S&P Capital IQ

CONTENTS



# Everest Re Group, Ltd. NYSE:RE

## *FQ3 2017 Earnings Call Transcripts*

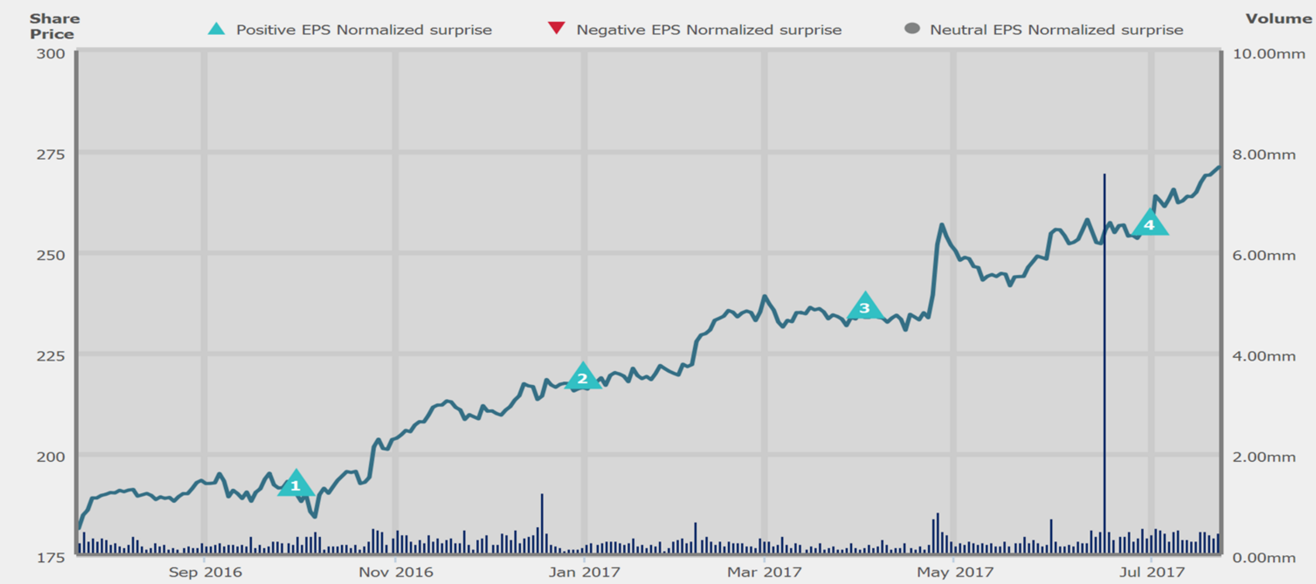
Tuesday, October 31, 2017 2:30 PM GMT

## S&P Capital IQ Estimates

| | -FQ3 2017- | | | -FQ4 2017- | -FY 2017- | -FY 2018- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | (16.13) | (16.43) | NM | 6.58 | 1.94 | 20.03 |
| **Revenue (mm)** | 1624.56 | - | - | 1513.20 | 5904.20 | 6232.98 |

Currency: USD
Consensus as of Oct-31-2017 10:03 AM GMT

**Stock Price [USD] vs. Volume [mm] with earnings surprise annotations**




| | - EPS NORMALIZED - | | |
|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE |
| **FQ3 2016** | 4.49 | 6.53 | 1 45.43 % |
| **FQ4 2016** | 3.19 | 8.83 | 2 176.80 % |
| **FQ1 2017** | 5.29 | 6.29 | 3 18.90 % |
| **FQ2 2017** | 5.30 | 5.51 | 4 3.96 % |

# Call Participants

## EXECUTIVES

**Craig W. Howie**
*Executive VP & CFO*

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

**Elizabeth B. Farrell**
*Vice President of Investor Relations*

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

**Jonathan M. Zaffino**
*Executive Vice President*

## ANALYSTS

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*The Buckingham Research Group Incorporated*

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*UBS Investment Bank, Research Division*

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

**Jay H. Gelb**
*Barclays PLC, Research Division*

**Joshua David Shanker**
*Deutsche Bank AG, Research Division*

**Kai Pan**
*Morgan Stanley, Research Division*

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

# Presentation

**Operator**

Good day, everyone. Welcome to the Third Quarter 2017 Earnings Call of Everest Re Group, Ltd. Today's conference is being recorded.

At this time, for opening remarks and introductions, I'd 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*

Thanks, Jennifer. Good morning, and welcome to Everest Re Group's Third Quarter 2017 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, President and CEO of Reinsurance Operations; and Jon Zaffino, President of North American Insurance Operations.

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**
*President, CEO & Non-Independent Director*

Thank you, Beth, and good morning. Let me begin by first extending our sympathies to all of those affected by the recent events. The community at large has responded to the relief efforts, but still, there is more that can be done. I'm especially proud of the way our organization has responded on both the business and personal front.

We have advanced monies to our reinsurance clients so they, in turn, can quickly settle with their insurers, allowing them to start the process of rebuilding their lives and businesses sooner.

In the insurance front, our claims staff is working diligently to do the same. These events teared us with many personal stories, but also remind us of the value that our industry and company can bring during times like this. We protect against volatility and, therefore, expect the periodic loss that we will discuss this morning.

This means, of course, that during times of limited catastrophe loss activity, we should be able to produce strong results [indiscernible]

It also means that after a series of events that claimed $100 billion from the system, there needs to be a reset in the market as we reevaluate pricing, terms and conditions and the impact of recent news, softening had on the industry's risk-adjusted returns.

For this reason, we believe that these recent events will lead to a general market firming across all lines and territories.

In non-loss affected areas, the push will be to achieve adequate return levels over a reasonable timeframe. Events like these create a greater awareness in the market around the cost of capital and the price of risk.

For those regions affected by loss, the price reaction will be more pronounced. This will start with the retro market, since it is heavily supported by the collateralized market, whose capital is, in large part, locked up.

This may very well create some unique opportunities for us, especially given our capital position coming out of these events. The firming of the retro market will also have a beneficial downstream impact on the rest of the property catastrophe market and may very well push into other lines.

We anticipate that well-rated capacity will be in demand, and this will drive better rates, terms and conditions across the spectrum.

Given our strong risk management practices and laddered protection mechanisms, the losses from these events remained well within our expectations.

One important factor that is often overlooked is the tax benefit that is used to offset the loss. We manage our P&Ls on a net basis, meaning, net of tax and reinsurance hedges, despite many publications that only highlight our gross P&Ls.

Considering the reinsurance and tax recoveries against the third quarter events, our net operating loss for the 9 months stands at $180 million.

This suggests that with a normal operating result in the fourth quarter, inclusive of our cat level, we could achieve a profit for the full year. This would be an excellent outcome in the year with an unprecedented level of catastrophe losses. We manage to these types of scenarios and measure our success over the long term as we recognize there will be periods of volatility.

Over the last 5 years, including results so far in 2017, our average return on equity is 12%, which we consider exceptional relative to the industry. This is a testament for the long-term value of our strategy. We emerge from these events with a strong capital base and ample reinsurance capacity with our growing Mt. Logan facility, multiyear cat bonds and other third-party reinsurance, and are therefore, ready to respond to the new market demand.

While I recognize that the cat events are deservedly getting the focus, let me now turn your attention to the underlying business trends that support our long-term success.

On the reinsurance front, our effective use of third-party capital has allowed us to grow the book and profits during periods of low cat activity. But yet, during one of the highest cat years in recent times, contained a loss within full year earnings.

Using alternative capital for U.S. cat exposure has allowed for expansion and diversification to other regions as well as other lines of business.

Another expansion opportunity we have leveraged with this substantially expanded capital base is our insurance business. For the past 2 years, we have experienced growth of over 20% in a balanced and well-diversified fashion.

With that growth and repositioning has come an improvement in the underlying attritional ratios. At $2 billion of annual premium and growing, we are now a known market that brings capacity and ratings to meet the needs of the commercial and specialty marketplace.

The underpinnings of our collective organization have never been stronger. While this year's challenged, from an income perspective, over the long term, we are delivering what we promised: higher ROEs for the industry, with our disciplined expense model and cat losses that, on average, are within our expected outcomes.

So I continually remind people, if there are never any losses then we don't have a business. The goal is to produce an above-average ROE through the cycle, and we believe we have, thus far, delivered, and we'll continue to do so.

Thank you, and now to Craig for the financial report.

**Craig W. Howie**
*Executive VP & CFO*

Thank you, Tom, and good morning everyone. Everest had a net loss of $639 million or $15.73 per common share for the third quarter of 2017. This compares to net income of $295 million for the third quarter last year or $7.06 per diluted common share. The operating loss for the quarter was $16.43 per share, reflecting the catastrophe losses in the quarter and the foreign exchange losses of over $1 per share, which is the primary difference from the consensus. The operating loss excludes realized capital gains and losses.

You will note that 2017 earnings per share calculations utilized basic common shares, instead of diluted shares, due to the loss in the quarter and on a year-to-date basis.

The group had a net loss, on a year-to-date basis, of $102 million compared to $623 million of net income in 2016. These results were impacted by a series of major catastrophe events that are driving both the quarter and the year-to-date figures.

In the third quarter of 2017, the group saw $1.2 billion of net pretax catastrophe losses, with a net economic impact of $900 million after taxes.

The breakdown on the pretax loss by event is as follows: Hurricane Harvey was $270 million, Hurricane Irma was $475 million, Hurricane Maria was $400 million, and the earthquakes in Mexico were $85 million.

There is considerable uncertainty in these estimates, and we expect it will take several months before relative clarity emerges from the multiple events.

However, the company has significant unused retrocessional capacity, including aggregate protections, which would provide coverage above these estimated levels.

On a year-to-date basis, the results reflected net pretax catastrophe losses of $1.3 billion in 2017 compared to $143 million in 2016.

Excluding the catastrophe events, the underlying book continues to perform well, with an overall current-year attritional combined ratio of 85.6% through the first 9 months, compared to 85.2% for the same period in 2016. Our year-to-date expense ratio remains low at 5.3%, due to higher earned premium, including reinstatement premiums after the catastrophe events this quarter.

For investments, pretax investment income was $137 million for the quarter and $394 million year-to-date on our $18 billion investment portfolio. Year-to-date investment income was up 10% from 1 year ago. The result was primarily driven by the increase in limited partnership income, which was up over $20 million for the first 9 months of 2016.

We've been able to maintain investment yield without a shift in our overall investment portfolio. However, we have gradually shifted allocations within our alternative investment bucket, by reducing exposure to high-yield debt and public equity, while committing more towards limited partnership investments, all while maintaining a conservative, well-diversified, high-credit-quality bond portfolio. The pretax yield on the overall portfolio was 3%, and the duration remained at just over 3 years.

Foreign exchange is reported in other income. Foreign exchange losses were $43 million in the third quarter, or over $1 of earnings per share. Year-to-date foreign exchange losses were $48 million compared to $29 million of foreign exchange losses in the first 9 months of 2016.

The foreign exchange impact is effectively an accounting mismatch since it's offsetting shareholders' equity for translation adjustments.

Overall, we maintained an economic neutral position with respect to foreign exchange, matching assets with liabilities in most major world currencies.

Other income also included a $6 million loss from Mt. Logan Re in the first 9 months of 2017 compared to $10 million of income in the same period last year. The decline essentially represents the higher level of catastrophe losses during 2017.

On income taxes, the tax benefit is based on the actual year-to-date loss, not the annualized effective tax rate. We would expect any fourth quarter income to be taxed at an effective rate of about 10%. Stable cash flow continues with operating cash flows of over $1 billion for the first 9 months of 2017 compared to $961 million in 2016. We expect this will decline as we pay claims for the recent catastrophe events, but still remain positive for the year.

Shareholders' equity for the group was $8 billion at the end of the third quarter, leaving us well positioned to take advantage of business opportunities.

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

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

Thank you, Craig. Good morning. As a leading global reinsurer, we have consistently achieved industry leading results in periods with low catastrophe loss activity. But the true test of our franchise and business strategies is our ability to demonstrate resilience in a quarter and in a year with several major catastrophe losses or other large unusual shock losses.

While some characteristics of the recent property loss activity were unusual, the magnitude of insured losses was well within our expectations, owing to our proactive and comprehensive risk management efforts.

Learning from other large catastrophe and shock loss years such as 2001, World Trade Center; 2005, Katrina, Rita and Wilma hurricanes; 2008, global financial crisis; And 2011, a string of losses, including earthquakes in Japan and New Zealand, floods in Thailand and Australia and severe convective storms in the U.S., we have continually enhanced and refined our group-wide enterprise risk management framework. This includes our large risk and catastrophe strategy across all underwriting areas within the company. And now both our reinsurance and insurance portfolios each are expected to benefit from the post loss market condition.

This applies across our underwriting risk spectrum from property insurance, to facultative, to proportional treaty, to property catastrophe excess of loss treaty and ultimately, to retro.

We believe it is essential that a global, industry-leading specialty reinsurer and insurer, such as Everest, truly understand its risks and develop a comprehensive, resilient business strategy that allows us to stand with our clients while protecting our investors' capital.

A proactive farsighted approach is critical to the continuity of an enduring franchise. Expect the unexpected as every loss is different and unique.

This includes relentless preparation for Black Swan and other tail events or an accumulation of varying losses across multiple lines of business.

Everest continues to be well positioned to bring tailored solutions and value to our reinsurance clients. We pride ourselves not just on paying our clients' losses quickly and efficiently, but also maintaining our financial strength in a quarter with unprecedented catastrophe loss activity. More importantly, we provide continuity to our clients, going on the offense and providing additional support and capacity when it is needed most.

With our global geographic and line of business diversification across our underwriting portfolio, strong earnings power and substantial capital resources, we have once again demonstrated the success of our business strategies, which insulate the balance sheet from large events, such as those just experienced.

As we head into the 1/1 renewals and onward into 2018, we will continue to harness capital, whether in the form of traditional equity and debt, Kilimanjaro catastrophe bonds, Mt. Logan or other forms of traditional and nontraditional reinsurance capital. Across the spectrum, our accordion-like capital structures provide ample dry powder to deploy commensurate with market opportunities.

We remain very well positioned today and our existing hedges remain substantially intact, with the vast majority of our $2.8 billion of cat bonds still in force and unexhausted, coupled with a growing Logan capital structure, both of which helped Everest efficiently manage its overall net risk appetite.

Uniquely, we manage alternative capital in a fashion that relieves our clients around the globe from the complexities and structural weaknesses of collateral lock up and release mechanisms from unrated reinsurers, while delivering to our clients our "Evergreen promise to pay" from our highly rated balance sheet as we have proven over the last 45 years.

Additionally, we have significant portfolios of business across the entire P&C opportunity set, including meaningful books of business in mortgage, casualty, professional liability, structured reinsurance, international property, specialty and other short-tail lines throughout the world that have been unaffected by recent cat loss activity. Thus, our global geographic and business line diversification decreases volatility from any one line of business. Profits from these diversified lines and territories offset losses such as those recently experienced in the U.S. and Caribbean.

Going forward, we are ready and eager to capture market opportunities that convert the value we provide to our clients into returns for our shareholders. We are especially pleased that we were one of the few reinsurers immediately deploying capital post event, as we actively quoted backup covers in all loss-affected areas, to meet the needs of our clients, whether they were U.S. regional clients, large U.S. national clients, retro clients, Lloyd's syndicates or Caribbean reinsurance clients. With financial strength and resilience, we are headed into the January renewals with a clear message that Everest is open for business.

However, that does not mean we will write reinsurance business at any price. As we have supported our core clients, through hard and soft market cycles, the recent losses are a reminder of the value that we deliver. As in the past, we will deploy our capital where that value is most recognized while reducing our positions on business with less attractive pricing, terms and conditions.

Our clients can rely on us to offer our reinsurance capacity, whether the same or a higher amount of capacity needed, as long as it meets an appropriate return on capital, and the cost of that capital has gone up with the industry.

Now turning to specifics on our results. Excluding reinstatement premiums, gross written premiums for our reinsurance operation increased 13% for the quarter and 15% year-to-date, with broad-based growth in our U.S. and Bermuda operations, from crop reinsurance, mortgage, strategic quota shares, regearing business, international surety and property and structured reinsurance. Growth was offset slightly by lower international premium volume in the third quarter due to the renewal of certain structured deals that ran their course.

This underscores our ability to not only seize opportunity in property cat business, but to continue to write and expand our franchise in diversifying and value-added lines for our clients.

While this quarter's reinsurance underwriting results were heavily impacted by the catastrophe losses in the quarter, the underlying trend in these businesses remained solid. The reinsurance operation's overall attritional loss ratio was up 2.6 points on a year-to-date basis, against the comparable period of 2016. This was due to growth in pro rata and crop business, both with naturally higher loss ratios, offset by some favorable loss trends in our international operations.

Our year-to-date attritional expense ratio dropped over 2 points, benefiting from a business mix with naturally lower commissions.

Despite this year's loss activity, in the long term, the reinsurance market will continue to trend toward more efficient capital management and scale, with better operational and expense management. We believe we are very well positioned both now and into the future. Our ability to execute on these key drivers provides value to our clients and our shareholders in both hard and soft markets. Our strategy remains nimble and dynamic and enables us to thrive in this ever-changing market.

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

**Jonathan M. Zaffino**
*Executive Vice President*

Thank you, John, and good morning. As the catastrophic events unfolded in the third quarter, particularly of the magnitude and scale that occurred across North America, the resulting impact of the primary insurance market has been predictably quite significant. While the Everest global insurance operations were not immune to the impact of this widespread devastation, the performance of our various books of business, notably our U.S. property portfolio, were in line with our expectations.

Further, we are pleased with the continued growth and development of our global insurance platform. We are increasingly confident that our vision to organically build a world-class diversified insurance organization that is relevant within the global specialty P&C industry is being realized.

Our leading growth in written premiums, our enhanced operating platform, the many new product launches, our successful talent acquisition strategies and our growing relationship with a diverse group of trading partners is a testament to this approach.

Progress on our journey is also fairly measured by an increasingly resilient underlying combined ratio which again, was solidly profitable for the quarter.

Notably, in the quarter, we were pleased to receive conditional approval from the Central Bank of Ireland for our newest European operating platform, Everest Insurance Ireland. This is another example of the thoughtful organic build of our franchise and the expansion of our global underwriting operation. Our Irish operating company will be an important component of our overall international insurance strategy, and is an excellent complement to both our North American and Lloyd's operations.

I'll turn now to the financial highlights in the quarter. Following this, I'll provide some comments on the cat activity experience within the insurance operations, along with our views of the operating environment forward.

As in prior quarters, due to the divestiture of Heartland in late third quarter of 2016, I will discuss our comparative results, excluding this business.

For the third quarter of 2017, the global insurance operations produced $480 million in gross written premium, an increase of $109 million or 30% over third quarter 2016, another tremendous result and a recognition of our growing relevance in the specialty P&C market.

On a year-to-date basis, we achieved $1.5 billion in gross written premium, again another solid performance.

This represents growth of $349 million or 31% over the comparable period in 2016. As in prior quarters, contributions remained balanced across the diverse group of underwriting divisions within the Everest Insurance global platform. This also represents the 11th consecutive quarter of growth for our global insurance operations.

Turning to net premiums. As we have shared in the past, net premiums slightly lagged gross written premium growth, due to the marginally more conservative reinsurance position we have taken to support the growth across our underwriting divisions.

Net earned premium in the quarter was $376 million, an increase of $63 million or 20%. For the year-to-date period, net earned premium of $1.1 billion increased by $181 million or 21 -- or excuse me, 20% over the prior year period. Our GAAP combined ratio for the quarter was 141.4%, clearly impacted by the catastrophe activity in the quarter, which contributed 43.5 points to these results.

The attritional combined ratio, however, was 98% in the quarter, which compares favorably to the third quarter '16 attritional of 99.5%.

The underlying loss ratio for the third quarter of this year was 68.4%, a 1.4% improvement over last year's 69.8%.

On a year-to-date basis, the GAAP combined ratio was a 113.9, with again nearly 17 points of cat included in this result.

The year-to-date attritional combined ratio for the global insurance operations produced a 96.5%, which also compares favorably to the 97.1% for the comparable period of 2016.

Again, the underlying loss ratio shows 1.2 points of improvement on a year-to-date basis, coming in at 67% from the prior year of 68.2%.

Year-over-year, we are seeing a downward drift in the attritional loss ratio. This is a result of improved mix of business, the benefits from the many new businesses launched and the strategic underwriting actions of the past 2 years.

Our expense ratio in the third quarter was 29.5%, essentially flat from the 29.7% from the same period last year. For the year-to-date period, the expense ratio remains 29.5%, up slightly from the 28.9% in the comparable period of 2016.

As we have stated in prior calls, an expense ratio of roughly 30% remains very competitive in the specialty insurance segment.

Turning now to the cat picture for the quarter. As you heard from Dom and John, Everest as an organization deployed a proactive and multifaceted approach to risk management. The insurance organization is deeply ingrained in these same processes and, hence, adopts many of the same views and strategies.

The third quarter of 2017 certainly tested the efficacy of these strategies, and the insurance operations results were consistent with our expectations and well within our tolerance.

In addition to measuring our performance against modeled assumptions, we also gauge our performance against industry loss and market share analysis. And of course, from a fundamental bottom-up view of our underwriting decisions, with a keen focus on any outliers that may emerge from these underwriting strategies and assumptions.

Again, against all these measures, the various books of business performed well, and as anticipated, consistent with our global view of risk.

To put this is further perspective, we estimate roughly $160 million in net pretax losses from the 3 large cat events of Harvey, Irma, and Maria, with a concentration of loss emanating from Harvey and Irma. The majority of this exposure was originated from our U.S. property underwriting division covering the wholesale, retail and in the marine markets with some minor contributions from our Lloyd's platform.

This loss is against roughly $450 million in annual lines worldwide property insurance premium and roughly $2 billion of similarly annualized premium within the overall insurance operation. Together, these data points suggest that these events are in proportion to our portfolio, and again within our various modeled expectations.

One final comment on the cat side. It is important to remember that we are in the middle innings of a significant transformation of our insurance platform. As we have stated previously, this is called the temporary lag in earned premium, and several of our new underwriting divisions have yet to achieve critical mass.

As these new units continue to grow, as we are demonstrating quarter-after-quarter, we expect that our short tail property exposure will be even more balanced against a larger non-property base. This will further allow us to drive the consistent profitable results we have been experiencing more recently in our attritional combined ratios.

As for the question on market conditions, it is a very fluid situation and will take some months to find a balanced view. In fact, the current market is evidencing a fair amount of pricing volatility across lines as we work through this adjustment process.

Overall, and as we stated, we do believe there is a need for rate firming, certainly within the property markets, cat and non-cat alike, and also, in other markets. It is our sense that general firming will continue to occur across property lines in different degrees, and other major lines of business are likely to experience positive rate movements.

Remember, certain casualty lines of business, namely commercial auto, have been experiencing rate increase for many quarters, and based on underlying loss cost trends, that needs to continue.

Other lines of business likewise need to adjust to proper technical pricing. And I believe the industry at all levels understands that we can't perpetuate in an environment where pricing persists below these technical levels.

Again, each market, each geography and each line of business are different, however, the need to achieve adequate technical pricing remains universal. That is our focus.

In conclusion, despite the impact of the cat events in the quarter, we remain pleased with the continued progress we are making in the establishment of a world-class specialty insurer. The underlying performance of our diverse books of business are encouraging, and we feel we are well positioned to create value for all of our constituents and the evolving market ahead.

We look forward to continuing our momentum and reporting back to you on our progress next quarter.

Now back to Beth for Q&A.

**Elizabeth B. Farrell**
*Vice President of Investor Relations*
Thanks, Jon. Jennifer, we are open for questions at this time.

# Question and Answer

**Operator**

[Operator Instructions] And we'll go first to Elyse Greenspan with Wells Fargo.

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

My first question, just going back to your introductory comments, when you pointed to a market firming across all lines and territories. I just -- if we can get more color on -- I mean, if -- is this dependent on alternative capital, reloading or not reloading, following the events? I guess, how do you see dynamics underlying the market firming as we get closer to the January 1 renewals?

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

Well, there's a number of factors, at least, that lead us to believe that there is -- we'll be in [indiscernible]. First of all, starting with the various industry events that clearly, we had been attending throughout the past month, starting with Monte Carlo and moving on to PCI and Baden and the CIAB. The strength of the market in terms of its resolve continues to increase based on our assessment in various talking with customers, brokers and other markets. So that's number one. And underpinning all that is -- has been -- what I've been saying for some time, is that the returns on capital, return on equity of the industry, in general, as you all know, has been in the mid-single-digit for a period of time. And therefore, these types of events are unsustainable, with mid-single-digit ROEs in times of low to no cat activity. So clearly, the market has been below technical pricing adequacy. So that's number one. With respect to alternative capital coming back in, I'll start off with a good portion, a significant portion of alternative capital is locked up. And it's our belief that certainly, some new capital will come back in, but it's not clear yet that a 100% of that, at least in the short term, is ready to move back in. And frankly, alternative capital is not going to come back in, unless it sees some price improvement. So that's my fundamental belief as to why I think there will be a market firming. I don't think it's dependent on alternative capital. Those technical pricing needs across many of our lines of business, not just property. And there's been a reassessment of cost of capital and price [indiscernible]

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

What level of rate do you think we could see on both loss and potentially non-loss impacted accounts?

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

I knew it would -- eventually get to that question, and I'm not necessarily going to say that we're expecting x percent by this time frame. I think you will see, in the retro market, a very, very strong double-digit rate increases early on, and perhaps, that will last into a second renewal season. That, of course, as you know, was firm retro pricing that has a waterfall impact on the rest of the property cat. We're already, as Jonathan somewhat alluded to, on the primary side, it's mixed early days, but we are seeing -- beginning to see some price movement upward. But that will take a longer period of time to get to what we believe would be great impact. So at the primary level, ultimately, it's in the early days, it's high single digit. But that might take several months to really play out. On the reinsurance front, straight up property cat I think will start in the teens, again, in loss-affected areas, and perhaps, that will take multiple years to play out. But it is -- you don't know for sure, but clearly, we are approaching the January 1 renewals with the anticipation that rates are going up.

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

Okay, great. I appreciate the color. And then also, if you could talk about the potential implications on the tax side if the nil bill is included within tax reform.

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

Potential implications to the industry, to us? What is? Where is the [indiscernible]

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

For Everest, sorry. For you guys, specifically.

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

There's many derivations of that. We have various companies that are in place, obviously in the U.S., in Bermuda, in Ireland, in other jurisdiction. And we have capital in most of those locations. So depending on what the final shape of that bill is, will dictate where we position our capital and what companies we will be writing business on.

**Operator**

We'll go next to Kai Pan with Morgan Stanley.

**Kai Pan**
*Morgan Stanley, Research Division*

First question, just to follow up on this question on alternative capital. How much was the total losses for Mt. Logan? And what your investors' sort of at-risk appetite up to those events?

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

Let me ask Craig for the total loss for Mt. Logan.

**Craig W. Howie**
*Executive VP & CFO*

The total loss for Mt. Logan was almost $200 million. And then, of course, they got -- put away income as well. So you'll see that AUM is down about $160 million for the quarter.

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

And then, I'm sorry the second follow on to that, Kai, was?

**Kai Pan**
*Morgan Stanley, Research Division*

What are the sort of your -- the investors in Mt. Logan with the risk appetite following this event?

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

We have and have had, actually, before the events but even after the events, we have investors that are ready to put capital in. Some reload, some new investors that are interested in going forward, with the Logan platform, all with an expectation that rates are going up, that kind of relates back to my earlier response to release.

**Kai Pan**
*Morgan Stanley, Research Division*

Okay. My second question is that you've ceded about 10% of the reinsurance premiums, about 20% of your insurance premiums. I just wonder if the retro or reinsurance rates going up some double digits. How would that impact your sort of underwriting strategy in terms of net gross?

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

John?

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

Kai, it's John. So I think there's a lot of dials that we look at, both in terms of absolute and relative rate adequacy, so we'll look at it both on the gross side in terms of how we're going to deploy the capital, to which area, which product lines, which territory and then how much we want to deploy. So how much we want to deploy and how much we want to retain that will be a function of what we think would the overall rate adequacy is. And then yes, we will look to the different hedges, whether it's traditional hedges of reinsurance and retro. But remember, we have a lot of dials to turn on how we get the business from, as I mentioned, from insurance, reinsurance, all the way to retro, and we have a lot of different dials to turn in terms of how we manage our net risk appetite and net risk exposure. So -- and those include Mt. Logan that takes shares of different pools of risk and stand with Everest on whatever the rates are that we get, as well as the catastrophe bonds that we have, where we have $2.8 billion of multiyear aggregate catastrophe bond, most of which though, the vast majority of that is still intact going forward into January 1 and later.

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

To add to that, picked up on something that John has alluded to there, keep in mind that what we have been doing through the market cycle here is the market has been softening over the past couple of years. We've been moving attachment points, and deploying our capital to what we felt is the best risk-adjusted returns. And we -- where we will be going forward perhaps, we'll be changing that again, so that where the market is getting the appropriate rate increase and where the best risk-adjusted returns are is where we will be deploying our capital. So that could change over the next 12 months.

**Kai Pan**
*Morgan Stanley, Research Division*

Okay. If I may, the last question is a quick one on the tax rates. So what's the expected tax rate for the first quarter? Would it be normalized like 11%, 12%?

**Craig W. Howie**
*Executive VP & CFO*

I mentioned in my script, Kai, that I believe the tax rate for the fourth quarter, any income earned in the fourth quarter, should be an effective rate of about 10%.

**Operator**

We'll go next to Jay Gelb with Barclays.

**Jay H. Gelb**
*Barclays PLC, Research Division*

I know you mentioned the view that the third quarter catastrophe losses within your risk parameters, was there anything coming out after your action reports in the third quarter that Everest possibly could have done different or better looking back on these catastrophe losses?

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

There's always things around the edges that you can improve upon. There's nothing material that stands out. I guess, with the very extreme and the absurd could have been we would have written no property cat. That's obviously not a realistic scenario. It is -- I have to be honest with you, I think what we have done on the way we've managed our portfolio, I think it's been pretty much spot on, as again, during the -- over the last couple of years, as you know, we've been earning very, very good returns on our capital. We've been leveraging the retro market, the capital markets and allowed us to maintain our writings while not diminishing our returns on capital. And the loss, frankly, has come out well within our parameters. So there's not really -- I suppose, the only other thing that we could have done is, again, Monday morning quarterback, we'll buy more reinsurance for our insurance portfolio, but -- looking at it from this vantage point, I'm certain we would have made the same decisions.

**Jay H. Gelb**
*Barclays PLC, Research Division*

And using that as kind of as a starting point for the next question. The combined -- accounting your combined ratio in the third quarter in the insurance business over 140% is -- what can be done differently there to bring this to a, obviously, not in 2017, but in 2018 and beyond, bring this to a calendar year underwriting profit for the business?

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

Well, I mean, that combined ratio that you cite includes the catastrophe losses. So are you talking attritional or are you talking all in?

**Jay H. Gelb**
*Barclays PLC, Research Division*

All in. I mean, looking out into next year, it's been a number of years I think since the insurance business has generated an underwriting profit.

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

Well, on an attritional basis, it is generating an underwriting profit. And you'll see the improvement in the attritional combined ratio year-over-year. So we are moving in the proper direction. We view our cat book -- we view, on a corporate or global basis. So when we're -- when we are allocating capacity, when we are looking at the marketplace, we are looking at our cat exposure globally, and I should say, corporately. So that was well within our risk appetite. To the extent that it is, then we could certainly entertain some intercompany reinsurance opportunities that would, in effect, manage that combined ratio perhaps to the point that you're describing. But overall, we are very confident and very pleased with the attritional performance of our book.

**Jay H. Gelb**
*Barclays PLC, Research Division*

That's helpful. And then 2 final quick ones. One, any perspectives on exposure in the fourth quarter from the California wildfires? And then separately, since the company is more focused on deploying capital on the business, should we kind of zero out the potential for share buybacks going into next year?

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

As you know, we don't -- let me answer the wildfire question first. At this point, it's clearly still early, but the losses, we've modeled it and what we're hearing from customers and underwriters, that it was -- it is well within our normal quarterly cat load. So we're not concerned about that event at least at this point. Relative to share buybacks, as you know, we don't give an indication of what our appetite is. We're in the process of just reformulating, if you will, our plans for next year. And we'll have perhaps more to say on that in the weeks and months ahead.

**Operator**

We'll go next to Josh Shanker with Deutsche Bank.

**Joshua David Shanker**
*Deutsche Bank AG, Research Division*

So I want to square these talks about improving pricing with also your appetite for growth. Compared to many of your peers, you have found opportunities in this marketplace where others haven't. And you grew you have a very nicely in this third quarter as well. If someone says, look, if there's attractive opportunities, pricing maybe doesn't need to go up, or how do I square those 2 things?

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

Well, is your question on the reinsurance front or the insurance front?

**Joshua David Shanker**
*Deutsche Bank AG, Research Division*

Well, can you talk about -- I mean, clearly, insurance book is obviously growing faster, but you're also finding -- I guess, in financial lines, you've found opportunities in reinsurance, which is, obviously, not property. But there's a lot, not just you, there's a lot who think pricing has to go up, but you are Everest and I respect your work and whatnot, you're finding opportunities in a very helpful way I think, or maybe I'm not reading it correctly?

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

No. So -- in part of reinsurance growth is -- remember, we took on a crop reinsurance portfolio, so the growth was coming from that. mortgage has been growing as well. And then a few property -- a few pro rata deals have -- well at hand. Some of our structured products there, our structured solutions group has been adding some premium as well. Our straight-up property cat business is not really grown all that much year-over-year, and that's frankly because of softening market, moving attachment points, all those things in the mix that kind of tapped out kind of our appetite on property risk, cat risk. I don't know if [indiscernible]

**Jay H. Gelb**
*Barclays PLC, Research Division*

Yes, yes. And so as you're adding on business in the primary insurance book, is that business dependent on the industry having cheap reinsurance on the property side to allow you to grow there?

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

Absolutely not. And as Jonathan pointed out in his opening comments, we expect the non-property lines actually to grow a little faster in the coming quarters, and so you'll see even a better balance between property and non-property.

**Joshua David Shanker**
*Deutsche Bank AG, Research Division*

And [indiscernible] I will try and dig a little bit deeper on that. The other question, obviously, you guys bought more protection throughout the year, lowering your P&Ls, but we never really got any numbers to that. Is there any color you can give us on where your PML stand now versus where they stood at the beginning of this year?

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

Josh, it's John, yes. I mean, I think they were basically materially similar. There was a decrease due to the cat bonds that we issued in March and April time period. But part of that, and we continue to use third-party capital as a way to think about managing our portfolio, managing the overall risk appetite, shaping it, and so to the extent that we had some additional capacity through the aggregate catastrophe bonds that we purchased, that covered Texas, Florida and Puerto Rico, among other areas, that helped us. In terms of Venice, we went into June 1 and July 1 in terms of the renewal period to maintain a net PML position that we were comfortable with.

**Operator**

We'll go next to Amit Kumar with Buckingham Research Group.

**Amit Kumar**
*The Buckingham Research Group Incorporated*

Two questions. The first question is the discussion on the catastrophe bonds, and I think I -- what I heard was they didn't kick in. Can you remind us -- and I know they all have different attachment points, what do the industry losses need to get to for your cat bonds to trigger?

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

So the catastrophe bonds, some of that we purchased -- so across the $2.8 billion, there's several layers, different perils covered. They all cover North America in some fashion and Puerto Rico, several of them. And then, some of them are on a current basis and some of them, including the most recent $1.25 billion as well as some of the previous ones are on an aggregate basis. So these bonds that we purchased are typically done by -- tied to industry losses, and then there's different market shares that are applied as for the bond. There are different market shares based on territories that are exposed. So there's not really a simple answer to that question. So the market shares in each of the bonds and each of the territories will vary as we try to shape the bond to then best hedge our overall portfolio. So the most latest catastrophe bonds of the $1.25 billion that we issued, they are done on an industry basis, so people, such as yourself, can do your own research on whether you think they're expected to be penetrated or not. There had been some markdowns in the bonds that reflected that there may be some potential penetration to the lowest layer. But that really is going to end up being ultimately up to what the final industry losses are going to be.

**Amit Kumar**
*The Buckingham Research Group Incorporated*

That's a bit fair point. Yes, it's a bit tough to figure out the weighted index attachment. The second question I had was, I guess the discussion on the missing industry losses and we've sort of raised this topic on other calls as to how do we get to the industry loss of $100 billion-plus versus the current addition of the disclosed losses. If the industry loss were to move downwards, does your net loss move up? Can you just help us understand that metric a bit better.

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

No. The industry loss moves down, you're expecting our loss to go up, is that what you're saying?

**Amit Kumar**
*The Buckingham Research Group Incorporated*

No, I'm thinking more of the recoveries, how they trigger in, account level they trigger in. That's was I was asking. Sorry.

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

It's -- our net loss contemplates recoveries from the -- or [ essentially ] that John was just kind of outlined, which does mean that if in the industry loss goes down, our net loss position really doesn't change a whole heck of a lot. There is some movement that could occur, but it all depends on industry loss, where that loss is coming from, what the weightings are. So it's a little difficult to give a precise answer to that. But my point is that there shouldn't be -- within a bond, our net loss position doesn't change a whole heck of a lot. It's really [indiscernible]

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

It's the same on the other side, which is, if the losses go up because of the various protections including the aggregate catastrophe bonds I was just talking about, which are very close to the aggregate retention being exhausted or slightly into the first layer, it also means that if the industry losses go up, that our net loss position won't change materially.

**Amit Kumar**
*The Buckingham Research Group Incorporated*

Fair point. And Dom, any view on this, I guess, the missing billions of industry losses? I mean, obviously, we're talking about reaffirming your quite positive on the market scenario. [indiscernible]

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

All of you smart folks have been exploring this and asking managements on all the calls and then looking at it for weeks, and you can't find it, I don't know how you expect a simple man like me to figure that out for you. But if there was a place to look, I would look in the capital markets piece. That's my expectation of where kind of the missing numbers are.

**Operator**

We'll go next to Meyer Shields with KBW.

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

I had 2 big picture questions and then 1 more number specific. So Dom, I was wondering, one, if you could give us a sense of third-party investor elasticity. In other words, how various levels of rate changes might affect the supply of third-party capital. And secondly, whether based on your experience, it makes sense to pull back some capital from 1/1 renewables in anticipation of better rate changes later in 2018.

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

Two great questions. Third-party capital is looking to come back into the space, or what I would call reload, if it can get meaningful rate increases. And the definition of meaningful can vary by company. It can vary by investor. Do I see a material increase in third-party capital if we have some level of market firming? I do not. I think first, the capital has to be reloaded. And I think what your question was implying was, is the third-party capital going to increase materially if there is some material increase in pricing? We don't see that just yet. I also think that the other side of the equation is that from what we've heard from some clients is that they're more interest in -- interested in potentially increasing their purchases from rated paper as supposed to third-party capital. The whole issue of reinstates are always a problem there. And so there is -- those seem to be an increase in interested -- interest in rated paper. And that doesn't mean, by the way, that reinsurers, like ourselves, which utilize third-party capital and see as an opportunity to expand our capital base, wouldn't increase. But to the extent that it does allow reinsurers to perhaps increase the participation of clients directly as opposed to have those clients buy from third-party capital, we think that might represent an opportunity certainly in the medium term. In terms of holding back capital, we're in a marketplace. We have customers, and we have sufficient capital and/or access to capital that we can trade forward or trade in a bigger way if rates are even firming more into the year. I think the fundamental question is we won't be deploying capital unless it meets our risk-adjusted return hurdles. So that's the first test. And if it meets our hurdles, and we would anticipate it would probably even, in some circumstances, exceed our hurdles, then we will deploy the capital. And there isn't a need to hold back capital in that environment. Does answered your 2 questions?

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

It does. Sounded very well. Follow up -- well, not follow up, but within the insurance segment. I guess, both last year and this year, the attritional loss ratio was higher in the third quarter than it was in the preceding 2. And I was wondering, if this [indiscernible] to seasonality? Or is that just luck of the draw?

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

In any one particular quarter, no. There were adjustments we're making to the big loss ratios, there's a -- there is -- our ANH book of business for example has been growing, which by definition carries a little bit higher attritional loss ratio. We think it's more appropriate to look at the year-to-date performance which takes out some of those quarterly anomalies, which picks a business, is where we're pegging loss ratios in any one particular quarter, we make adjustments in a quarter. But it's the year-to-date number that really is what we think and what we look at predominantly. And that's improving year-over-year. That's trending in the right manner.

**Operator**

And we'll go to our final question from Brian Meredith of UBS.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

A couple of quick questions here for you, Dom. The first, I'm just curious, at Mt. Logan, how much collateral do you expect to be tied up at the 1/1 renewals? And do you plan of kind of replenishing that with new money here on that?

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

Yes, it's John. The amount that would be tied up would be consistent with the expected losses that are there plus the buffer that would be on top of that against the ceded losses. And then in terms of how much we would look to raise or redeploy, we would look -- we're in the process of talking to Logan investors both existing and new ones. And we would expect -- we don't know what the final number would be, but we would expect it to be up.

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

And those investors, to make it clear, are looking also for rates to be up. They're not looking to deploy capital in a flat to down market.

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

And it allows -- as Dom said earlier, there clearly is a trend in the buyers, both in the reinsurance and retro market, looking for rated paper, because there's some fundamental structural problems, which we're going to see is going to play out in real time with the collateralized product. In terms of collateral release mechanisms, forced collateral release, people may realize they thought they had cover and then they don't have as much cover as they thought or they don't have continuity of cover from 1 year to the next as collateral gets trapped. So there's a clear demand for rated paper. And we, with our balance sheet, our ratings and kind of our 45-year trading relationship with clients around the world, expect to be in a good position to capitalize on that. And so part of that would be to make sure that we get the right net risk position to be able to use our different capital structures such as Mt. Logan to help. But basically, if Everest gets rate, the Mt. Logan investors benefit from that. So we stay in power, pursue with them.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

Right. That is great. And then I'm just curious, given history has kind of shown that, on the property cat line, rate increases tend to be fairly short-lived, that's if you expect that at this time around? But given that, would you expect to potentially disproportionately put more into Mt. Logan or some type of a soft capital facility to kind of help manage that risk?

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

I think we have demonstrated over the last couple of years that we deploy our capital in the best risk-adjusted areas, we have used third-party capital. We will write the business on the basis that we think is best for the organization and use the capital that's out there in the most -- in the highly efficient manner possible. So it's difficult to answer that question precisely, but I think what we've demonstrated is that we're flexible and we tend to be within range as opportunistic and we move our capacity around. And we will continue to do that as we trade forward if -- which you're suggesting is that the firming would be short-lived.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

Great. That's great. And then one last one. I'm just curious. So John, Dom, I appreciate that your point about the industry kind of cost of capital going up here. But do you think that the kind of cost of goods sold for property cat reinsurance, based upon models and stuff, is also going to rise here? And it's going to drive some of this rate activity or do you not see that happening?

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

[indiscernible] John,

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

So I think a lot of times, every time a loss happens, there's always something that the different vendors learn from, something different than before when they're adjusted. That typically takes a few years to ripple through the system as they update their model to kind of fit the historical events set or the different events that happened. So certainly, I think -- take what happened in Houston, I think there's going to be a heightened awareness to flooding risk in different ways than people certainly some of the vendor models had thought about it before. But this is true with the different earthquakes, whether it was the New Zealand earthquake or the 4 zones on the Japanese earthquake. It's true -- it's been a long time since the catastrophe of that size hit Maria. And I think the modeling agencies will think that through. And for a little while there, we were looking at a cat 5 hitting Miami. And I think that will both change some customers' views of their risk management as well as potentially change some of the vendor model with that as they think about the possibilities with different strong tracks. But a lot of that takes a -- the customer views may be more -- happen in real time as people think about what the overall -- what Board of Directors, for some of our clients, think about what their risk position is? And how much they want to keep net, and that may put some of upward demand on reinsurance. But in terms of the modeling agencies, it usually takes a little bit to go through the system.

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

The bottom line, Brian, I think the model is great. Everyone in the industry uses them. Events like this, I think cause all managements to take them with a little bit of grain of salt and recognize that there is risk that is not evidenced through the models, and that, in fact will have some impact on pricing, will have some impact on buying behavior as well.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

Great. And then kind of just one quick number question for Craig. Let him to do some talking here. In the operating expense line, was there any kind of reversal of maybe variable incentive comp that happened?

**Craig W. Howie**
*Executive VP & CFO*

Yes. We did that this quarter as well, Brian, just because of matching with the events. But that will be determined again in the fourth quarter, depending on where we stand with respect to income in the fourth quarter.

**Dominic James Addesso**
*President, CEO & Non-Independent Director*

I'm glad Craig was able to be able to respond. That's it. Okay. So we had all our questions, and thanks for those. In summary, I think what you heard this morning is that our risk management practices have contained the losses within our expectations. And that kind permits us to trade forward and participate fully in what we believe I think the market believes we will be firming. We think this is true, not only because of what markets, in general, are saying, but also because there will be some dislocation of capital, which as I said before, will benefit highly rated paper such as ours. So this is the business we are in, but this does create some opportunities for us, going forward. So thank you for your participation on the call. And I look forward to our continued dialogue. Happy Halloween.

**Operator**
This does conclude today's conference. We thank you for your participation.