that, as we looked at it, we said this would be a way to be given their scale. They are already there in the space and we can immediately get the diversification and the scale we need, and that is what led to the decision to move in this direction. But it was always with an eye towards wanting to grow it and diversify it and recognizing that it needed to be a scale business.

Amit Kumar - *Macquarie Research Equities - Analyst*

Got it. Okay. That is very helpful. Thanks for the answers and good luck for the future.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Thank you, Amit.

Operator

Elyse Greenspan, Wells Fargo.

Elyse Greenspan - *Wells Fargo Securities - Analyst*

Good morning. I was hoping to talk a little bit more insurance book. Ex crop pointed to a 96% attritional combined ratio ex the crop business. Is that the right margin to assume on that book on a go-forward basis. Then just tying into that, in terms of your expense ratio, you did mention that it came down a bit sequentially. Is that something we should expect to continue to see as we go forward through the rest of this year?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

The 96% I would expect overall to, frankly, improve a little bit more from there as we grow the Lloyd's operation. The Lloyd's premium has been slow to book just because of the accounting that takes place in our Lloyds operation. Frankly, if you look at the attritional without Lloyd's, it is more like a 95%.

So as Lloyd's begins to improve its economics, which it will do through the balance of the year, that attritional combined ratio we would expect to be even lower. The improving expense ratio, as I said in the last quarter, I would expect that to continue to moderate over time, but compared to historical levels, it will probably still be above those for certainly, probably the next 12 months at least, but trending downward, towards a more normalized level.

Elyse Greenspan - *Wells Fargo Securities - Analyst*

Okay. Then in the reinsurance commentary, you guys mentioned some one-off structured solutions. Is there a way to quantify the impact of that on the top line? Was that a Q2 comment or was that more about when you were looking forward towards the rest of this year?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Those kinds of transactions generally are pretty lumpy, so no, there really isn't any way to quantify, frankly, that on the top-line basis. The value in mentioning that was more of a strategic choice and the direction that we're taking relative to our bottom-line focus. These are transactions that require a lot of time and so there really is not any smoothness to the premium that we can outline for you.

Elyse Greenspan - *Wells Fargo Securities - Analyst*

Okay, thank you. Last on the capital management, you guys last year, the Q3 was actually when you were the most active in terms of capital return. Is there any thought process behind slowing down repurchases surrounding hurricane season or is it a similar philosophy to last year, where just depending upon opportunity?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Probably depends upon opportunity. We do tend to see more cautious going into the wind season. But that obviously is relative to the opportunity, as well.

Elyse Greenspan - *Wells Fargo Securities - Analyst*

Okay, thank you very much.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Thank you, Elyse.

Operator

Sarah DeWitt, JPMorgan.

Sarah DeWitt - *JPMorgan - Analyst*

Good morning. On the insurance business, given your new initiatives there, how big do you think this segment could be over time?



Dom Adesso - *Everest Re Group Ltd - President & CEO*

What's time (laughter)?

Sarah DeWitt - *JPMorgan - Analyst*

Three to five years?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Certainly it could easily double.

Sarah DeWitt - *JPMorgan - Analyst*

Okay. Great. What is driving that? Mostly from new hires or can you elaborate a bit more on that?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Well, certainly new hires. You need to have a staff in place in order to garner the business. But it is really more about distribution relationships and opportunities in the marketplace to fill in voids created by the disruption in the market that I mentioned earlier.

Sarah DeWitt - *JPMorgan - Analyst*

Okay, great. And then on reinsurance prices, do you think prices are bottoming and what is your outlook there going forward?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

I do think -- it does appear that in certain sectors, that we are hitting a bottom. I am though, here, not predicting that next quarter or the quarter after, that we will see some uptick. Perhaps we will be at this bottom point for a while, but I do think that at these levels, there really isn't any room to go lower if you want to maintain any semblance of adequate returns on your capital.

Those of the pressures that we all face, and you are seeing some discipline in the marketplace for now. But I am certainly not predicting any major upticks at this point. So there are still opportunities. You are seeing some areas that are showing rate increase in the loss affected regions. Those will be the opportunities to think about going forward.

Sarah DeWitt - *JPMorgan - Analyst*

Okay, great. Thanks for the answers.

Operator

Kai Pan, Morgan Stanley.



Kai Pan - Morgan Stanley - Analyst

Thank you and good morning. First question, just follow-up on the Heartland deal. I wonder from your experience for the last three years, buying a business, eventually it's [thoughted], does that change your appetites, how do you think about acquisitions?

Dom Adesso - Everest Re Group Ltd - President & CEO

Kai, as you know, we have not been that acquisitive, so it does not necessarily change my appetite. You always have to be very mindful of any kind of acquisition, what it is going to do to the business, is it strategic, what are the integration concerns, et cetera. In this particular case, the acquisition was done because it was around a skill set that we didn't have.

The marketplace was changing, but then it changed again on us and we were really unable to really get the scale and the diversification we needed. But no, it does not necessarily change our appetite for looking at transactions that can be strategically important to us. But having said that, we're not a very acquisitive Company.

Kai Pan - Morgan Stanley - Analyst

Okay, that is fair. I was just curious because this is a real deal you have done in the past few years. It did not turn out as well as you had hoped for. Then, if the business \$200 million transfer from the insurance to reinsurance, you mentioned better combined ratio. The insurance segment, in the past, you had targeted 95%. If you look at reinsurance running at the low 80%. Is that magnitude of difference in terms of profitability?

Dom Adesso - Everest Re Group Ltd - President & CEO

No, the crop business does not run to the low 80% on an expected basis. It is probably more high 80%, low 90% kind of business.

Kai Pan - Morgan Stanley - Analyst

Okay. And then, on the foreign exchange losses, I just want to make sure it this is like mark-to-market. Basically, if the exchange rate stay the same, you would not see big movement in the third quarter?

Craig Howie - Everest Re Group Ltd - CFO

That is correct. It is quarter-to-quarter.

Kai Pan - Morgan Stanley - Analyst

Okay, great, great. Lastly, philosophically, if you look at the insurance segment, you are growing really fast. Is there any risks you are worried about growing in that business that fast? What could be the downside there? Because if you look the history of insurance operation, the profitability of it has been a near break-even. What gives you confidence by growing at high teens and at the same time, you can have -- actually can improve on the combined ratio already having right now?

Dom Adesso - Everest Re Group Ltd - President & CEO

The insurance model today is much different than it was five to 10 years ago, which was mostly a program-oriented model, so that is number one. Number two, we offered or added an awful lot of great talent to the Organization that is focused on the underwriting business. It is risk by risk, which we think gives us the potential for a better outcome, as well as a reengineering, if you will, of our programming business.

Those two things we think will help dramatically. In addition, keep in mind that we are not growing at these percentages in one line of business and one territory. It is a very diversified play across a wide distribution network and so it is -- that will also ensure that we have a good outcome.

Kai Pan - *Morgan Stanley - Analyst*

Great. Thank you so much for all the answers.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Thank you, Kai.

Operator

Josh Shanker, Deutsche Bank.

Josh Shanker - *Deutsche Bank - Analyst*

Good morning, everyone. Thanks for taking my question. The first question -- during a prepared statements, Jon Zaffino said that the ex-Heartland combined ratio for insurance was 109%. Is it reasonable for me to think that historically Heartland has been a 150-basis point, 200-basis point drag on your results?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

150 basis points of what? On combined ratio?

Josh Shanker - *Deutsche Bank - Analyst*

Combined ratio, yes?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

I do not know if that is the right math or not, Josh?

Josh Shanker - *Deutsche Bank - Analyst*

That is why I'm asking?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Generally that business over time has been running at, just the Heartland operations itself--

Jon Zaffino - *Everest Re Group Ltd - President of North American Insurance Operations*

I don't think over time. It has been over 100%.



Dom Addresso - *Everest Re Group Ltd - President & CEO*

Right.

Craig Howie - *Everest Re Group Ltd - CFO*

We have shown losses. I don't think it would be quite that high. The current quarter, it's running at about a 120[%], 119[%], for the current quarter.

Josh Shanker - *Deutsche Bank - Analyst*

And the premium on that is?

Craig Howie - *Everest Re Group Ltd - CFO*

For the current quarter, the premium is about \$31 million.

Josh Shanker - *Deutsche Bank - Analyst*

Okay. This is going to sound incredibly nitpicky, I apologize, but I've gotten a few questions about it. It's a question about when did you know what -- you guys were, due to material non-public information, you guys were locked out of repurchasing shares, but you could have put out a press release and brought yourself back to the market. When did you know what the cats were, why didn't you put out a press release, and when did you know you had a favorable development which offset your need to put out a press release?

Dom Addresso - *Everest Re Group Ltd - President & CEO*

Yes, Josh, that is incredibly nitpicky (laughter).

Josh Shanker - *Deutsche Bank - Analyst*

I'm sorry.

Dom Addresso - *Everest Re Group Ltd - President & CEO*

The challenge with Canada was that the number was moving around quite a bit. We did have a number early on. In fact, as we got more and more information, that number, frankly, got a little better, but it kept changing. We did not have -- because of the question that was asked earlier, we did not think it was appropriate, we were not getting a right answer by using an industry loss estimate times market share.

Given how we participated in that particular event and with those particular clients, it wasn't a simple matter of taking an industry loss estimate and a market share number. We had to have reports from clients, as well as on the ground investigation. We did not know that, frankly, until relatively late in the game, probably two weeks ago, that we were comfortable with a number.

In the meantime, as we have said in the past, we generally look at -- is an event or series of events going to be within our expected cat load. We thought this was probably going to come in at the expected cat load, and therefore, a release on the event was not required. That is what we said in the past. Had we felt that this was going to be materially above our expected cat load, then we probably would have had reconsidered whether to put something out.



Josh Shanker - *Deutsche Bank - Analyst*

Okay, that's perfectly fair. Thank you for the answers and good luck in the hurricane season.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Thank you, Josh.

Operator

Ladies and gentlemen, that's all the time we have for questions. I would like to turn the call over for closing remarks.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Thanks, everybody, for participating in the call. As I mentioned, we are quite satisfied with our results, given the frequency of events, some of which did not reach the level of cats for us, so that is a testament to our numbers. Our insurance initiative, as we've mentioned, is going well.

With crop moving to the reinsurance segment, improved underlying performance of this book should become more apparent on a go-forward basis. On the reinsurance side, we continue to manage through the cycle. As noted, in some areas, our PMLs are down. Pricing does appear to be bottoming and we are well-positioned to shift when warranted. Again, thank you all, and talk to many of you in the weeks ahead. Thanks again.

Operator

Ladies and gentlemen, that does include our conference for today. We'd like to thank you again for your participation. You may now disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.