MOODY'S INVESTORS SERVICE

CREDIT OPINION

12 December 2022

Update

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RATINGS

Everen Limited

Domicile	Bermuda
Long Term Rating	A2
Type	Insurance Financial Strength - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

James Eck +1.212.553.4438
VP-Sr Credit Officer
james.eck@moodys.com

Connor Castaldo +1.212.553.3572
Associate Analyst
connor.castaldo@moodys.com

Sarah Hibler +1.212.553.4912
Associate Managing Director
sarah.hibler@moodys.com

Everen Limited

Unique structural features enhance credit profile

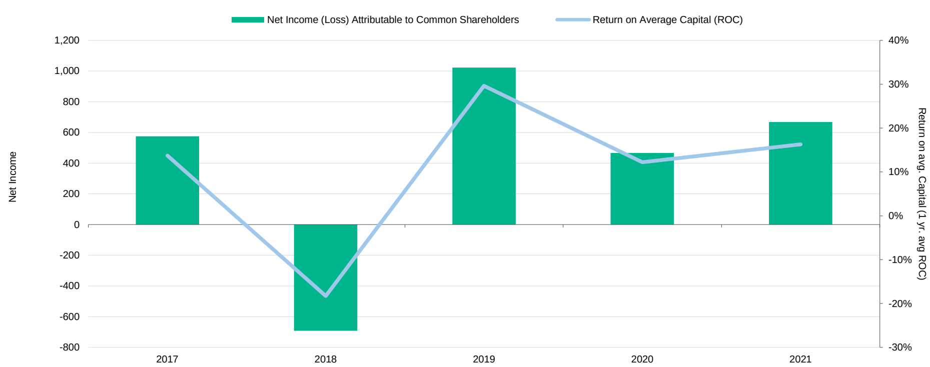
Summary

Our credit view of Everen Limited (Everen - insurance financial strength (IFS) rating A2 stable), formerly known as Oil Insurance Limited, reflects the mutual insurance company's unique structural features which include a retrospective loss recovery funding mechanism and strong membership support from many of the world's leading energy companies, as well as the firm's strong capital base, good geographic diversification, efficient operations and its strong internal liquidity profile. Tempering these strengths are the insurer's significant exposures to large claims associated with man-made and natural catastrophes, its moderate product and client diversification relative to other specialty insurers, as well as the potential volatility associated with its investment portfolio, which has a high weighting of common equities and alternative investments relative to most other traditional property & casualty insurers and reinsurers.

During the first nine months of 2022, Everen reported a net loss of $421 million, reflecting an underwriting profit of $372 million and $814 million in realized and unrealized investment losses, compared to net income of $333 million that included $248 million in realized and unrealized investment gains in the prior year period.

Exhibit 1

Everen Limited's reported profitability has exhibited some volatility in recent years



Source: Company reports, Moody's Investors Service

Credit strengths

» Unique franchise as mutual insurer serving the global energy industry

» Retrospective rating plan and loss recovery mechanisms, together with an overall strong membership credit profile, help secure capitalization and liquidity

» Low cost and efficient operations, ample liquidity and strong capitalization

» A significant portion of future premiums receivable are recorded as capital and surplus for Bermuda regulatory purposes

Credit challenges

» Significant catastrophe exposures, primarily arising from high value facility explosions and fires as well as natural catastrophe events globally

» Moderate product and client diversification relative to other specialty insurers

» Energy industry concentration of membership results in the aggregation of somewhat correlated credit risks, which, under extreme stress scenarios, could impair post-loss recovery mechanism

» Substantial equity/alternatives investment allocation can lead to volatility in investment returns and capitalization

Outlook

The outlook for Everen's A2 insurance financial strength rating is stable.

Factors that could lead to an upgrade

Given Everen's current rating and its business and financial profile, there is limited potential for upward rating movement. However, we would view a material reduction in the firm's high risk assets (equities/alternatives and speculative grade bonds) as a percentage of shareholders' equity as an enhancement to the firm's overall credit profile.

Factors that could lead to a downgrade

» A decline in shareholders' equity of more than 20% over a 12 month period (exclusive of underwriting losses)

» Any breakdown in the company's post-loss premium recovery mechanism

» A significant reduction in the number of Members or their weighted average credit rating

Key indicators

Exhibit 2

Everen Limited [1][2]	2021	2020	2019	2018	2017
As Reported (US Dollar Millions)					
Total Assets	6,459	6,995	6,592	6,318	7,324
Total Shareholders' Equity	4,242	3,955	3,688	3,210	4,351
Net Income (Loss) Attributable to Common Shareholders	667	467	1,022	(691)	575
Gross Premiums Written	600	517	478	379	396
Net Premiums Written	600	517	478	379	396
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	75.7%	78.6%	80.0%	90.5%	79.5%
Reinsurance Recoverable % Shareholders' Equity	2.8%	1.7%	0.8%	0.8%	0.0%
Goodwill & Intangibles % Shareholders' Equity	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Underwriting Leverage	0.6x	0.7x	0.8x	1.0x	0.7x
Return on Average Capital (ROC)	16.3%	12.2%	29.6%	-18.3%	13.7%
Sharpe Ratio of ROC (5 yr.)	60.8%	48.3%	34.5%	24.9%	142.6%
Adv. (Fav.) Loss Dev. % Beg. Reserves	-24.7%	-9.7%	-7.0%	-2.7%	-3.2%
Adjusted Financial Leverage	0.0%	0.0%	0.0%	4.6%	3.4%
Total Leverage	0.0%	0.0%	0.0%	9.1%	6.7%
Earnings Coverage	NM	NM	56.8x	-41.8x	45.4x

[1] Information based on US GAAP financial statements as of the fiscal year ended 31 December. [2] Certain items may have been relabeled and/or reclassified for global consistency.
Source: Moody's Investors Service

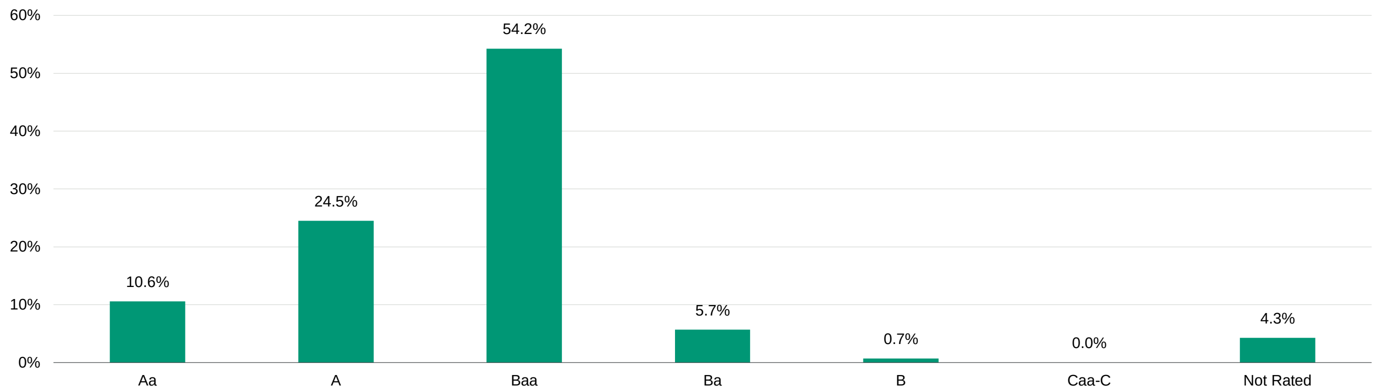
Profile

Established in 1971, Everen (formerly known as Oil Insurance Limited) is a mutual insurer that provides property, well control, non-gradual pollution liability, windstorm, terrorism, cyber terrorism, construction and cargo insurance to 64 energy companies located in the United States, Canada, Australia, Europe, Latin America and Asia. Everen offers insurance limits of up to $450 million on a per occurrence basis and $1.35 billion on an aggregate basis for multiple policyholder claims arising out of one event (for non-Atlantic named windstorm events). Effective January 1, 2018, Everen discontinued writing Offshore Gulf of Mexico windstorm coverage. The company continues to offer windstorm coverage in all other onshore and offshore areas of the Atlantic Basin and the world.

Everen's post-loss premium plan results in a credit profile similar to that of a collateralized debt obligation in that Everen's policyholders and creditors bear the senior unsecured credit risk of the Member companies. Additionally, Everen's credit profile is enhanced by the ability of the company's board of directors to allocate any unpaid obligations from defaulting Members to the remaining Members. As a result, the mutualization of losses on an effectively "joint and several-like" basis greatly reduces the likelihood of a credit loss.

Everen's membership base is heavily skewed toward higher credit quality companies within the energy sector. The weighted average credit rating of Everen's members was approximately Baa1 with about 89% of Everen's insured exposure (and source of future premiums) derived from members with investment grade debt ratings (Exhibit 3).

Exhibit 3
Credit ratings of Everen's members is skewed heavily toward investment grade
Everen Limited: weighted average credit rating of members



Moody's ratings as of November 18, 2022
Source: Moody's Investors Service

Detailed credit considerations

Moody's rates Everen A2 for insurance financial strength, which is in line with the adjusted scorecard-indicated outcome produced by Moody's insurance financial strength rating scorecard (Exhibit 6).

Insurance Financial Strength Rating

The key factors influencing the ratings and outlook are:

Market position, brand and distribution: Unique franchise and large limits provide cornerstone insurance capacity for members

As a result of Everen's focused strategy as a mutual insurer to the energy industry, the company's market position is modest relative to most of its Bermuda peers in terms of net premiums written. However, Everen provides some of the largest limits in the energy insurance market (up to $450 million per occurrence for non-Atlantic Named Windstorm events) and the company's client base is comprised solely of its members, who value the large and stable capacity provided by the company to serve as a "cornerstone" around which to build their risk management programs.

While Everen has historically placed its coverage directly with its members, the company has established close relationships with the brokerage community as part of its strategy to broaden its marketing and distribution channels in an effort to attract high quality global members. Moody's believes the alignment of long-term interests between the company and its member/shareholders is unusually strong relative to its commercial market peers, which enhances the company's market position. As such, we view the company market position and brand in line with A-rated reinsurers rather than the unadjusted Baa scorecard metric.

Business and geographic diversification: Energy industry focus limits diversification

Everen's insurance products include property (physical damage), windstorm, non-gradual pollution liability, control of well, terrorism, cyber terrorism, construction and cargo coverages for its energy industry membership base. Moody's views the company's product mix as having the potential to produce highly volatile results, with large losses arising from hurricanes, floods and explosions/fires at high value facilities. While product and client diversification is relatively low, geographic diversification is good, as the company insures property exposures located throughout the world. Given the company's product concentration, we view this factor in line with Baa-rated reinsurers as compared to the unadjusted A scorecard metric.

Asset quality: Significant equities/alternatives allocation contributes to earnings and capital volatility

Everen's investment strategy is designed to provide strong short-term liquidity and ensure long-term capital appreciation. To this end, Everen's bond portfolio (mainly high investment-grade credits) and cash position support reserves and annual expected claims while equity and alternative investments support the firm's capital growth. While this strategy has produced superior long-term investment returns, it can also result in meaningful earnings and capital volatility during market downturns.

At year-end 2021, Everen had approximately $6.2 billion of investments and cash. Fixed income securities and cash represented approximately 52% of total invested assets, while equity securities and other investments represented the remaining 48%. Everen’s fixed income portfolio is of good credit quality, with 63.6% rated in the A range or higher, 26.7% in the Baa range and 9.7% below investment grade/not rated at year-end 2021. Total high-risk assets at year-end 2021 (including equities, below investment grade bonds, alternative investments and other invested assets) were approximately 52% of total invested assets and approximately 76% of adjusted shareholders' equity, which is higher than most of its similarly-rated peers.

Everen has not historically used reinsurance to supplement its capital position. At year-end 2021, there were no “traditional” reinsurance recoverables on the balance sheet, though we do consider $121 million of retrospective premiums receivable to be akin to reinsurance recoverables in our calculation of reinsurance recoverables as a percentage of adjusted shareholders’ equity. While presenting modest credit risk, the future contractually obligated premium receivables from its members are off balance sheet. Given the level of high risk assets, we view asset quality in line with A-rated reinsurers as compared to the unadjusted Aa scorecard metric.

Capital adequacy: Strong capital position and loss recovery mechanism provide balance to significant catastrophe and large loss exposures

At year-end 2021, Everen’s gross underwriting leverage was approximately 0.6x, which Moody’s considers to be low relative to the current rating and the company’s business mix. We note that this metric can be volatile over time, depending on the extent of large losses (which impacts equity capital, loss reserves and future premium volumes) and investment performance.

Historically, Everen’s largest losses have arisen from hurricane damage to offshore energy platforms in the Gulf of Mexico. While the single event aggregation limit of $1.35 billion (lower for Atlantic hurricane events) is an important risk mitigant, the ability of the company to recover losses over a five year period in the form of higher future premiums is a unique feature that greatly enhances the firm’s capital adequacy. Effective January 1, 2018, Everen discontinued writing Offshore Gulf of Mexico windstorm coverage, which significantly reduces the firm’s exposure to hurricane losses. The company continues to offer windstorm coverage in all other onshore and offshore areas of the Atlantic Basin and the world.

Everen has received permission from the Bermuda Monetary Authority to record the estimated amount of the theoretical withdrawal premium due from existing members who have not elected to withdraw or redeem their shares in the company as statutory capital and surplus. At year-end 2021, the discounted value of the theoretical withdrawal premiums from current members with investment grade credit ratings was approximately $930 million. We view the company's capital adequacy in line with Aa-rated reinsurers rather than the unadjusted Aaa scorecard metric.

Profitability: Volatile short term returns reflect accounting treatment of unrealized gains/losses on investments and loss/ premium mismatch

Everen’s short-term profitability is highly volatile, and is heavily influenced by large loss activity and the ups and downs of the financial markets, as unrealized gains and losses flow through the income statement. Over the longer term, however, the company’s loss recovery mechanism through premium increases to recover all insured losses over a five year period serves to smooth the longer term results.

For the five years ended 2021, Everen’s average net income return on capital was 10.7%.

During 2021, Everen reported net income of $667 million, which included $360 million of realized and unrealized investment gains. During the first nine months of 2022, Everen reported a net loss of $421 million, reflecting an underwriting profit of $372 million and $814 million in realized and unrealized investment losses.

Given the firm's core earnings power, we view the company's profitability in line with A-rated reinsurers rather than the unadjusted Baa score in the rating scorecard

Reserve adequacy: Contractual recovery of losses removes reserve uncertainty over longer term

For the seven years ended 2022, Everen reported average favorable loss reserve development of 9.5%. Like its reported profitability, Everen's reserve position can be volatile – and large reserve charges or releases can occur in any given year. Moody's is generally not concerned with the year-to-year fluctuations, however, as any adverse case reserve development will ultimately be recovered through higher premiums in future years. This is an important feature that further insulates the company from the uncertainties associated with the loss reserving process.

Due to the existence of some long-tail exposures, we view the company's reserve adequacy to be in line with A-rated reinsurers rather than the unadjusted Aa score in the rating scorecard

Financial flexibility: No financial leverage, strong liquidity

Everen does not have any debt currently outstanding. The lack of financial leverage in the capital structure enhances the firm's financial flexibility. However, as a mutual company, Everen does not have the ability to raise equity capital.

Despite the firm's lack of financial leverage, the company's raw score for this metric is capped at A2 based on Bermuda's A2 sovereign debt rating.

During Q1 2022, Everen paid $350 million in dividends to its members (Full year 2021: $380 million). Dividends are typically paid to member shareholders when the company believes it has excess capital relative to its conservative capital management strategy that contains a sizable capital buffer to internally modeled stress scenarios.

Liquidity analysis

Everen maintains sufficient liquidity from its operating cash flows and high cash / short term investment balances ($902 million at year-end 2021) to finance claims payments. Everen has no debt outstanding.

ESG considerations

Everen Limited's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 4
ESG Credit Impact Score

CIS-3

Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

Everen Limited's ESG Credit Impact Score is moderately negative (**CIS-3**), reflecting the limited impact of environmental and social risks on the rating to date, with greater potential for physical climate risk to impact the rating over time. Everen's governance profile benefits from its mutual ownership structure and unique structural features which include a retrospective loss recovery funding mechanism that eliminates pricing and loss reserve risk over the long term.

Exhibit 5
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-4	S-3	G-2
Highly Negative	Moderately Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental
Everen's environmental risk is high, stemming primarily from physical climate risk globally. The frequency and severity of weather-related catastrophe events is increasing, but mitigants for Everen include its ability to recover prior losses through its retrospective rating plan, the exclusion of offshore Gulf of Mexico windstorm events, its strong diversification and its good capitalization. Everen also has exposure to carbon transition risk due to the firm's concentrated energy industry membership base with exposures to carbon-based sectors that face the prospect of having high cost assets stranded as renewable energy sources become a larger percentage of the global energy mix. However, many of Everen's members are investing significant amounts of capital into new energy technologies and renewable energy production assets that could mitigate this risk over time.

Social
Everen has moderate social risk, including low exposure to customer relations risk due to its focus on providing insurance to its members. Everen is exposed to certain demographic and societal trends, primarily through its non-gradual pollution liability exposures, where claims could be subject to rising jury awards and other forms of social inflation. Here, the company's retrospective rating and premium plan significantly mitigates the risk of permanent capital erosion from higher than expected losses as all insured losses incurred by the company are recouped over the next five years through premiums.

Governance
Everen has neutral to low governance risks. The firm's governance policies and its financial disclosure standards are in-line with many of its publicly-traded peers. Everen has a clear corporate and financial strategy and structural features that protect the company against tail risks, including explicit aggregate limits to losses arising from one event and the company's unique rating and premium plan which contractually recovers losses over a five year period through premium adjustments. The mutual ownership structure helps align the interests of policyholders/owners and company managers. Everen maintains a high weighting of equity securities and alternative investments relative to most property & casualty insurers. While this strategy has produced superior long-term investment returns, it can also result in meaningful earnings and capital volatility during market downturns.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Methodology and scorecard

Exhibit 6

Everen Limited

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								A	A
Market Position, Brand, and Distribution (20%)								Baa	A
-Relative Market Share Ratio						X			
-Direct Reinsurance Premiums % GPW	X								
Business and Geographic Diversification (15%)								A	Baa
-Business and Geographic Diversification			X						
Financial Profile								Aa	A
Asset Quality (10%)								Aa	A
-High Risk Assets % Shareholders' Equity			75.7%						
-Reinsurance Recoverable % Shareholders' Equity	2.8%								
-Goodwill & Intangibles % Shareholders' Equity	0.0%								
Capital Adequacy (20%)								Aaa	Aa
-Gross Underwriting Leverage	0.6x								
-Gross Natural Catastrophe Exposure	X								
-Net Natural Catastrophe Exposure	X								
Profitability (10%)								Baa	A
-Return on Capital (5 yr. avg.)		10.7%							
-Sharpe Ratio of ROC (5 yr.)					60.8%				
Reserve Adequacy (10%)								Aaa	A
-Adv. (Fav.) Loss Dev. % Beg. Reserves (7 yr. avg.)	-10.2%								
Financial Flexibility (15%)								A	A
-Adjusted Financial Leverage	0.0%								
-Total Leverage	0.0%								
-Earnings Coverage (5 yr. avg.)						NM			
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A1	A2

[1] Information based on US GAAP financial statements as of fiscal year ended December 31, 2021. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.

Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
EVEREN LIMITED	
Rating Outlook	STA
Insurance Financial Strength	A2

Source: Moody's Investors Service

Moody's related publications

P&C Insurance and State Government – US: Hurricane Ian hits insurers' Q3 earnings;capital erosion risk for some (re)insurers, Oct 2022

Reinsurance - Global: Alternative capital market poised to resume growth on higher reinsurance pricing, Sep 2022

Reinsurers diverge on property catastrophe coverage in Florida; higher pricing ahead, Sep 2022

Reinsurance — Global: Stronger earnings prospects and solid balance sheets underpin stable outlook, Sep 2022

Reinsurance — Global: Buyers' survey indicates claims inflation is driving reinsurance pricing momentum, Sep 2022

Munich Re, Swiss Re, Hannover Re, SCOR: Natural catastrophes and volatile markets weigh heavily on H1 results, Aug 2022

Reinsurance — US & Bermuda: Multiyear rate increases and low catastrophes lead to strong operating returns, Aug 2022

P&C Insurance — Global: Cyber insurers raise rates, narrow coverage as military conflict in Ukraine heightens risk, Jun 2022

Reinsurance — Global: Active Atlantic hurricane season ahead, Jun 2022

Reinsurance — Global: Catastrophe bond issuance remains healthy after record 2021 volume, Jun 2022

Lloyd's of London: Underwriting profitability improvements are sustainable, May 2022

Reinsurance — Europe: Q1 earnings hit by COVID-19 and Ukraine claims, premium growth still strong, May 2022

Reinsurance — US & Europe: Solid Q1 earnings with limited impact from military conflict in Ukraine, May 2022

Reinsurance — Global: Catastrophe PML disclosures show greater risk appetite as pricing moves higher, Mar 2022

Compilations

Reinsurance Monitor, Issue No. 49, September 2022

Reinsurance Monitor, Issue No. 48, June 2022

Rating methodology

Reinsurers Methodology, August 2022

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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