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PRESENTATION

Operator

Good day, everyone. Welcome to the fourth-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, IR*

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

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

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

Now let me turn the call over to Dom.

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

Thank you, Beth, and good morning, all. We are pleased to provide our final report for the 2016 year. We closed the year with a record fourth quarter and an industry-leading 13% ROE for the year. There are many moving pieces of those results which my colleagues will take you through, but let me highlight a few key themes.

It was a quarter and a year that saw a heightened level of cat activity relative to the prior year. Yet, the overall impact of these events was easily absorbed into our results given the benefits of our diversified global platform that provides for premium across many geographies and lines.

Notably, we reached a new high this year with over $6 billion of gross premium written.

In addition, we realized the benefit of sizable reserve redundancies this quarter, a reflection of our conservative reserving practices which we have been pointing to for some time now. While we had sizable reserve releases from our reinsurance portfolio, our insurance portfolio did experience some unfavorable loss reserve development, but this was largely isolated to construction defect claims arising out of runoff books of business. The size of the charge this year reflects our best effort to fully fund these liabilities and put this behind us.

We also topped up our asbestos reserves. This reserve addition was not the result of any change we have experienced in underlying claims, but rather reflects a reallocation of reserves to a segment that is fraught with uncertainty. Despite all these reserve movements, the net result was a positive $209 million to full-year earnings. As a result of these reserve savings and, frankly, many other important factors, our core operations have done very well as you will note in the numbers. Overall, reinsurance generated an underwriting gain of over $900 million, bettering last year's number by almost $40 million.

While it is a challenged market from a rate perspective as seen in the top line, we continue to expand our product set, shifting our risk appetite to achieve better risk adjusted returns. These achievements are not one-off. There is a consistency to our performance relative to the market where our returns on capital have measurably outperformed. Albeit while returns are creeping down as a result of market conditions, I think it is pretty clear that the overall market will reach its breaking point before us.

On the insurance front, we remain extremely satisfied with our progress. Premium growth, excluding our crop business which was sold earlier this year, has been in excess of 20% due to new product and business launches. The benefits of these increased writings have not yet been fully captured due to the lag in earned premium. The underperformance in 2016 reflects this lag in earned premium and its impact on the expense ratio, as well as the reserve adjustments I previously mentioned. However, we remain confident that the new business that will come through earnings in the year to come will outperform the historical record.

Why this optimism in such a tough market for both reinsurance and insurance? First, the inevitable law of gravity and the race to the bottom. That is one race we don't intend to win and already have shown we are far behind. Based on industry returns relative to cost of capital, the race is almost over. That race includes third-party capital where a future of higher investment rates will cause those markets to raise their targets.

Second, the scale of our organization and scope of our relationships allows us the opportunity to selectively grow and introduce our new products and businesses.

Finally, great people and a culture that inspires smart underwriting and risk selection with an eye towards being creative and entrepreneurial in everything we do. A lean organization that allows us to be nimble and quick to the right trade in the most expense efficient way possible.

These are the qualities we continue to emphasize, and that will continue to generate market-leading returns. Thank you and now to Craig for financial highlights.

Craig Howie - *Everest Re Group, Ltd. - EVP and CFO*

Thank you, Dom, and good morning, everyone. Everest had an excellent end to 2016 and a record quarter of earnings with net income of $374 million, helped by reserve releases that impacted both current and prior years. This compares to net income of $357 million for the fourth quarter of 2015.

Net income for the year was $996 million compared to $978 million in 2015. After-tax operating income for the fourth quarter of 2016 was $363 million compared to $353 million in 2015. For the year, operating income was $993 million compared to $1.1 billion in 2015. The primary differences were catastrophe losses and foreign exchange, partially offset by favorable reserve releases.

The overall underwriting gain for the group was $689 million for the year compared to an underwriting gain of $787 million for 2015. The results reflect a slight increase in the overall current year attritional combined ratio of 85.5%, up from 84.8% last year. This attritional measure increase of less than 1 point reflects a higher expense ratio as we anticipated with the buildout of the insurance platform and our Lloyd's Syndicate.

In the fourth quarter, Everest saw $185 million of gross current year catastrophe losses. Of the total, $150 million related to losses from Hurricane Matthew, $20 million related to earthquake activity in New Zealand, and $15 million related to the Tennessee wildfires. Net of reinsurance, the current quarter catastrophe losses amounted to $169 million. The fourth quarter of 2016 also included favorable development on prior cat losses, largely from the 2015 year. Therefore, net catastrophe losses for the quarter were $150 million.

Net catastrophe losses for the year were $301 million in 2016 compared to $54 million in 2015. For 2016, gross catastrophe losses were $420 million, but were offset by reinsurance and $87 million of favorable development on prior year cat losses, primarily from the 2015 Chile earthquake and US storm events, the 2013 US storms and Toronto flooding, and the 2011 Japan earthquake.

Our reported combined ratio was 87.0% from the year 2016 compared to 85.1% in 2015.

The 2016 commission ratio of 22.3% was essentially flat compared to 2015.

Our expense ratio of 5.7% for the year is up from 4.8% in 2015. The expense ratio for the reinsurance segments remained low at 3.1%. While the overall expense ratio was influenced by the buildout of our insurance segment. Everest maintains one of the lowest internal expense ratios in the industry. This is a strategic competitive advantage for Everest.

On reserves, we completed our annual loss reserve studies. The results of the studies indicated that overall reserves remained adequate. In the fourth quarter, we booked $205 million of favorable prior-year reserve development. This included prior period development in the insurance segment and for asbestos, which was more than offset by favorable reserve development in the reinsurance segments. The $160 million of prior-year reserve development in the insurance segment during the quarter as referenced by Dom was largely related to the construction liability and umbrella program business. These runoff programs were discontinued by the Company several years ago.

The $365 million of favorable prior-year development in the reinsurance segments reflected $419 million of favorable development, partially offset by a $54 million increase in asbestos and environmental reserves to replenish our position at the beginning of the year. The $419 million of reinsurance favorable development during the quarter mostly related to property and short tail business both in the United States and internationally.

These redundancies have developed over time, but we don't react until the position becomes more mature. We continue to hold our loss reserve estimates for the more recent years.

For investments, pretax investment income was $115 million for the quarter and $473 million for the year on our $17.5 million investment portfolio. Investment income for the year remained flat compared with 2015, which was better than expected. We've been able to maintain investment yield without a dramatic shift in the overall investment portfolio. The recent rise in interest rates drove bond prices down and had a negative impact to book value during the quarter related to the unrealized capital losses in our bond portfolio. However, this increase and the expected rise in interest rates during 2017 will have a positive impact on the net investment income over time. The pretax yield on the overall portfolio was 2.8%, and duration remained at just over three years.

Other income and expense included $21 million of foreign exchange losses for the 2016 year compared to $61 million of foreign exchange gains in 2015. Both of these results are unusual and represent an $82 million pretax swing year over year. In 2016, foreign exchange losses resulted from the relative strengthening of the US dollar against other world currencies, primarily the British pound.

Overall, we have maintained an economic neutral position with respect to foreign exchange, matching assets and liabilities in most major world currencies. Other income also included $11 million of earnings and fees from Mt. Logan Re for the year 2016 compared to $28 million in 2015. The decline in 2016 essentially represents the higher level of catastrophe losses in 2016 and the corresponding reduction and incentive for profit sharing fees.

On income taxes, the 2016 operating income effective tax rate was 10.3%. This effective tax rate for the year was lower than our expectations for the year. The tax rate was lower due to the amount and geographic region of the income associated with the loss reserve releases in the fourth quarter.

Additionally, we closed the US tax audit during the quarter that allowed the utilization of foreign tax credits from years 2009 through 2012. These credits reduce the effective tax rate by about 2 points.

Strong cash flow continues with operating cash flows of $1.4 billion for the year, up $276 million compared to 2015. This is primarily due to our continued premium growth. Shareholders equity for the group was $8.1 billion at the end of 2016, up $467 million or 6% over year-end 2015. This is after taking into account capital return through $386 million of share buybacks and $195 million of dividends paid in 2016. The Company announced a 9% increase to its regular quarterly dividend and paid $1.25 per share in the fourth quarter of 2016.

Book value per share increased 11% to $197.45 from $178.21 at year-end 2015, generating a 13% growth in shareholder value including dividends. Our strong capital balance leaves us well-positioned for business opportunities, as well as continuing share repurchases.

Thank you and now John Doucette will provide a review of the reinsurance operations.

John Doucette - *Everest Re Group, Ltd. - EVP and President and CEO of the Reinsurance Division*

Thank you, Craig. Good morning. We are pleased to report an outstanding quarter and a record year with $903 million of reinsurance underwriting profit despite catastrophe activity. Our earnings reflect our strengthening position in the global reinsurance market and are a testament to our continued disciplined efforts to build a diverse and profitable portfolio.

Globally, rates were under pressure, except where material catastrophes occurred such as Canada. Our position as a large, global, nimble, highly rated and long-standing reinsurer allows us to successfully underwrite through this tough rating environment, to grow profitable business and, once again, to achieve market beating results.

Before discussing renewals, here is some color on the fourth-quarter and 2016 results. Total gross written premium for the fourth quarter was $1.1 billion, a decrease of 1% compared to last year but flat on a constant dollar basis. Year to date, global reinsurance premiums of $4.2 billion were down 3%, but flat after eliminating the currency impacts.

For the quarter, the loss ratio increased to 36.3% from 33% in prior Q4 and included 12.5 points of cat losses and also about 5 points of asbestos strengthening, both of which were more than offset by 38 points of favorable prior-year reserve releases. The impact of fourth-quarter cats was $139 million, which included $158 million from Hurricane Matthew to the Q4 New Zealand earthquake and the Tennessee fires, offset by reductions of $19 million for prior-year cat events. The favorable prior-year reserve development emanated across the portfolio weighted towards our shorter tail lines. The level of these releases demonstrates the strength and diversity of our global portfolio, the foundation for our strong balance sheet.

For the full-year 2016, our reinsurance loss ratio improved from 50.6% a year ago to 50.1%. Excluding cats and prior-year development, the current year attritional loss ratio was down slightly to 53.5%. Each year was impacted by a significant risk loss with 2016 having $40 million of loss for the

Jubilee oil platform and 2015 having $60 million for the Tianjin, China explosion. Note in 2016 our prior-year reserve adjustment reflected the release of $43 million of that $60 million Tianjin loss estimate.

The 2016 reported combined ratio and the 2016 attritional combined ratio, excluding cats and prior-year development, were also lower relative to the prior-year, reflecting our disciplined underwriting approach and rigorous expense management. Bottom line, our reinsurance book produced an all-time high underwriting profit of $429 million in the fourth quarter and $903 million for the full-year 2016, placing us among the best performers in the reinsurance industry.

We believe we have one of the very best reinsurance teams in the industry. In addition to a very strong technical staff, we have talented, experienced and smart underwriters who know their markets and clients well and with outstanding skills to underwrite risks, build profitable books and grow the long-term franchise, collectively enabling Everest to continue to outperform the market.

In our US reinsurance segment, 2016 gross written premium was down slightly to $2.1 billion. Changes year over year were caused by a decrease in our property writings as we walked away from a significant volume of underpriced pro rata business. However, this was offset by our new strategic crop reinsurance deal and the continued growth in alternative risk products, including credit-related business such as mortgage reinsurance. Our alternative risk capabilities remain a differentiating bright spot in a difficult market where more sophisticated clients increasingly seek bespoke products for capital relief, unique risks, and often multiple lines of business.

Everest's lean and agile operations, coupled with our broad experience and expertise, quickly provide solutions to both our long-term trusted partners and new clients seeking a creative solution. The 2016 combined ratio for the US reinsurance segment was up 6.6 points, while the accident year attritional combined ratio of 78.4% was up only 2 points. The attritional increase in large part was caused by the increased crop reinsurance writings, which generally requires less capital to write but produces a slightly higher combined ratio.

Our International reinsurance segments premium was $1.2 billion, down 8% for the year, but only 5% on a constant dollar basis. Lower premium across many of our regions -- Latin America, Middle East, Africa, and Asia -- was due to both rate pressure and termination of underpriced business.

For 2016, this segment produced $314 million of underwriting profit, up 86% over the prior year, despite increased catastrophes. This was largely due to the significant level of current and prior-year reserve releases, highlighting the conservatism in our reserving process. Excluding cats and prior-year losses, the attritional combined ratio for 2016 was down 4 points to 80.4% with the improvement due to the impact of Tianjin losses in 2015 and a lower level of attritional cat losses, catastrophes that do not breach our $10 million threshold to be classified as a cat in 2016.

Our Bermuda segment premium was $890 million, up 1% for the year, but on a constant dollar basis actually had growth of 5%, driven primarily by casualty reinsurance. The combined ratio was up about a point, but excluding cats and prior-year development, the accident year attritional loss ratio was down 2.4 points to 89%. This was the result of changes in business mix and the impact of the Tianjin loss in 2015.

Moving on to the 1/1 renewals, Everest was well-positioned to withstand the market pressures. Globally, our clients are demanding solutions that address their operational threat, the increasingly complex capital requirements, and unusual risks. We have the expertise, responsiveness, and capital to meet these demands quickly, aided by our unique and client-focused operational structure, geographic and product breadth, and diverse capital sources, including Mt. Logan, Kilimanjaro, the cash free bonds, and other hedges.

In the property markets, we continue to perform well in the face of heavy competition. Facilitated by robust relationships, we re-underwrote our property portfolio substantially at 1/1, reallocating capacity from underpriced business to more attractive layers of programs while supporting our core clients and newly marketed programs. We are also exploring huge structures that will strengthen our core client relationships well into the future.

Overall, the market property rates were down at 1/1 on average mid-single digits across most markets unaffected by material losses. Our portfolio fared better than that where the combined ratio of our 1/1 renewal portfolio had modest slippage of less than 1 point compared to last year's portfolio.

In our casualty markets, the 1/1 pressures were mixed with the reinsurance terms easing somewhat, but economics in certain underlying segments are still tracking in the wrong direction. We achieved improvements on classes with material losses and increasingly focused on structured and credit-related deals.

Our London operations saw a excess of loss rates decline from 2.5% to 5%, although some other international markets are seeing decreases of 5% to 10%.

On the positive side, Solvency II is causing the demand uptick in London and European markets, specifically for pro rata structures. Overall, Everest Reinsurance operations remained optimally diversified by product, distribution, geography, client mix and capital sources, giving us the ability to quickly identify and move from market weaknesses to market opportunity. We recognize the markets may face continued pressure from the supply/demand imbalances, but as reflected in our results, we are well-equipped to adapt and excel in the new reinsurance world order.

Thank you and now I will turn it over to Jon to review our insurance operations.

Jon Zaffino - *Everest Re Group, Ltd. - President of Everest National/US Insurance Operations*

Thanks, John, and good morning. 2016 was a transformative year for the Everest global insurance operations. The year finished on a strong note, despite the impact of profitability from elevated levels of natural catastrophe losses and, as you've heard from Dom and Craig, prior-year reserve development originating from runoff books of business. Nonetheless, we are pleased with the underlying performance of our portfolio, particularly so in a difficult trading environment. Further, we continue to make significant progress on our journey to organically build a world-class specialty diversified insurance organization.

I will provide further commentary on this progress later in my remarks.

Similar to last quarter and due to the divestiture of Heartland in late third quarter of 2016, I will be discussing our results, excluding this business. The full results of the insurance segment inclusive of Heartland are covered in our financial supplement released yesterday. Additionally, for reference we've also included a supplemental exhibit with the quarterly insurance results, excluding Heartland.

For the full-year 2016, the global insurance operations achieved record premium levels, registering nearly $1.6 billion in gross written premiums, an increase of $274 million or 21% over 2015.

It should be noted that this result exceeds 2015 gross written premium, including the results of Heartland. This strong top-line performance is an acknowledgment of the value of our clients, brokers and insurers alike recognized in Everest insurance.

Further contributing to this strong top-line performance were nearly a dozen new underwriting divisions that steadily contributed throughout the year. For the full year, these new divisions, which have been selectively added to the portfolio, contributed nearly 7% in total 2016 gross written premiums. This represents over $100 million of new premium within desired segments and classes of business, a result we're certainly encouraged by as many of these divisions are not yet a year old.

For the quarter, we registered $423 million of gross written premium, an increase of $89 million or 27% over the prior year period. This represents the eighth consecutive quarter of growth for our operations. Each division within the North America segment contributed to this growth with the US, Canada, and Accident and Health teams each growing in excess of 20%, along with meaningful contribution from our Lloyd's Syndicate. We remain encouraged this balanced contribution across the diversity of the underwriting platform.

Net written premiums for the year were slightly over $1.3 billion, an increase of $180 million or 16% over 2015. As discussed in prior calls, net written premium growth slightly lags gross written premium growth due to a marginally more conservative reinsurance position we have taken to support our many new underwriting divisions. For the quarter, net written premium increased by $50 million or 17% over the prior year quarter, reflecting a strong end to the year and solid momentum for all of our businesses.

I do want to make a quick comment as respects net earned premiums in the quarter. Net earned was down 14% due to the sale of Heartland and the accompanying loss portfolio transfer of this business from the insurance segment to the reinsurance segment. Again, excluding Heartland, earned premium was up 14%, which is directionally similar to the trend in net written premium, however it slightly lags due to the significant growth in the portfolio over the past couple of years.

Turning to the combined ratio, the GAAP combined ratio for the year, again excluding Heartland, was 116%. As we look back on 2016, there are two notable impacts to our performance. First was the prior-year development of various run-off books of business, principally related to construction defect exposures that contributed 14 points to our loss ratio. Second, the insurance results were impacted by a year of significant cat events across North America, from the Fort McMurray wildfire, a number of Texas hail events, the worst experienced over three decades, and finally Hurricane Matthew. These cat events contributed slightly more than 4 points to our loss ratio in 2016.

Taking a look at the attritional results, the ongoing global insurance operations delivered a 97.9% combined ratio for the year, in line with our expectations, however elevated from the 93.4% attritional from 2015. Let me break out some of the factors driving this increase.

First, our expense ratio was 29.9% for the year, which, again, is inclusive of the expenses associated with the buildout of our US and Lloyd platforms and is expected to moderate as we continue our expansion.

It should be noted that this expense ratio remained very competitive within the specialty P&C environment.

Second, for the full year, the loss and the loss expense ratio was 68% compared to 67.1% in 2015. A slight deterioration in the attritional loss ratio for the year is attributable to a number of factors. Predominant among these are the adverse impacts of various non-cat weather events in 2016, a slight deterioration in our US auto book, and also some additional pressure on the loss ratio due to the growth in our A&H segment, which carries a higher loss ratio than our P&C products. That stated, we are very pleased with the ultimate result of this book.

Let me now turn to offer some commentary on the performance of our major insurance portfolios, again, starting with the North American P&C book, which is our largest business. Year over year, the core P&C portfolio grew 15% or nearly $174 million. The momentum was in our P&C operations, steadily increased throughout the year, again reflective of our significantly enhanced underwriting capabilities and increased market profile. In fact, the fourth quarter represented the strongest performance of the year, registering growth of 21% compared to the comparable quarter in 2015. We experienced meaningful growth in our short tail portfolios and our casualty lines, while specialty grew more moderately.

Further, our new business lines that launched in the US again contributed nearly 11% to gross written premium in the quarter, a similar figure to last quarter.

Our Accident and Health group also delivered another solid quarter of growth with a 44% increase over the prior year comparable quarter. Our efforts to thoughtfully grow our medical stop-loss segment within key geographies in business segments proved successful. Our new A&H products also contributed to growth throughout the year, and we anticipate this to continue. We have recruited very capable distribution partners and as a result expect to grow in the senior market segment into 2017.

Our Lloyd's operation also continued its expansion. The syndicate contributed $10 million to insurance growth in the quarter, building on the momentum from the third quarter. While still early in its growth cycle, this platform, despite the difficult trading environment, is performing as expected. For 2016, the Syndicate has delivered $45 million of premium to the insurance segment, yet only $16 million of earned premium, which, again, temporarily impacts the expense ratio.

Turning to the operating environment, we see a similar picture to what we experienced throughout much of 2016. With that stated, there is an early emergence of some trends within various lines of business that we're watching closely. I will comment on the dominant lines of business, starting with commercial auto, which continues to be a challenging line of business.

Building on the prior three quarters of 2015, we again achieved positive rate across commercial auto lines with a low double-digit mean increase for the quarter. Over 85% of our book is receiving rate increases in an attempt to address the frequency and severity trends that we have experienced across the line. That stated, our exposure to commercial auto is somewhat limited, and this line of business represents less than 5% of our overall P&C premium.

The primary general liability and umbrella markets continue to remain in a tight rate range and are slightly positive for the year. As with the prior quarter and really all year, the professional liability market remains competitive with rate decreases in the mid-single-digit range.

Let me spend a minute on the US property market. This market remains very competitive. However, it is our sense that the market is trying to find the bottom on rates. The elevated frequency of natural catastrophe losses are acting as a resistance toward continued large decreases. Further, in many occupancies and geographies, we believe the industry has reached the juncture that there is simply no additional rate reduction to be had. Perhaps this is driving the exit of some capacity from the space, but we feel there's a large story here that we will keep an eye on as we move forward.

That stated, we continue to find opportunities to deploy our capacity in a manner that meets our risk and return objectives.

Finally, worker's compensation -- our largest line of business by premium size -- has experienced moderate rate pressure throughout the year in the mid-single-digit range, which was largely expected. The favorable underwriting results in the largest work comp market, California, were greeted with steady rate pressure throughout the year. Other markets reacted similarly, although with moderately less rate pressure. So, again, the environment trended predictably in 2016, and we expect much of the same with the exceptions noted in 2017.

Wrapping up, we are very pleased with the many efforts undertaken in 2016 to position us for future success. We entered 2017 with our leadership team in place, our market profile expanding, a portfolio aligned to our business objectives, and a significantly enhanced operating platform. We're confident we will carry our strong top-line momentum into 2017 as our many new underwriting initiatives continue to gain scale both within North America and at Lloyd's. Yes, it remains a challenged operating environment, yet the growing diversity of our platform, again with the top line expanding by over 20% and a firmer handle on our existing portfolio, positions us well for the future.

With that, let me turn it back over to Beth for Q&A.

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

Thank you. That ends our prepared remarks, and we are now open for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Elyse Greenspan.

Elyse Greenspan - *Wells Fargo Securities, LLC - Analyst*

First off, if you could just spend a little bit more time just -- I know throughout, you guys have said that you booked some of these insurance programs following on the reserve review kind of to give you confidence that you fully addressed this. What are you booking on the construction liability and umbrella programs to, and what really changed this year that gives you confidence that 12 months from today we won't see another charge stemming from some of these one-off programs again?

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

Elyse, this is Dom. Thank you for your question. I think each year when we have examined these portfolios, we have been booking to what I would call the expected result from our actuarial review, and I will ask Craig or someone else to comment on what we're actually booking it to. I didn't know if your question was a loss ratio question, which I don't really think is relevant, but perhaps this answers it.

This year, after undertaking that reserve review, frankly, we asked ourselves the same question. We don't want to be sitting here next year and the year after and taking another charge. Of course, what drove the higher estimate this year was just an increase of the frequency and severity -- an increase in frequency and severity. So hopefully combat this and this year we selected in the upper range of the actuarial estimates. So, therefore, we have some confidence that -- it's never an absolute, but, of course, therefore, we have some confidence that this should be behind us.

And, again, keep in mind, this is in the overall context of our overall reserve position. And I know I sound like a broken record, but we have over 200 different reserve buckets, and what we are most concerned about is our overall reserve adequacy at the balance sheet level because this is clearly runoff business. This is not a concern over our existing portfolio. And as evidenced by the reserve release we had this year, in addition to other years, you can see that our overall reserve position is solid and, in fact, was redundant. So that's what we are most concerned about. But to answer your more specific question, this year we are going a little higher in the range to give us comfort that we can hopefully put this to bed.

Elyse Greenspan - *Wells Fargo Securities, LLC - Analyst*

Okay. And then if we think about the margin outlook for your segments, I know within the commentary you guys pointed on the property reinsurance side as (inaudible) about 1 point on the combined ratio. How do you see the overall reinsurance margin just in context of tying in what you see on the casualty side? And also do -- I guess we should expect some kind of slippage on the combined ratio as you bring the crop business to the reinsurance side. I'm just trying to tie all your commentary together to really how you see on the margin profile, the reinsurance book in 2017.

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

Well, what we've been trying to -- the message we've been trying to make sure everyone understands is that this is a book of business that is not dependent upon property cat business, and of course, what we've seen in our margins has been some shift in the attritional, and that shift in the attritional -- still we're getting improvements as a result of new products that we offer.

So, as John said highlighting in his comments, diversifying it to different product lines and geographies, more importantly product lines. So, for example, take credit reinsurance and more specifically mortgage reinsurance, those obviously are carrying much lower loss ratio pics and better combined ratios. So that helps them offset some of the declines and actually a business that we let go in the more traditional areas.

So we're not necessarily seeing any dramatic change in our attritional going into 2017.

Elyse Greenspan - *Wells Fargo Securities, LLC - Analyst*

Okay. And then in terms of just capital return, I know you guys have always said you look to return less than your earnings. Share repurchase, it seems like you guys did not buy back any stock since your last call. So how do you think about just the level of potential capital return for 2017 and anything that kind of changed on your capital return philosophy over the last three months?

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

No, nothing has changed, and part of the reason that you didn't see us do anything last quarter -- fourth quarter -- was the fact that we had Hurricane Matthew sitting out there, and clearly we had information -- precise information, so we have become a little reluctant to be buying any shares given the fact that there's major events hanging out there that we are not clear as to what the final outcome will be. So that's what was driving that.

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But certainly, there has been no change in our -- in the way we manage capital. We have a very good long-term track record of doing so.

That, of course, gets balanced with what we see as the future business opportunities and the need for capital. I think we've been -- yes, we buy in less than earnings, growing our capital base because we continue to see new opportunities, and that's -- and we look at this from a very long-term perspective. It's not just any one year or any one quarter for sure, and we will look out to more than just what our projections are for book value currently -- or the current book value, we will look out six months or so to determine what our threshold might be for buying in stock. Essentially -- that's a long way of saying no change in our philosophy now when we think about capital management.

Elyse Greenspan - *Wells Fargo Securities, LLC - Analyst*

Okay. Thank you very much.

Operator

Kai Pan, Morgan Stanley.

Kai Pan - *Morgan Stanley - Analyst*

First question on reserves. So the 2016 reserve release was actually the largest in your history. And Dom, you mentioned that, since you came on board, you are taking probably a more conservative reserve stance. So, with that, the question is really, why now? Certainly big reserve releases because the -- they basically reserve cushion buildout. Over time now you had to release it. And also how sustainable is that reserve releases going forward?

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

Yes, Kai, I have said that for several years now that we've taken a more conservative view of picking the current loss year in terms of pick loss ratio. And that has, frankly, driven out of some uncertainty as to -- in the current market conditions -- an increased level of uncertainty. But that, of course, has resulted in some of those older years coming in positively, and that view is a good thing.

What we tend to do is we handle the casualty and the property. We hold a couple of years on casualty studies, and we hold less years on the property side. So this release reflects a release from a few years ago -- from accident years a few years ago. And that will -- that is kind of the process that we go through, and we will continue to go down that path.

Our current -- we still continue to feel that our current reserve position is very strong and adequate, and I can't sit here and get a prediction as to what the level of reserve releases are not and might be into the future. But, as I said, we still remain very confident about our reserve positions.

Kai Pan - *Morgan Stanley - Analyst*

So the release is mostly related to short tail lines and larger years and not some of the potentially long tail lines you have booked since 2010?

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

I'm sorry. Could you repeat that? You broke up a little bit on that question.

Kai Pan - *Morgan Stanley - Analyst*

I'm sorry. The question was, is that the reserve releases mostly related to short tail line of business rather than some long tail line?

Craig Howie - *Everest Re Group, Ltd. - EVP and CFO*

Kai, the process has not changed over the years. As Dom mentioned, what we do is we have set a conservative loss pick, and then over time we are slow to react to any favorable development, but we are very quick to react to any unfavorable development.

So what you are seeing right now, most of what was released at this point in time, our short tail business in more than two years ago, short tail lines and property lines of business, was the majority of what was released.

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

But there was some casualty in there.

Craig Howie - *Everest Re Group, Ltd. - EVP and CFO*

There was.

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

And I should also mention because I know there's been a lot of focus on the insurance as we had to make, but it should be noted that we did have some -- the current book of business within insurance actually did produce redundancy coming through the results in 2016. Net net, it was a reserve add because of the construction defect and umbrella that we highlighted earlier, but it should be pointed out that the current book of business is beginning to produce some releases.

Kai Pan - *Morgan Stanley - Analyst*

Great. Then second question on the insurance side, the 2016 attritional combined ratio is 97.9%. I just wonder, given your gross projection, you're still growing the business, expense ratio probably still a little bit elevated, and then there is a business mix shift, some potential to a higher combined ratio. So, do you see 2017, 2018 this attrition loss combined ratio going to improve or going to deteriorate before becoming improving?

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

Our expectation is that it would improve. Again -- just to highlight again the things that -- why it came in at that level. It had -- some of it was A&H, the growth rate in A&H relative to some of the other lines. We had some non-cat-- a heightened level of non-cat cat events in 2016 which drove that. We had a little bit of auto frequency and severity that drove that, which, as Jonathan highlighted, we've got lots of rate increase coming on that line of business, and the earned premium catch-up to the written should begin to benefit the results.

The expense ratio hasn't improved yet because we have actually accelerated some of our business development efforts later in 2016, more so than we anticipated that we would do. All a good thing, but I would have expected the expense ratio to improve by now, but it hasn't because of an up level of investment relative to our initial plans.

Kai Pan - *Morgan Stanley - Analyst*

Great. Well, thank you so much for all the answers.

Operator

Sarah DeWitt, JPMorgan.

Sarah DeWitt - *JPMorgan - Analyst*

Hey. Good morning and congrats on a good quarter. Just following up on the insurance business, what do you view as the underlying run rate combined ratio in the quarter ex some of these one-time items that you outlined?

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

For 2016, it would have been in the mid-90s%.

Sarah DeWitt - *JPMorgan - Analyst*

And is that in line with your target combined ratios in the segment, or do you target something lower?

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

We will be continuing to target something lower than that. We would expect improvement in that over time.

Sarah DeWitt - *JPMorgan - Analyst*

Okay. And then secondly, just wanted to talk and get your thoughts on some of the macro issues following the US election. If we got US corporate tax reform, how much would Everest Re benefit, and are there any implications from border adjustment for Everest Re?

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

I know this is a question that is hot on everybody's mind, but it's a little difficult not knowing what the final outcome will be to give you any view. But let me just say this, for the last two years, there really wouldn't -- if you take in the lower tax rate plus the cross-border tax adjustment, it would have been very minimal impact if any on our overall effective tax rate in the last two years.

The bigger question comes in a year where cat losses are not expected or maybe even higher-than-expected. That's the great unknown. But we have got different platforms globally that we could trigger, different ways in which we could -- where we underwrite business. So it's not -- I can't give you a clear answer on that, other than the fact that we don't think that would have any meaningful impact at this point.

Sarah DeWitt - *JPMorgan - Analyst*

Okay. Great. Thank you.

Operator

Josh Shanker, Deutsche Bank.

Josh Shanker - *Deutsche Bank - Analyst*

I wonder if we can talk in numbers about bridging the expense to build out the insurance price in Lloyd's and whatnot and a timeline for what we think that should be in 2017, and should it even be there at all in 2018?

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

It won't be there at all in 2018.

Josh Shanker - *Deutsche Bank - Analyst*

The increased expense spend associated with the buildout?

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

Is that a Lloyd's question or an overall insurance question?

Josh Shanker - *Deutsche Bank - Analyst*

It's the 300 basis point gap between the 2016 expense ratio and the 2015 expense ratio, and I take -- I understand your reasons behind that. I'm wondering how long I should model that to persist?

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

Oh, okay. I would expect that to drift down slightly in 2017 and then, frankly, level out maybe -- and slightly again in 2018 but then level out from there. I don't believe that we will get back to our historical expense ratio. You have to remember that we now have a different distribution model. So, previously, we were primarily an MGA-focused insurance operation. Today we are more of a direct brokerage operation, which by definition if we are getting even the commission element of it, just the general expense ratio element of it requires different types of resources and different systems. So it will not get back to maybe what you would have seen historically from us.

Having said that, I think if you -- our expectation would be as we, even today, we have a much better expense ratio than the industry, we expect that gap to remain.

Josh Shanker - *Deutsche Bank - Analyst*

Okay. And I'm going to go through the 4Q 2015 transcript again, read about the insurance reserve charge there. I can't remember exactly where the overlap is between where the charges were this quarter and where the charges were one year ago. Is there some whack-a-mole situation that while you have taken care of you think what is problematic that you saw in 2016, can there be other things that come out in 2017? Do we have some limits in place that give us specific comfort? Are you surprised one year later from the 2015 charge that you have these charges today?

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

We are always surprised because, if I said we weren't surprised, we would have put out a higher number back in 2015. Yes, it is a surprise. And with reserves, you never know what an increased level of frequency or severity might, in fact, do to you. But, as I mentioned, our other pieces of our portfolio that are active are, in fact, running at -- this past year, produced a redundancy. So we are confident that those reserves are, frankly, in good order. But, again, in the context of our overall balance sheet, our reserve position is quite strong. And I think that applies to the various segments as well, even though I know I keep emphasizing the overall balance sheet, which is important and worth emphasizing, we do want to go through each of our segments to make sure that we have got positive reserve or a strong reserve position in each of those segments.

Josh Shanker - *Deutsche Bank - Analyst*

And then, finally, I guess in terms of the Heartland premium coming in to the reinsurance segment, given that you have sort of explained the economics of Heartland as insurance contract, how different are the economics of it as a reinsurance contract?

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

I will let John answer that.

John Doucette - *Everest Re Group, Ltd. - EVP and President and CEO of the Reinsurance Division*

Good morning. This is John. So, a couple of things. The strategic relationship we entered as a reinsurance opportunity with the buyer of Heartland has a couple of advantages for us. First of all, it runs, we believe, to a meaningful improvement in expenses. And because of just economies of scale that we were unable to achieve on our own book given the size of the premium.

And then secondly, we also had struggled in our insurance book to develop a broad, diversified portfolio. And so individual localized weather events were causing more problems for us and caused more volatility in the book as an insurance play. What we're going to get is the benefit of a much, much larger book -- a share of that book on a reinsurance quota share basis. So we think we're going to run to a better combined ratio meaningfully, and we think there's going to be less volatility in the results.

Josh Shanker - *Deutsche Bank - Analyst*

One of your competitors in the crop business has said this is a 89%, 90% combined ratio business. Do you think that's adequate or fair?

John Doucette - *Everest Re Group, Ltd. - EVP and President and CEO of the Reinsurance Division*

I don't know specifically what you're talking about and if you're talking about it as an insurance play or as a reinsurance play. We would think as a reinsurance play, it's low 90s%.

Josh Shanker - *Deutsche Bank - Analyst*

Okay. That's excellent. Thank you for the color.

Operator

Quentin McMillan, KBW.

Quentin McMillan - *KBW - Analyst*

I just wanted to tie together something that you historically said versus what we saw today. So, Dom, you mentioned that 2016 is a heightened year of cat loss activity. You had a little over $300 million in cat losses on a net basis, and then I think Craig mentioned $420 million on a gross basis when we net out prior-year cat losses. But that $300 million number, it's about -- it's a little under 6 points on the cat loss ratio. And historically you guys have said that you expect about 10 points of cat losses in a normal year. So can you help to tie those thoughts together of this being a heightened loss year, yet you were running much better than what that cat loss would indicate?

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

I'm actually going to ask -- I'm going to make a few comments and then ask John to set the comment on it as well. But also -- but keep in mind that, yes, it was a heightened year. Many of the losses, though, were low on the attachment point. A lot of the losses were assumed by primary, and what is consistent with what we've said is through all the last couple of years, given risk-adjusted pricing -- in order to maintain our level of risk-adjusted pricing, we have moved attachment point, gotten off of certain things that we didn't like the pricing on, and we believe that that has had an impact on our result relative to what the overall levels of tax were in the industry. So I think that's just the general comment, and maybe John Doucette might have some -- something to add to that.

John Doucette - *Everest Re Group, Ltd. - EVP and President and CEO of the Reinsurance Division*

Yes, Quentin, I think a couple of things. The reinsurance strategy, we continue to look to how we can improve the book and deploy and take cat risk better and deploy it and build a better and better portfolio. And taking into account market conditions but also the buying habits of global companies, regional companies, and global clients.

So to the extent that we -- the global -- take the global clients. To the extent that they are looking to do more across the board and across multiple lines of business and multiple territories with companies like Everest, we are deploying more cat capacity to them. And that usually means given the retentions that they want to take in order to control the pricing of the reinsurance program, they typically are protecting against the real major losses. Very big earthquakes, very big hurricanes, etc. And so that wouldn't necessarily impact us as much in a year like this with the exception of Canadian wildfires and Hurricane Matthew.

And then we also -- as Dom said, we are trying to shift our book, and we have been moving not in every case, but generally, we have been moving up the tower. That also means it takes larger losses to affect us. But then I would also highlight the different hedges that we have in place, including Mt. Logan, and Mt. Logan continues to be a strategic platform for Everest, and we saw some benefits from that in 2016 with recoveries that we saw from both Matthew and Fort McMurray wildfire losses in Canada, as well as some other smaller losses around the group. So we think that that helps mitigate some of the cat loss activity that Everest faces on its inward book of business through the various hedges that we have in place as well.

Quentin McMillan - *KBW - Analyst*

Great. That's very helpful. And just on a capital-related question, you guys paid out about 60% in the form of dividends and share repurchase, and I know you don't have a specific capital plan that you're going to guide us to. But how much of the remaining 40% of the operating earnings that you produced was used to fund the strong growth in the insurance segment this year on Jonathan's side?

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

I'm going to answer that as really an overall question as opposed to specifically to insurance. Overall, we still have about the same level of what we call excess excess capital, and so all of the metrics that we use to measure what our economic capital needs to be remain about the same. So that capital growth basically is supporting all of the lines of business, both insurance and reinsurance. Remembering that we're doing some different things on the reinsurance side that consume different levels of capital.

Quentin McMillan - *KBW - Analyst*

Okay. Very helpful. And then sorry just to sneak a last in in terms of the investment portfolio, obviously, there was a big move, and you guys did have mark-to-market losses. Everybody did unrealized loss as everybody did in the quarter. But the yield in the portfolio looked like it ticked up a little bit. Did you guys shift anything around, and can you just talk about what the new money yield is versus where they -- I believe Craig said the portfolio pretax yield currently is 2.8%, so maybe versus that currently?

Craig Howie - *Everest Re Group, Ltd. - EVP and CFO*

This is Craig. We did not make much of a shift. What we did do was shift it a little bit, as I mentioned, last quarter and within the alternative capital or alternative investment buckets. But overall, the portfolio remains very stable, very high credit quality, investment-grade bonds, and it makes up the majority of the portfolio and then we have alternative investments.

The new money rate that you are suggesting is about the same -- about 2.8% compared to what the current yield is at 2.8% as well.

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

In return, the yield that you're referencing is essentially what happened in the fourth quarter -- it all depends on timing of the limited partnership and alternative investment income. And that can get a little lumpy. So we are pleased that, frankly, year-over-year investment income was flat. We think that was a pretty terrific outcome.

Quentin McMillan - *KBW - Analyst*

Perfect. Thanks very much, guys.

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

We're going to expand a little bit. Right now, we're running over. But perhaps we got a little wordy in our opening remarks. So we'll extend beyond our usual hour, and if there's one of two more questions that perhaps we can entertain? I'm sure you won't mind.

Operator

Jay Gelb, Barclays.

Jay Gelb - *Barclays Capital - Analyst*

I was hoping you could comment on the M&A environment broadly within insurance and reinsurance and any update on Everest's view on consolidation. Thanks.

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

Well, I still think the same factors are at play. Scale, being one of the more relevant factors, continues to put pressure on many of our competitors to seek partners, and that's not necessarily a bad thing. And I think that will continue to be the trend going forward: scale and efficiency.

For us, as you know, our strategy remains the same. We are not a big fan of putting a ton of goodwill on the books, and frankly, acquisitions are difficult to -- in our view, others have -- certainly could have a different business model, but in our view, acquisitions are difficult to assimilate and with it comes perhaps elements of the portfolio that you don't wish to be engaged in, that requires some remediation, and we think it's a lot cleaner to get the talent that we think we can secure. We have good talent and build out the portfolio in the matter and shape that we feel is most desirable. So that is kind of our continued strategy.

If there are things that we don't think we can build out on our own successfully, meaning elements of the different lines of business, very focused areas, we continue to look at things, but I'm not giving it a high likelihood that would be -- we would see something in that regard. But I wouldn't rule it out completely.

Jay Gelb - *Barclays Capital - Analyst*

Thank you.

Operator

Brian Meredith, UBS.

Brian Meredith - *UBS - Analyst*

Just two questions here for you. First, Dom, John, do you have any exposure to changes -- potential changes in the Ogden rate table?

John Doucette - *Everest Re Group, Ltd. - EVP and President and CEO of the Reinsurance Division*

Brian, I think you said the Ogden rate table. (multiple speakers) You broke up a little bit, yes. So we write business all over the world. We write a very little bit of motor business. In the context of our overall over $4 billion of premium, it's not material to us. So the short answer to your question is we watch that. We look at the rates. We are probably a little less -- we are probably a little more pessimistic on that over the last couple of years. So we have not deployed that much capital in that respective area. So we do not think it's material to us.

Brian Meredith - *UBS - Analyst*

Great. Thanks. And last question, John, I was intrigued by your comment that you said that you are exploring new structures. It will strengthen core client relationships well into the future. Are you referring to new multiyear reinsurance agreements? Can you give us some examples of what you're talking about?

John Doucette - *Everest Re Group, Ltd. - EVP and President and CEO of the Reinsurance Division*

So we have -- it really applies to a lot of different things. It applies to strategic relationships that we are trying to build with some of our core clients. We have added some of those in 2016. We have somewhere between a half a dozen and a dozen of these core strategic relationships. We are looking to expand that and continue to deploy that where we really become a strategic partner to the clients and not just a large reinsurer to them, and that has worked out very well for us. We continue to deploy and really holistically deploy capacity with the global clients, and we see that as a big opportunity for us in the future as they want to trade more with companies like Everest and less with others, either because of too much concentration with some of the big directs or they want to narrow their reinsurance panels. We're spending more time really strategizing about how we -- as one of the very largest broker market reinsurers, how we can grow more with the brokers in the reinsurance area, and we think that's something that will be to the benefit of both of us, and we expect to continue to make headway on that in different products that they have, different initiatives and different strategies with that going forward.

And then, frankly, just a lot of these new alternative -- really building out what we call the nontraditional space, where there is a product -- new products, new distribution, new clients -- and we're making some good headway there both hiring people, developing resources internally, and have had recently some few nice wins in that space, and we look to continue to deploy that going forward.

Brian Meredith - *UBS - Analyst*

Great. Thanks for the answer.

Dom Addesso - *Everest Re Group, Ltd. - President and CEO*

Thank you, Brian, and thanks to all for participating in this morning's call. Apologies for going a little longer, but we had questions in queue. We obviously were pleased with our performance this past year, and we recognized as do you that it's a very challenging market. But we're still quite confident that we can outperform on an absolute -- on a relative basis and an absolute basis. My colleagues here this morning outlined some of the new things we are doing, and I have highlighted our balance sheet strength, reserve position which certainly bodes well for the future.

So we are very confident that we can continue to perform well, and that is not without taking an increased level of risk. It is continuing to do what we do. It is to underwrite through the different parts of the cycle and diversifying. Diversifying into new products and new areas and continue to expand our franchise. In particular, expand the insurance franchise, which we think is one of the ways forward, as well as product diversification on the reinsurance side.

So thank you very much for your interest and your participation this morning. We look forward to seeing you probably over the next several weeks. Thank you.

Operator

This does conclude today's program. Thank you for your participation. You may disconnect at any time.
