

Everest Re Group, Ltd. NYSE:RE

FQ3 2014 Earnings Call Transcripts

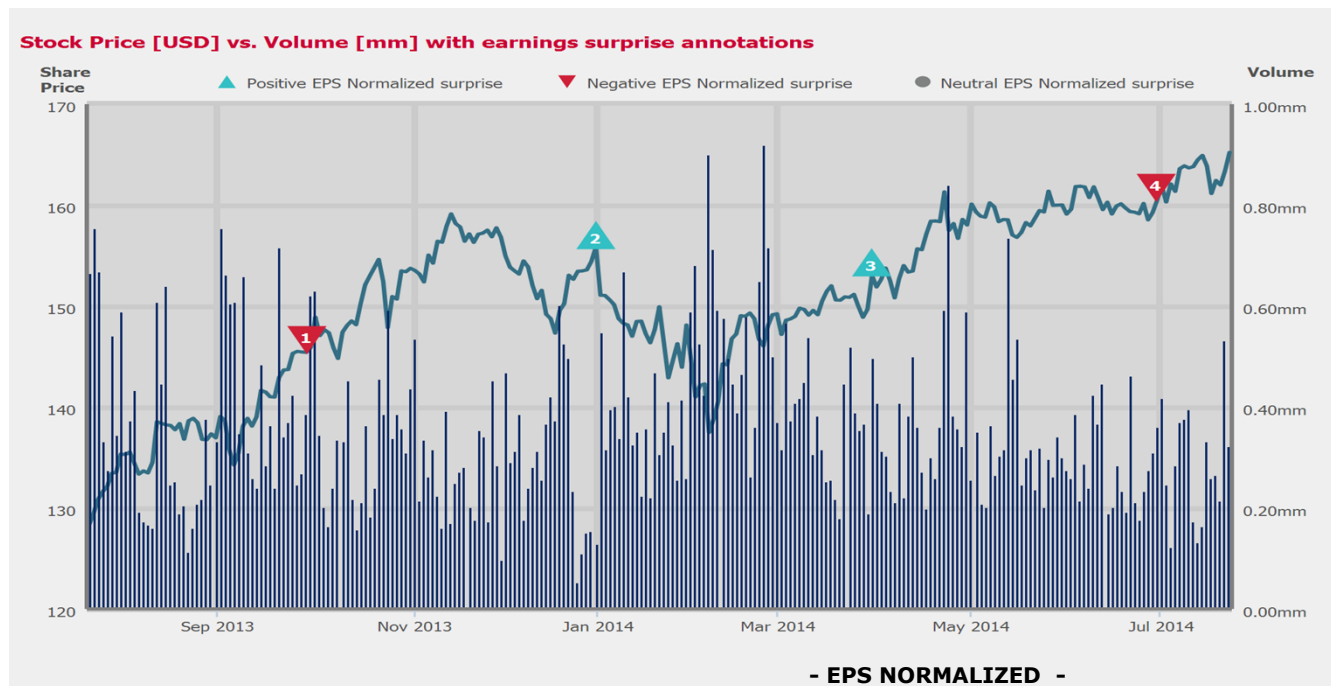
Thursday, October 23, 2014 2:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2014-			-FQ4 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	4.99	6.12	▲22.65	4.94	21.42	18.74
Revenue (mm)	1440.28	-	▲5.37	1301.70	5397.75	5561.57

Currency: USD

Consensus as of Oct-23-2014 5:00 AM GMT



	CONSENSUS	ACTUAL	SURPRISE
FQ3 2013	4.59	4.20	▼ (8.50 %)
FQ4 2013	4.98	6.28	▲26.10 %
FQ1 2014	5.31	5.93	▲11.68 %
FQ2 2014	5.89	5.41	▼ (8.15 %)

Call Participants

EXECUTIVES

Craig W. Howie

*Chief Financial Officer and
Executive Vice President*

Dominic James Addesso

*Chief Executive Officer, President
and Non-Independent Director*

Elizabeth B. Farrell

*Vice President of Investor
Relations*

John P. Doucette

*CEO & President of the
Reinsurance Division*

ANALYSTS

Amit Kumar

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Joshua David Shanker

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Morgan Stanley, Research Division

Meyer Shields

*Keefe, Bruyette, & Woods, Inc.,
Research Division*

Michael Steven Nannizzi

*Goldman Sachs Group Inc.,
Research Division*

Vinay Gerard Misquith

Evercore ISI, Research Division

Presentation

Operator

Good day, everyone. Welcome to the Third Quarter 2014 Earnings Call of Everest Re Group, Ltd. Today's conference is being recorded.

At this time, for opening remarks and introductions, I would like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead.

Elizabeth B. Farrell

Vice President of Investor Relations

Thank you, Kim. Good morning, and welcome to Everest Re Group's Third Quarter 2014 Earnings Conference Call. On the call with me today are Dom Addesso, the Company's President and Chief Executive Officer; John Doucette, our Chief Underwriting Officer; and Craig Howie, our Chief Financial Officer.

Before we begin, I will preface our comments by noting that our SEC filings include extensive disclosures with respect to forward-looking statements. In that regard, I note that statements made during today's call, which are forward-looking in nature, such as statements about projections, estimates, expectations and the like are subject to various risks. As you know, actual results could differ materially from current projections or expectations. Our SEC filings have a full listing of the risks that investors should consider in connection with such statements.

Now let me turn the call over to Dom.

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

Thanks, Beth. Good morning. We are pleased to report another very strong quarter. Operating earnings per share of \$6.12 is 46% above the prior year's third quarter, and on a year-to-date basis, the \$17.46 of operating earnings is 15% above the prior year pace. These operating results produced an operating ROE of 16%.

The lower level of cat losses versus last year in both the quarter and the year-to-date numbers was undoubtedly a contributor. However, it is important to highlight the fact that the attritional results remain quite strong. The underwriting income on a year-to-date basis, excluding cats, has risen to \$697 million from \$665 million in the prior year. This is a result of portfolio management, which includes diversification both by product and geography, shifts between pro rata in excess of loss, new products, changing attachment points to focus on the best-priced layers and finally, use of outside reinsurance through various capital market platforms, including our own, to achieve better risk-adjusted returns. Another factor, but not inconsequential, is a disciplined expense culture.

Our expense ratio, amongst the lowest in the industry, improved year-over-year. Maintaining a firm grip on expenses will enable us to withstand the impact of any market softening, but more importantly, enables us to entertain business opportunities at levels which are still accretive to us but perhaps not to others.

One other contributing factor to the results for the quarter was an increase in investment income over previous quarters due to timing on some of our limited partnership investments. Nevertheless, as may be obvious, investment income will continue to drift lower as older investment years mature and funds get invested at today's interest rate levels. We have deployed a number of alternative asset strategies to blunt this, and while they have worked well, we are getting close to our asset risk appetite, as defined by our capital position.

Regarding operational highlights, our best-performing and largest segment continues to be our U.S. reinsurance operation with a recorded combined ratio of 72.6% this year. Our international reinsurance segment, while typically an excellent performer and still quite profitable, is down relative to last year. Most

of the cats and other smaller events not classified as cats have been occurring in regions outside the U.S. This include events like the Chile earthquake that occurred in the second quarter and Hurricane Odile in Mexico this quarter, among others. Nevertheless, the combined ratio on a year-to-date basis still stands at an 88% for this segment.

Our insurance operation had an underwriting loss for the quarter due solely to our U.S. crop business, which again is having a difficult year because of commodity prices and hailstorm events. Excluding this portfolio, the remainder continues to improve in profitability and growth. We have 5 points of underwriting margin and 12% growth in the top line. This growth is a combination of rate increases as well as success in our business expansion efforts in E&S lines and specialty classes of business.

John will give further details on the operation, but we are well positioned in each of our units to achieve returns superior to the industry. While it is still uncertain what pricing will be at the next upcoming renewal season, we have thought through the various scenarios and will adapt depending on conditions at that time. Each of these strategies is with an eye towards maintaining the return levels we have been accustomed to through the cycle. These strategies include reducing business in certain areas, introducing new products, utilizing capital markets, expense control and managing capital levels through share repurchases. Our strong and sizable capital position, along with our underwriting talent, allows us the flexibility and market presence to be a significant factor in the marketplace. From this position of strength, we can continue to find the best opportunities and provide above-average risk adjusted returns, despite what many see as market challenges.

Thank you, and now Craig will give you the financial report.

Craig W. Howie

Chief Financial Officer and Executive Vice President

Thank you, Dom, and good morning, everyone. Everest had another very strong quarter of earnings with net income of \$275 million or \$6 per diluted common share. This compares to net income of \$235 million or \$4.81 per share for the third quarter of 2013. Net income includes realized capital gains and losses. On a year-to-date basis, net income was \$859 million or \$18.47 per share compared to \$895 million or \$17.94 per share in 2013. The 2014 result represents an annualized return on equity of 17%. Operating income year-to-date was \$812 million or \$17.46 per share. This represents a 15% increase over operating income of \$15.22 per share last year. These operating results were driven by a strong underwriting result and lower income taxes compared to the first 9 months of 2013. The results reflect a slight increase in the overall current year attritional combined ratio of 81.9%, up from 81.1% for the same period last year. This measure excludes the impact of catastrophes, reinstatement premiums and prior period loss development. Gross written premiums of \$4.3 billion on a year-to-date basis were up 11% compared to the same period last year. All reinsurance segments reported underwriting gains for the quarter and on a year-to-date basis.

Total reinsurance reported an underwriting gain of \$588 million for the first 9 months of 2014 compared to a \$487 million gain last year, an increase of 21%. The Insurance segment reported an underwriting loss of \$13 million on a year-to-date basis compared to a gain of \$9 million in 2013. The 2014 results reflected a crop loss of \$42 million for the year, which included estimates to reflect the decline in corn commodity prices and losses related to hailstorms this quarter.

The Mt. Logan Re segment reported an underwriting gain of \$28 million for the quarter and a \$47 million gain year-to-date. Everest retained \$5 million of this income, and \$42 million was attributable to the noncontrolling interest of this entity. This compares to \$1 million that Everest retained year-to-date last year. The overall underwriting gain for the group was \$622 million on a year-to-date basis compared to a gain of \$500 million for the same period last year, an increase of 24%. These overall results reflect \$30 million of current year catastrophe losses in the third quarter of 2014 compared to \$75 million of cats during the third quarter of 2013. On a year-to-date basis, catastrophe losses were \$75 million in 2014 compared to \$165 million in 2013. Of the \$30 million total for the quarter, \$20 million related to Hurricane Odile on the Baja peninsula, and we included an additional \$10 million for the second quarter earthquake in Chile, now a total of \$25 million for that event.

Our reported combined ratio was 83.7% for the first 9 months of 2014 compared to 85.6% in 2013. The year-to-date commission ratio of 21.5% was slightly up from 20.9% in 2013, primarily due to higher contingent commissions. Our expense ratio remains low at 4.6% on a year-to-date basis.

For investments, pretax investment income was \$142 million for the quarter and \$397 million year-to-date on our \$17.6 billion investment portfolio. Investment income year-to-date declined \$26 million from 1 year ago. This decrease is primarily driven by the decline in limited partnership income and by the low interest rate environment. Also, the capital used per share buybacks and redemption of debt contributed. Limited partnership income is down \$16 million year-over-year. The pretax yield on the overall portfolio was 3.2% as compared to 3.6% last year. Duration has moved from 3.2 years to 3 years.

The first 9 months reflected \$47 million of net after-tax realized capital gains compared to \$136 million of gains last year. These gains are mainly attributable to the fair value adjustments on the equity portfolio. There were \$4 million of derivative gains during the first 9 months of 2014 compared to \$33 million of gains in 2013. This is related to our equity put options and is a function of the changing interest rates and indices this year.

On income taxes. The decrease in the effective tax rate was primarily driven by additional foreign tax credits utilized in the quarter relating to both the 2013 and 2014 tax years. The year-to-date operating income effective tax rate decreased from 14.4% in the second quarter to 12.3%. A 12% to 14% effective tax rate for the year is in line with our expectations, given our planned cat losses for the remainder of the year.

Strong cash flow continues with operating cash flows of \$926 million for the first 9 months of 2014 compared to \$825 million in 2013. This is primarily due to lower catastrophe loss payments.

Shareholders' equity at the end of the quarter was \$7.4 billion, up \$414 million or 6% over year-end 2013. This is after taking into account capital return for \$400 million of share buybacks and \$103 million of dividends paid in the first 9 months of 2014, representing a total return of capital to our shareholders of over \$500 million so far this year.

Book value per share increased 11% to \$163.14 from \$146.57 at year-end 2013. Our continued strong capital balance positions us well for potential business opportunities as well as continuing stock repurchases.

Thank you, and now John Doucette will provide the operations review.

John P. Doucette

CEO & President of the Reinsurance Division

Thank you, Craig. Good morning. As Dom highlighted, we are pleased with our continuing strong results in the third quarter of 2014. Our group gross written premium was \$1.67 billion, up \$200 million or 14% from Q3 of last year with growth coming predominantly from the U.S. and international reinsurance segment. Our net written premium was \$1.52 billion, which was up \$128 million or 9% over Q3 last year.

For our global reinsurance segment, including both total reinsurance and Logan, gross written premium was \$1.3 billion for the quarter, up 19.5% from Q3 last year. Our growth in the third quarter was driven by new business opportunities both in the U.S. and internationally in both cat and non-cat risk-related deals. We wrote several new U.S.A. property pro rata deals. We took over as the lead reinsurer on one major international treaty, which was significant new business and new premium to us, and we also wrote several new specialty deals.

In addition, during the quarter, we closed several significant reinsurance deals, many of which have not yet been recognized in our earned premium but will flow through in the next several quarters. Examples of these include: a new, large, non-cat exposed risk deal for an international client; the extension of several strategic deals with global clients; a new large reinsurance treaty covering a highly diversified, international, professional liability book of business; and new alternative risk reinsurance deals that provide a variety of risk coverages.

As we've been highlighting for the last several quarters, we believe that we are successfully navigating this choppy market. This is despite market headwinds for several classes of business, including a declining rate environment in many lines, higher client retentions and new and different types of competitors in this space. We have and will continue to grow the franchise profitably, make meaningful underwriting profits and build long-term shareholder value. Our competitive strength enabled us to achieve these goals. We have the size, geographic scope and breadth and the long-standing broker and client relationships over the last 50 years to be one of the few top reinsurers of choice. We have been and will continue to exploit this sustainable competitive advantage by providing to our partners a highly-rated, lead reinsurer with very seasoned lead market underwriting teams that can respond quickly and creatively to deploy meaningful capacity in any class of P&C business around the world.

We continue to build strategic relationships with our clients, entering to distribution relationships with key brokers and find new sources of distribution and revenue from both new clients and new products. We are seeing underwriting successes in many different areas of our book, driven in part by our investment in several underwriting initiatives over the last several years, including Mt. Logan, our capital markets facility, to position ourselves for future long-term growth and profitability.

Mt. Logan continues to help us execute our longer-term strategic goals. As we are now managers of third-party capital, we have more tools in our underwriting arsenal to help us achieve our objective of being the go-to broker reinsurer for all brokers and clients around the world. The additional capacity provided by Logan and other hedges has enabled Everest to grow the top line without materially increasing the risk to our balance sheet, and at the same time, has allowed us to generate fees. In turn, Logan's investors have enjoyed superior returns relative to similar vehicles in this space. In fact, Logan exceeded its return targets to investors in its first full year of operation. This was driven in part by a relatively benign catastrophe loss season, but more importantly, it was a function of the broadly diversified portfolios that Logan, in partnership with Everest, can create for its investors. We continue to have significant interest from new investors for Logan and expect to grow Logan in both dollars of assets under management as well as the number of new Logan investors throughout 2015. With Logan, the Kilimanjaro cat bonds, ILW purchases and other traditional and retrocessional protections and hedges, we are succeeding in lowering the cost of capital required to support our property catastrophe book, creating fee income for Everest to enhance our underwriting income and building a very attractive, risk-adjusted portfolio for our shareholders, and that helps us find more business that is accretive to earnings on our current level of capital. To highlight this, for our overall property catastrophe book around the globe, our net ROE is up compared to our gross ROE.

Turning to insurance operations. Insurance premium was \$364 million in Q3, down slightly from Q3 last year. As mentioned previously, this is due to a decrease in crop premium at Heartland from lower commodity prices. Stripping out Heartland in both periods, our Q3 insurance gross written premium is up 15% this year compared to Q3 last year with growth coming from virtually all segments within our insurance operations. Rates are mixed within the insurance operation with casualty, environmental and nonstandard auto rates up. While rates are also up in workers comp, we saw additional capacity come into that market and thus saw lower rate increases than in prior quarters. Property insurance rates were slightly down or slightly up, depending on the type of risk and territory, and new capacity in the professional liability space in the U.S. continues to be aggressive in capacity and price, so we remain cautious there.

As discussed in previous quarters, we continue to see profitable growth opportunities in our insurance book, and we will continue to develop these areas, including casualty, contingency and event cancellation, nonprogram, workers comp, property, E&S and DIC and accident and health. In addition, we have been expanding distribution relationships to roll out new accident and health and specialty and contingency insurance products.

Bottom line, insurance results had an underwriting loss for both the quarter and year-to-date, but this was due to our crop insurance book. The insurance book had a loss of \$21 million for the quarter with a \$31 million loss in the crop book. This crop loss was caused by reduction in commodity prices, particularly corn, which was down approximately 30% from the base rate in February; a loss in our largest crop state, Minnesota, due to a cold, wet start to the planting there, which resulted in some preventive planting

claims, and therefore, yields that were not able to offset the commodity price decline; as well as crop hail losses stemming from significant Midwest hailstorms in the quarter.

We continue to look to grow the Heartland operation to build economies of scale and diversify its geographic spread of business and roll out enhanced IT systems to improve operating efficiencies and to make it easier for our agents to do business with us.

Excluding the crop results, the Insurance segment continues to see improvement with an attritional combined ratio of 95.6% for the quarter and 94.5% for the year. We remain pleased with the underlying trends in our insurance book with noted improvements in both loss ratios and expense ratios in many segments due to our insurance profitability initiatives over the last several years. We expect these trends to continue with both top line and bottom line growth in our insurance book as we continue to focus on expanding distribution, rolling out new products and enhancing our platform capabilities to deliver a wide range of insurance products to our customers on both admitted and non-admitted basis. Our disciplined, opportunistic culture is focused on achieving the best risk-adjusted returns across all of our business segments, and our strong underwriting bench, high ratings and strong balance sheet, along with our efficient distribution platform and competitive expense ratio, continues to enable Everest to generate double-digit returns for our shareholders.

Thank you, and now back to Beth for Q&A.

Elizabeth B. Farrell

Vice President of Investor Relations

Kim, we are ready to open up the floor for questions.

Question and Answer

Operator

[Operator Instructions] And we'll take our first question from Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi

Goldman Sachs Group Inc., Research Division

Just a question on the U.S. reinsurance book and the Bermuda book. In U.S. reinsurance, just trying to understand, what is the profile of the business that you're writing more of? And is it a sort of a different profile than your legacy book? And how do model returns on that new business compare?

John P. Doucette

CEO & President of the Reinsurance Division

I mean, the book, we write all classes of business within the U.S. We write pro rata risk, cat, retro, and we have a product called Purple. And we will deploy different amounts of capacity to each of those depending on where we see the best returns. And the returns, while down, are still north of a 20% ROE.

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

Book has not -- Michael, the book has not changed considerably over the years, particularly as it relates to some of the peak zone areas. The reality is that we've actually diversified the book a bit more. Our casualty book, for example, is a little larger than it was a couple of years ago but still not at the heights that it was at 2002, 2003 time frame. We've also have written a number of pretty good growth in our regional client sector as well as a little bit of growth in our facultative book as well, but it's not a significant change. Most recently, in the last year, as John pointed out in his talking points, we did write some new property pro rata quota share deals. Many of those were in non-cat-exposed areas, and there are shifts from time to time in the portfolio depending on where the opportunities are. I hope that -- I don't know if you have a follow-up to that.

Michael Steven Nannizzi

Goldman Sachs Group Inc., Research Division

Yes. I guess, how much of that -- I mean, your sub-70% underlying combined growing. You grew the book almost 20%. How much is -- for example, this is the fact that weather has been light, how much of that has driven that result? Just trying to understand -- I mean, is this where your sort of model returns where you expect returns to be? Or how much sort of help did you get from light weather?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

Well, the results of ourselves as well as the rest of the market are always helpful when catastrophes are low. Particularly in the U.S., while there wasn't any major cat event, we also benefited this particular year in the U.S. due to a lower level of attritional cats, and we define that as any event to us that's less than \$10 million, so that you see a year-over-year improvement in the U.S. book in part due to that. On the other hand, we had a higher level of attritional cats in our Latin American book. And then, in our Bermuda book, that was a little worse in the prior year due to purchase of ILWs, so -- but you're going to have that impact in any one particular segment from time to time. I think the point is that the overall book is well diversified, and that's the point of it, right? Better diversified than we have been ever in our history, I would say.

Michael Steven Nannizzi

Goldman Sachs Group Inc., Research Division

Got it. And to the extent that Mt. Logan also growing, does your appetite -- or has your appetite for business changed now that Mt. Logan is online and sort of scaling up? Or does -- do you still see -- seek the same type of profile business that you would have without the presence of the Mt. Logan?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

We -- as you may or may not know, our participation in Mt. Logan is proportional to our own book. In other words, the risk that we put into Mt. Logan is also partly retained on our -- within our portfolio, so our interests are aligned. So that means that our appetite for our portfolio -- Logan does not necessarily -- does not change our appetite. What Logan allows us to do is actually, for lines of business or class of the business or territory that we think are attractive, it allows us to expand our capacity in those areas. So that's the appetite part of it, but it doesn't change our return appetite.

Michael Steven Nannizzi

Goldman Sachs Group Inc., Research Division

So the return threshold for Mt. Logan is the same as Everest?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

Correct.

Operator

We'll move on to our next question from Amit Kumar of Macquarie.

Amit Kumar

Macquarie Research

Just a quick follow-up, I guess, on the last question. If I heard you correctly, you mentioned north of a 20% return number. Is that sort of the average number you were talking about in terms of the new business that you have written? Or is there a range around that north of 20% number?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

Well, I'll ask John to follow-up as well on this, but just to clarify, that in its excess of 20%, and that's on our allocated capital base on our modeling. Of course, we carry more capital than what the models would imply, and we have different appetites or different return objectives by classes of business, for sure. I don't know if this -- I don't know if you -- John, you want to...

John P. Doucette

CEO & President of the Reinsurance Division

Right. I think the simple -- the short answer is, is absolutely, there's going to be every class of business not just property, not just cat, casualty, reinsurance, insurance. There's going to be a wide range of returns, combined ratios and return on equity in every class. And we build books of business in these different attachment points, different ways we play, different products that all have different returns that crystallizes into that total gear.

Amit Kumar

Macquarie Research

I guess a follow-up to that would be why would someone be walking away from that business, which Everest is able to capture? Is there more to it? Or is that what you said that you were the lead and, hence, you are just seeing more opportunity? I guess what I'm trying to figure out, it's a tough market out there. Others are shrinking, and yet, you have found the specific opportunities, and I'm trying to figure out is it more Everest-specific? Or is this an -- is there an industry issue, which is helping Everest more than its peers?

John P. Doucette*CEO & President of the Reinsurance Division*

We've said on many quarters, and I think you're seeing it in the numbers, we continue -- I mean, one of the examples is some of the bigger clients, they want to do more business with fewer people. And that means that there's some diversification away from the big directs and then there's also a consolidation of the panel. We have been a direct beneficiary of that. We can't really comment on other people's view. We have our capital model. It's been the same capital model we've had for many years, and what we think that we have enhanced opportunities with some of the consolidation that's going on. That certainly would drive part of what you're seeing.

Dominic James Addesso*Chief Executive Officer, President and Non-Independent Director*

Certainly, we can't comment on what other market participants are seeing necessarily, but some of the decrease that occurs in some of the other markets is not just underpriced business. It's also, as John points out, in some of the larger programs, lines that are lost, and so that's certainly a factor. And don't misunderstand, I mean, there are lines of business that we shrink and pull back from as well. It's not that we're seeing every class of business, every attachment point, every layer being appropriately priced. So there are places in our portfolio that are contracting as -- and there are other places which are expanded.

John P. Doucette*CEO & President of the Reinsurance Division*

And one other point I'd like to add is -- and we've said this before, but we can't underestimate the importance. We write a lot, unlike a lot of our competitors, we write for a lead market property reinsurer and write that book of business from the U.S., and that gives us better access to clients, better ability to visit with them, meet with them, negotiate with them onshore, and that is very helpful. And sometimes, business gets done domestically and then doesn't go to other jurisdictions to get completed.

Operator

And we'll move on to our next question from Jay Gelb of Barclays.

Jay H. Gelb*Barclays PLC, Research Division*

For the crop insurance book, you highlighted the impact in 3Q. What's your expected impact in 4Q?

Craig W. Howie*Chief Financial Officer and Executive Vice President*

Jay, this is Craig. We do expect to see some change because the commodity prices have changed from our estimate from where we book these numbers for the third quarter. However, we still would expect a loss in the fourth quarter. We'll still have expenses coming through, and again, expect a loss in that quarter as well.

Dominic James Addesso*Chief Executive Officer, President and Non-Independent Director*

It'll be modest. That's your expectation.

Jay H. Gelb*Barclays PLC, Research Division*

Okay. And there's a \$31 million loss in crop in 3Q?

Craig W. Howie*Chief Financial Officer and Executive Vice President*

That's correct for the quarter end, \$42 million year-to-date. Now that's for both MPCCI crop as well as crop hail. There were several storms, hailstorms that happened during the quarter, and we took a fairly large loss, which represents about half of the loss for the quarter, Jay.

Jay H. Gelb

Barclays PLC, Research Division

Okay. And then separately, on Mt. Logan, given the sharp improvement in profit in 3Q, is there a way we could better project what the outlook for that is? I know there's some lumpiness, but my sense is it's tied to some extent to the amount of capacities provided. So is there any straightforward way to -- for us as outside observers to be able to project that?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

You're talking gross or net? Because we've got...

Jay H. Gelb

Barclays PLC, Research Division

I was talking -- I would say probably gross and then also on the underwriting gain.

John P. Doucette

CEO & President of the Reinsurance Division

I mean...

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

It's partly reflective of the marks...

John P. Doucette

CEO & President of the Reinsurance Division

Right.

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

That go to the to the Mt. Logan portfolio, but I'll ask John to comment on that.

John P. Doucette

CEO & President of the Reinsurance Division

Right. I mean, clearly, there's seasonality component to it in terms of where we are, so it's very much cat-dependent on -- I mean, that book is, with the business that we currently have in Mt. Logan, is 100% property catastrophe reinsurance, so it's going to be very much a focus. It's very much a function of what is the cat business that's happened.

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

And from an underwriting gain perspective, on a net -- in other words after noncontrolling interest, not -- it's not that significant. For the 9 months, it was \$5 million, I think.

Craig W. Howie

Chief Financial Officer and Executive Vice President

Correct.

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

So I wouldn't expect a material change from that into the fourth quarter. To me, that's really the best way to look at it. Of course, we've got the underwriting fee income for managing that portfolio that comes in as well. In terms of what sticks to us, it's not -- I don't know that it's material enough that we can give you a better answer than that.

Operator

And we'll go next to Vinay Misquith of Evercore.

Vinay Gerard Misquith

Evercore ISI, Research Division

The first question is on the accident year combined index[ph] cats in the reinsurance segment that picked up this quarter. Was curious if it was sort of by choice that management has written a lot more diversifying business, and so it's more of a business mix issue? Or is it more of a pricing issue?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

Vinay, I think I mentioned perhaps before, but just to clarify, what's happening in the overall reinsurance book is, and particularly this quarter, is the Latin American attritional cats, so we had a tick up in that. That probably was the biggest driver. And then, in Bermuda, we had purchase of ILWs. There is some mix issues going on as we write -- we wrote some more U.S. proportional business, non-cat exposed, so that does have an impact. But overall, the biggest change is due to the Latin American attritional cats in the reinsurance book.

Vinay Gerard Misquith

Evercore ISI, Research Division

Sure. So would you say that this quarter was slightly higher than average than what you would expect for the future?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

Yes, as far as the attritional number, absolutely.

Vinay Gerard Misquith

Evercore ISI, Research Division

Sure. And just looking at where pricing is going, regarding that ceding commissions are increasing, if you have a non-cat business, how much would we expect the combined ratios to go up next year? For more than a couple of points? Or a couple of points be reasonable?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

We're not really -- we don't really forecast the combined ratios for -- we don't disclose that. Frankly, we're still closing out our planning process for next year anyway, but clearly, that would be pretty close. I mean, we're giving you an earnings number, and we don't disclose that. But let me just make -- well, let me just make a comment about that, generally. Certainly, the market is difficult. There are many areas where it's very competitive. What we have managed to do is write different products in the property cat space, in particular, which is probably where your question is coming from in part. We have the different layers; changed attachment points; gone outside; as John pointed out, purchased retrocessional protection; diversified our book further. All with an eye towards trying to maintain the same return levels, and it's certainly entirely possible that if some of this business doesn't meet our return objectives that we will begin to withdraw on certain capacity. And if that means that we manage our capital more aggressively, then we'll do that. So there's lots of levers that we can pull into this marketplace. With respect to ceding commissions, a lot of that frankly ends up in the casualty treaty area. That would be the largest impact to us, the impact of increased ceding commissions. And in many cases, where ceding commissions have

reached extraordinary levels, we've actually have been not renewed or not participated in those offerings. So that does put some pressure on the treaty casualty writings, for sure, into next year, if that continues, and we will see.

Vinay Gerard Misquith

Evercore ISI, Research Division

Sure. And just a simple numbers question. The corporate expenses, I think, doubled this quarter. Were these in onetime items? Or is this the level for the future?

Craig W. Howie

Chief Financial Officer and Executive Vice President

Corporate expenses doubling this quarter? I'm not sure that I see that on an overall basis.

Vinay Gerard Misquith

Evercore ISI, Research Division

Yes. Sorry. What is -- sorry, the corporate expense was \$10 million this quarter. Wasn't it about \$5 million in the year-ago quarter? So just curious if there were some onetime items in there.

Craig W. Howie

Chief Financial Officer and Executive Vice President

In which segment, Vinay?

Dominic James Adesso

Chief Executive Officer, President and Non-Independent Director

Overall.

Craig W. Howie

Chief Financial Officer and Executive Vice President

Overall?

Vinay Gerard Misquith

Evercore ISI, Research Division

Just overall corporate expenses. It's a small line item, just a \$10 million number.

Craig W. Howie

Chief Financial Officer and Executive Vice President

It's just normal fluctuation. I don't expect any -- there's no continuing trend there that we can point to. I would look at that number on more of an annualized basis as opposed to a quarter number.

Operator

And we'll move on to our next question from Joshua Shanker of Deutsche Bank.

Joshua David Shanker

Deutsche Bank AG, Research Division

Everyone's going to be always confused by the writing of all this premium, and there's nothing we can do about it. But I did think to myself that driving in the past, you guys have talked about the proportional treaties onshore, which you mentioned a little bit on the conference call. I would think that would be driving your tax rate up over the long run. You had some foreign tax credits come in this quarter that came as a surprise. I mean, can we talk a little about the tax situation, and whether I'm wrong to think they're going up over time, and whether how onetime in nature these foreign tax credits work, and how I should think about that?

Craig W. Howie

Chief Financial Officer and Executive Vice President

Josh, this is Craig. So the nature of the foreign tax credits is this: first, you need -- in order to take foreign tax credits, you need to be a taxpayer. We just filed our 2013 tax return in September and became a taxpayer again, utilizing all of our loss carryforwards on a tax return basis. So that's the first thing you need, is to become a taxpayer. The next thing you need is foreign-source income, and we have been earning income where our branch locations are outside the U.S., namely Canada and other places like that. So we have been earning income, so now we get to take those foreign tax credits against the tax -- the actual tax on the tax return. So that's number one. We got to take those for both 2013 as well as the 2014 year this quarter. What I would expect to see going forward is about \$10 million per year of foreign tax credits. So not a big number, but it is an ongoing number.

Joshua David Shanker

Deutsche Bank AG, Research Division

And then, as it relates to the higher amount of onshore pro rata risk, is that driving the attritional tax rate up over time?

Craig W. Howie

Chief Financial Officer and Executive Vice President

What would drive that attritional rate up traditionally for us that we've mentioned in the past is more catastrophes. So in other words, the less catastrophes we have here located in the U.S. and taxed in the U.S., the more taxable income we would have, therefore, the higher the tax rate. Right now, the tax rate has been relatively high, if you will, 14.4% last quarter because of the lack of cats in the U.S.

Joshua David Shanker

Deutsche Bank AG, Research Division

Okay, that's good. And one, just a quick question, which is something I've been looking at. Have you appointed the independent director or independent directors for Mt. Logan yet?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

We are in the process of doing that.

Operator

Our next question comes from Kai Pan of Morgan Stanley.

Kai Pan

Morgan Stanley, Research Division

So my first question is on the crop site, and I'm just wondering if you have any commodity hedging. And if you do have, is that part of your, like, loss ratio or operating numbers? And then, on crop, if you think about longer term, a normalized weather year, what's your sort of, like, normalized or expected combined ratio for that line of business? And next year, if the commodity price is staying the same as this right now, do we expect it to drop in terms of the premium you will be able to collect?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

First of all, on the crop side, we have no hedges in place, commodity hedges in place. That addresses that. From a expected loss ratio on an expected basis for crop...

John P. Doucette

CEO & President of the Reinsurance Division

Quite right around 80%.

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

80%. High 70s would be what we would expect. The price levels stay where they're at. What would happen to the premium? I don't know that there'd be any material change in premium.

John P. Doucette

CEO & President of the Reinsurance Division

We would expect -- assuming that we kept the same policy count, we would expect the premiums to stay the same. We are -- and have talked about trying to grow the policy count with additions of staff in different areas that will help us do that.

Kai Pan

Morgan Stanley, Research Division

So just clarify that. So premium will stay the same even though the commodity price, like, in next February will be, like, 30% lower than these started this year?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

Well, there's a lot of moving parts including the volatility factor. That's been lower in the last couple of years, so we're-- we don't know where that will end up being for next year.

Kai Pan

Morgan Stanley, Research Division

Okay. Then on different topic, on the sort of -- we saw the alternative capital. The basic supply going up. Now there talk about some of the primary company may see less into the open market. So from your perspective, just wanted to hear your thought about when in the near term. Where do you see the genuine price is going? Are we bottoming out on that? Or -- and then, longer term, how do you think the industry will evolve? And how is Everest Re positioned for that?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

Okay. Well, that's a very heavy question and a big topic, for sure. First of all, relative to what's going on in the alternative capital space with -- and what you're asking is less ceded premium into the marketplace. A lot of that premium, if you're speaking about hedge fund-type structures, typically, the premium going into that -- those types of vehicles will be more casualty-focused business, which, frankly, for us right now has not been a growth area for us, so we do not anticipate any major impact from some of those early movers into that space. There is some -- it's still early days with respect to hedge fund capital coming in. My early view on it is that it's very difficult to raise capital into these structures. That doesn't mean it won't exist, but it's not clear to me at this point that it will be a huge part of our business, at least, at this point. If in fact that evolves to be something different, and it's likely that will be more attractive to investors to invest into that space, Everest would certainly be prepared to consider that as one of its platforms, not unlike what we've done with Mt. Logan. Mt. Logan, for us, is where we see more immediate-term growth in the alternative capital space. As John pointed out, we still would expect there to be increased management there. And for us, that is a strategic play, where we're, actually, as I mentioned before, able to deploy more capacity through the use of that facility. So we see it as a tool, not a threat, and it's just another form of capital. It allows us to manage our own capital more efficiently, if that be the case. In terms of pricing, certainly, the capital market side, there seems to be some evidence that we're certainly trading near the bottom, particularly as you look at cat bond pricing and even some of the things that we see going on in our capital markets facility in Mt. Logan, where investors are hitting some floors with respect to the returns that they expect. Hard to say what impact that might have on traditional pricing or any pricing at 1/1. As you probably know, next week is PCI, but more recently, coming from -- we have some folks at Baden-Baden. But before that, in the CIAB. And before that, in Monte Carlo. There seemed to be less talk about price decline, and more talk, frankly, from many of our ceding company clients about maintaining traditional panel, maintaining relationships and making sure that their panelists were highly

rated. So that -- all that conversation, to me, suggests that we are floating somewhere around the bottom at this point, but we will see in the next 60 days.

Kai Pan

Morgan Stanley, Research Division

That's great. And if I may ask one last question on buybacks. It looks like it slowed down a bit in the third quarter, and while your earnings have been great. So are we expecting a pick-up in the fourth quarter that will still targeting probably return 100% payout ratio in 2014?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

As you know, we don't give guidance on our share repurchases, but I will point out that we, historically, in the third quarter, given that's our highest cat-exposed season, that we have typically lightened up on share repurchases. And this past third quarter was no different than what we've done in others. And so we would certainly look favorably on increasing that in the fourth quarter relative to the third quarter market conditions, both pricing of our stock as well as market conditions on the pricing side. If those are all favorable, then we would look to increase our share repurchases, but we do not forecast or give a number on what that might be. We do it a week at a time.

Operator

And we'll move on to our next question from Meyer Shields of KBW.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Dominic, the trend of panel consolidation that you're seeing, is that sort of a onetime issue that's going to wash through? Or do you see it sort of incrementally benefiting companies of your size the next few years?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

I think it's likely to continue. I don't know with next few years. A difficult time horizon on that, but I would see that accelerating or continuing on some level, for sure. Unless there's some consolidation in the industry so that there are larger capital providers, then I would expect that trend to continue. And I think that's probably why you're -- you see some execs predicting or suggesting there should be greater consolidation within our space.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That makes sense. The floating rate increases in workers compensation that you mentioned, are they still running ahead? Or in line with [indiscernible]?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

Yes. I think it was around 8% or 9%. 8% in the first 9 months of the year.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And lastly, I guess, this is probably for Craig. When I look at Mt. Logan and sort of compare the reported underwriting profit to the net loss attributable to noncontrolling interest, it looks like a higher percentage of the underwriting profits went to the investors than in past quarters. Is there a good way of following that going forward?

Craig W. Howie

Chief Financial Officer and Executive Vice President

WWW.SPCAPITALIQ.COM

Well, I think, as Dom mentioned before, it's not necessarily a material number to us yet, but it is seasonal because of the property cat losses. So we would expect after we get through the season that you may see some additional results flow in to Everest profit commissions, things like that, that would flow through. But right now, it's more seasonal.

John P. Doucette

CEO & President of the Reinsurance Division

It also is due to us -- the investment -- the initial investment that Everest put in and then growth of third-party money. So the share of Mt. Logan is higher to external investors.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Where is it right now?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

We remain at 50%. And remember, we were a higher percentage of that in the early days. And of course, as we attracted more funds, that gets diluted, obviously. The percentage gets diluted.

John P. Doucette

CEO & President of the Reinsurance Division

Initially, we were 50% of 250. And now we're 50% of over 400.

Operator

And that does conclude our question-and-answer session. I would like to turn the conference back over to our speakers for any additional or closing remarks.

Elizabeth B. Farrell

Vice President of Investor Relations

We'd like to thank everybody for participating in the call. And if, for some reason, you were not able to get your question answered, please feel free to give us a call. Thanks.

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

Thank you, all, very much.

Operator

And that does conclude today's conference. Thank you for your participation.

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