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PRESENTATION

Operator

Good day, everyone. Welcome to the Everest Re Group, Ltd. Third Quarter 2010 Earnings Conference Call. 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, maam.

Beth Farrell - Everest Re Group, Ltd. - VP, Investor Relations

Thank you, John. Good morning and welcome to Everest Re Group’s Third Quarter 2010 Earnings Conference Call. With me today are Joe Taranto, the Company’s Chairman and Chief Executive Officer, and Dom Addesso, 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 the full listing of the risks that investors should consider in connection with such statements. Now let me turn the call over to Joe.

Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO

Thanks, Beth. Good morning.
We are pleased to have grown our book value per share in the quarter by 6.4%, to over $114. Despite $514 million of catastrophe losses in the nine months, $347 million of share repurchases, and $82 million in dividends, shareholder equity is up $180 million for the year, attesting to the strength of our organization.

Despite these catastrophes, book value per share is up 11% through the first nine months. Cash flow remains quite strong at just over $790 million for the nine months. Gross written premium increased 3% to $1.16 billion, as we continued to grow in the international and US property markets.

During the quarter we repurchased $100 million of our shares. For the year, we have repurchased $347 million of our shares, representing 7.5% of the outstanding shares at year-end 2009. We have four million shares remaining available under our current authorization. We plan to continue to purchase shares in the fourth quarter.

As previously announced, I will be continuing as CEO through 2011 and 2012. I am dedicated and energized to continue to lead the Company forward.

Going through our underwriting results by our segments, first, our international reinsurance book, which represents 28% of our worldwide book through nine months. This segment includes Latin America, Canada, Asia, the Middle East, and Africa. This segment has increased premium by 13.6% to $906 million through the first nine months. Excluding foreign exchange, the increase was 9.3%.

The increased volume was a combination of new business, increased participations, rate increases in select areas, and economic and insurance growth in some markets. Included in this segment is our initiative in Brazil, which continues to go quite well. We have a long-standing, important position in the international reinsurance market. For example, we are the number three reinsurer in Latin America, number three in Canada, and a strong household name in virtually all foreign markets.

Historically, our international reinsurance book has been very profitable. Unfortunately, this year has been hit by both the Chile quake and the New Zealand quake. Whereas rates increased in Chile in response to losses, we expect to see rate increases for Australia and New Zealand, as well. Second, our Bermuda reinsurance operation which has produced 18% of our worldwide business through nine months. Our Bermuda operation includes London, Ireland and continental Europe business, written through our Brussels office.

Our international reinsurance and Bermuda reinsurance operations together produced 46% of our worldwide premium and 58% of our reinsurance premium overall. Bermuda Reinsurance premiums are down about 5% to $565 million through nine months, mainly being driven by reducing our book of business in continental Europe in response to softening market conditions. The combined ratio for the Bermuda Reinsurance operation was 92.7 for the quarter, and 94.8 through the first nine months. The nine month combined ratio includes 13.1 points of catastrophe losses.

Third, our US reinsurance book accounted for 28% of our worldwide book. Premiums are up 1% in this segment to $885 million through nine months. However, within this segment, property reinsurance is up 5% and casualty reinsurance is down 7%. The property growth comes from increased writings from our Florida quota share business, mainly from rate increases our clients have implemented.

In casualty, we continue to underwrite and respond to changing market conditions. We continue to see insurance rates decline in most casualty products. Within the US reinsurance, property now accounts for 70%, and casualty for 30%. The combined ratio for our US Reinsurance operation was 82.3 for the quarter, and 84.1 for the first nine months.

Our fourth and last reinsurance category is specialty reinsurance, which accounts for 6% of our worldwide book. This category includes accident and health, surety and marine and aviation. Through nine months, this segment has grown by 8% to $198 million. The increase is driven by growth in our accident and health book for both travel insurance and medical stop loss programs.
insurance. The combined ratio for specialty reinsurance was 97.5 for the quarter and 104.1 for the first nine months. The nine month combined ratio includes 10 points of losses for the Deepwater Horizon.

Overall, reinsurance constitutes 80% of our worldwide premium. Accordingly, our insurance operation makes up 20% of our book. Insurance premiums are down 1% for the nine months to $645 million. The combined ratio was 105.5 for the nine months.

The combined ratio for the quarter was 111.8, largely driven by increasing the 2010 accident year combined ratio for California workers’ comp to just over 100 and the impact of return audit premium adjustments.

This demonstrates the current difficulty in the US casualty insurance market. We are currently getting 10-ish percent rate increases in California workers’ comp, but we believe much of this is needed to keep pace with claim inflation. On our general liability business, we have not been successful in getting any meaningful rate increases. Our plan here is to maintain discipline on casualty business and look for new opportunities in property and shorter tail business. Our direct specialty business continues to perform well and we’ll continue to look for opportunities in this space. Mark Herman and Daryl Bradley have their work cut out for them, but I’m sure they’re up to it.

In summary, the market’s a mixed bag. I’m pleased that we’ve been able to grow the top line, albeit a modest 3% through nine months. We have continued to expand our global reach in areas such as Brazil, Israel, China and Africa, where we write property, bond business and selective casualty. We have continued to grow our business in the US and international property, where rates are appropriate, including Florida quota shares. We have done so without increasing our PMLs in 2010 for any major zone including Florida, California, Japan, Latin America and European wins.

Meanwhile, we’re doing less US casualty business in both insurance and reinsurance. In short, we continue to extend our franchise where it makes sense to do so but we are looking to avoid the pockets of weak pricing we are increasingly seeing. Now Dom will take you through the financial highlights.

**Dom Addesso - Everest Re Group, Ltd. - CFO**

Thank you, Joe. Good morning.

As noted, operating earnings per share on a fully diluted basis for the quarter were reported at $2.67, compared to $3.43 one year ago, and $3.18 one quarter ago. These differences were mainly the result of catastrophe losses. In the third quarter, these losses amounted to $1.34 per share, compared to $0.90 per share in the second quarter, and just $0.29 in the third quarter one year ago.

The third quarter CATs were a result of pretax losses of $75 million from the New Zealand earthquake and $15 million from the Calgary hail storm. The New Zealand estimate is based on the upper ranges of our estimates, which take into consideration three different methods of measurement. Those being market share, modeling of similar event sets, and underwriter estimates. The net range on the average of these methods was $48 million to $80 million. We feel our pick of $75 million is, therefore, a conservative estimate, particularly as it stands well above our underwriter’s range estimate of $45 million to $61 million.

Total CAT losses for the year are now at $514 million, or $491 million net of reinstatement premium. Our operating income for the year-to-date stands at $4.50 per share, contrasted with $9.32 per share one year ago. CAT losses year-to-date amounted to $6.97 per share in 2010, compared with $0.85 last year. Adjusting for CATs, our net operating income per share compares favorably at $11.47 this year versus $10.17 a year ago. The operating income for the quarter equaled $149 million. This was mainly comprised of a pretax underwriting gain of $41 million, or a 95.9% combined ratio. And $141 million of investment income, pretax.

The other major item affecting operating income was income taxes. The projected annualized effective tax rate increased to 8.9% at September 30, from 7.1% at June 30, resulting in an effective tax rate of 10.2% for the quarter. The 8.9% effective tax
rate assumes a certain level of CAT activity in the fourth quarter. If there is no fourth quarter CAT activity, it is estimated that our effective tax rate could rise to 11%, all else being equal.

As mentioned, the combined ratio for the quarter was 95.9. This is comprised of a 67.7% loss ratio, and a 28.2% expense ratio. The expense ratio remains stable, relative to other comparable periods. The loss ratio is broken down between 60.8 points of current year attritional losses, compared to 56.8 points in the prior year, 2.1 points of favorable development versus adverse development of 0.9 points in the '09 quarter. And finally, 9 points of CATs versus 2.5 points in 2009, which I've already outlined.

The favorable development for the quarter was contained within our reinsurance book and similar to the second quarter of this year, was primarily from our international operations including Bermuda. The rise in the current year attritional loss ratio from a year ago generally reflects a conservative reserving philosophy in the face of a continued soft market, along with an assumed increasing loss trend over time.

Turning to investment income, I previously noted that this equaled $141 million for the quarter. This compares to $165 million one year ago. This decline is primarily attributable to results from our limited partnership investments, where there was a $1 million loss in 2010, versus a $23 million gain one year ago.

The loss in 2010 is primarily a result of changes in equity valuations which are booked on a quarter lag, representing values at June 30. At that date, the overall equity markets were depressed. These markets are used as a relative benchmark in valuations and therefore had a negative impact on limited partnership values. I would, however, point out that equity markets have rebounded during the third quarter, and this should have a positive impact on fourth quarter valuations.

I should also point to our year-to-date investment income of $469 million compared to $401 million last year. This year's number includes a $30 million gain in limited partnerships, versus a $29 million loss last year. Excluding the effects of limited partnerships, net investment income is up 2% year-over-year. Investment income in fixed maturities is generally flat over comparable periods in the prior year. There are a few factors at play here. First, declining yields available in the market. Second, is a bias towards shortening the duration of our portfolio to reduce price risk and anticipate a higher rate environment. Third is while cash flow from operations is strong, we have directed some of that towards share repurchase, and finally, we have increased our allocation to public equities.

This strategy has been one which emphasizes dividend income and large cap stocks. This combination has enabled us to maintain our investment income via dividends while providing upside through appreciation with less volatility than other equity sectors. Other investment strategies have been deployed to somewhat mitigate the impact of a lower rate environment. We have allocated funds to the high yield markets in the bank loan or floating rate market. While this reflects an approach to increased credit risk versus duration risk in order to achieve yield, it has not been at the expense of maintaining the overall credit quality of our portfolio at AA.

Given the economic times we are emerging from, we find these alternatives opportunistically attractive as spreads have widened for many credits and over time we expect them to contract less in a rising rate environment. At the same time, credits are more likely to improve as economic conditions turn. We are also considering emerging market debt for these reasons as well.

Finally, overall net income for the quarter was $174 million, comprised of the operating income discussed above, plus aftertax net realized capital gains for the quarter of $25 million. These realized gains reflect valuation changes for our equity portfolio as a result of a strong market through September 30. There were no significant gains or losses from the sales -- from sales of securities.

Comprehensive income for the quarter of $367 million is the result of net income plus $193 million of other comprehensive income. The other comprehensive income is primarily the result of unrealized gains in our bond portfolio, due to declining rates. The total comprehensive income for the year of $596 million has resulted in book value per share rising to $114.16 from
$102.87 at the beginning of the year. This represents 11% growth in book value for the nine months. Given this capital position, we are still bullish on share repurchase. With that, I’ll thank you and turn it back to Beth for Q&A.

Beth Farrell - Everest Re Group, Ltd. - VP, Investor Relations

That concludes our prepared remarks, and now we would like to open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And we’ll take our first question from Jay Gelb with Barclays Capital.

Jay Gelb - Barclays Capital - Analyst

Thanks, and good morning, Joe, can you give us a bit more additional insight on the recent management changes, as well as any thoughts you might have on next steps in terms of leadership, and any areas of focus for you in particular? Thank you.

Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO

Sure, Jay. Well, I think I’ve been through this with many of you who are on the call, but I’ll go through it one more time for everyone’s benefit. The Board decided it was best for the Company if I continued as CEO. Once this decision was taken, it was mutually agreed that it was best for Ralph to pursue other opportunities. We thank him for his many contributions at Everest, and we wish him the very best. There are no financial issues whatsoever in connection with this matter. I am fully dedicated to continue to build the franchise. The Board will resume its succession planning, and it can be done in a deliberate manner since I’m here for two more years.

Currently, with regard to the President’s role, I will be sharing that role with the Executive Vice Presidents. Our EVPs are a seasoned group. They’ve known our customers for many years, as I have. So, I expect no interruption to business.

Our team has increased book value per share by 14% compounded over 15 years. We’re at 11% through the first nine months of this year despite the catastrophes, so I expect us to continue to build value. As far as the strategy and the game plan on virtually all fronts, it continues as it has been. I’ve been the CEO, and continue to be the CEO. And I think that probably summarizes what I need to say on that front, and I would like to move on to questions for the quarter and the strategy and the future.

Jay Gelb - Barclays Capital - Analyst

Sure thing. For Dom, just a quick one. If the market was down overall, the equity markets in the June quarter, and up 11% in September, the alternative asset income was essentially unchanged. So, we’re just trying to get a little insight in terms of what equity market moves mean in terms of sensitivity for the alternative assets.

Dom Addesso - Everest Re Group, Ltd. - CFO

I don’t know that I have the direct correlation for you, Jay, but I guess I was just trying to suggest that many of our limited partnerships use the equity market as a benchmark in terms of valuations. So, that was part of the reason, or a big part of the reason, that our limited partnerships did not experience any uplift in our books for the third quarter because it’s on a quarter
lag. So those valuations were based on the 6/30 equity market. And so, given the fact that equity markets are up for the third quarter, I would expect that there should be some upward momentum or lift coming from that, but I don't have a prediction on what that might be.

Jay Gelb - Barclays Capital - Analyst

And the asset base, if we were to put a return profile on that, what type of asset base should we think about for the alternatives?

Dom Addesso - Everest Re Group, Ltd. - CFO

About $500 million.

Jay Gelb - Barclays Capital - Analyst

All right. Thank you.

Operator

We'll take our next question from Cliff Gallant with Keefe Bruyette.

Cliff Gallant - Keefe, Bruyette & Woods - Analyst

Good morning. I just wanted to talk a little bit more about the insurance line of business. Joe, you said that the management there will have their work cut out for them. Wonder if you could talk a little bit more in detail about what you think really needs to be done to produce consistent profitability there. In terms of time frame, when do you think we can start to see steady profits again in the insurance line?

Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO

Well, what I meant there is that is mostly a casualty book of business at this stage, and the casualty, certainly US market, is very difficult. We're seeing most lines of business are 100%-ish in terms of combined ratios, some a bit higher, maybe a few a bit lower. They're going to need to press on rate. We're doing that in the comp market. We were probably the first market out there to start that, at least in a meaningful way. We will continue to push both this year and next. We are starting to see the market being a bit helpful in that regard.

We've done well in the new operations that we started on the direct side. Our FI/D&O group is doing very well. And where we have selective opportunities on the direct side, we'll need to grow that. We are looking currently at some opportunities that are not casualty, and I think some of the better opportunities going forward for the next year or so may be in the shorter tail space. So, we are examining that as well.

We've been pushing on the general liability front. As I noted, with not great success at this point, but that doesn't mean that we won't continue to keep pushing. We will. And if we have to sacrifice some business there, we may.

So, our outlook going into 2011 is to be disciplined. It's not necessarily one to grow. We may grow in the shorter tail or the direct side, but we are going to push for rate in all the business that we have. We're not going to particularly worry about top line. My guess is we'll probably be down next year in the insurance space top line versus this year. We're much more focused on the combined ratios.
So, I expect us to do better starting next year. It’s a little bit hard to give you exact numbers in the sense that it will depend upon the marketplace. And as far as our team having their work cut out for them, it’s not just our team. It’s going to be anybody in the casualty insurance space in the United States.

Cliff Gallant - Keefe, Bruyette & Woods - Analyst

Thank you.

Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO

You’re welcome.

Operator

And we’ll move on to our next question from Vinay Misquith with Credit Suisse.

Vinay Misquith - Credit Suisse - Analyst

Hi, good morning. This quarter we saw the accident margins decline, and I believe on the US reinsurance side you had more property premiums from the Florida quota shares. Just curious as to why the accident year margins would decline this year versus last when you had sort of a more favorable business mix?

Dom Addesso - Everest Re Group, Ltd. - CFO

Vinay, this is Dom. I think as I mentioned in my prepared remarks, it really reflects a conservative reserving approach. We have, certainly in the overall markets, a softening market trend. Generally, that’s in casualty but also property rates are flat in some jurisdictions, and even down in others. So, it’s partly in recognition of that, as well as in recognition that loss trend, although sometimes uneven, is a never-ending progression upwards. And as I said, it does not necessarily mean that loss trends in any one year is up, but over the long term loss trend is on the rise.

So, we feel that it’s a conservative position. In fact, based on the way we price the business, our booked loss ratio is actually higher than our underwriters’ estimates that they’ve recorded on each and every -- at the detail treaty level. Now, it’s my experience that you tend to need to do that in a softening environment, in terms of trying to mute some level of optimism. But we feel very conservative in our position, and very confident that those numbers will hold up.

Vinay Misquith - Credit Suisse - Analyst

Okay. That’s great. The second question was on the fixed maturity securities. Fee income was down about $6 million quarter-over-quarter. Was there something special happening in that?

Dom Addesso - Everest Re Group, Ltd. - CFO

No, again, as I mentioned in my remarks, it’s lower yield available in the marketplace, and we have redeployed some new money to share repurchases, as well as in terms of maturities, and new money into share repurchases and into the equity markets, and a declining overall yield.
Vinay Misquith - Credit Suisse - Analyst
Okay, so we can use this as a run rate for the future. Okay, that’s great. And then one last thing, if I may. Your premium to equity’s only 0.63 to 1. Was wondering if that can go up in the future, or whether your business mix has changed to more sort of property-focused accounts, therefore, the premium to equity ratio should stay at these lower levels?

Dom Addesso - Everest Re Group, Ltd. - CFO
Well, we think it certainly has room to go up. Even at 0.63, or even if you change the mix of property business, relative to our own capital models as well as rating agency models, we feel that we have some amount of excess capital, which is why we continue to be very bullish on share repurchase.

Vinay Misquith - Credit Suisse - Analyst
Do you have an estimate as to how much it is right now, and when you plan to deploy that?

Dom Addesso - Everest Re Group, Ltd. - CFO
That’s not something that we have been in the habit of disclosing.

Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO
In terms of future purchases, we just want the flexibility. I did indicate we would be buying again in the fourth quarter, and we will. But on the issue of the amount of excess capital, can you give any guidance on that, Dom?

Dom Addesso - Everest Re Group, Ltd. - CFO
Well, I mean, certainly we have a rating agency model, which produces one number, but we tend to use our own economic capital models, and depending on various scenarios, it could be anywhere from $500 million to $1 billion.

Vinay Misquith - Credit Suisse - Analyst
Okay. And is that $500 million to $1 billion in excess of what the rating agencies require?

Dom Addesso - Everest Re Group, Ltd. - CFO
It would be within that, yes. The rating agency numbers would be higher than that.

Vinay Misquith - Credit Suisse - Analyst
Okay. That’s great. Thank you.

Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO
The excess would be a lot greater, just using the rating agency models.
Vinay Misquith - Credit Suisse - Analyst
Fair enough. Thank you.

Operator
We’ll move on to our next question from Brian Meredith with UBS.

Brian Meredith - UBS - Analyst
Good morning. Two questions for you. First, on the insurance business, Joe, any changes in strategy here going forward here on the insurance business that you’re thinking about now, particularly as it relates to building out platform versus using MGAs?

Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO
The MGAs that we currently have, we’re very pleased with them. We have some very long-standing relationships that we expect to continue. But as a general direction, I think especially at this part of the -- this time in the market place, unless it’s something unusual, most of the future growth would probably be more on the direct side.

Having said that, that’s going to be slow, too, if the market stays the way it is. We’re not going to be too aggressive on that front either. So it really is just selective opportunities that come in to us. We’re probably more keen on the direct side. We’re probably more keen on the short tail side. If it’s in the casualty space, it’s going to have to be proven to be highly specialized that we think it will deliver some very, very good results.

We were able to achieve that a year or two ago with regard to the Fi/D&O where we hit a nice window of opportunity, and continue to have a very good renewal base that works for us. So, the general direction might be more direct, more short tail. If it’s an MGA opportunity, we won’t exclude it if it’s really an exciting opportunity, and those that we currently have that we very much like, we will continue with.

That’s been the plan. That’s been the trend for us for the last year. Maybe the emphasis a little bit more on some short tail mix to kind of go with the casualty is something that we’ve been promoting more recently, but that’s the plan. And to stay very disciplined on the casualty side.

Brian Meredith - UBS - Analyst
Great, and then second question, Joe, can you give us your early read on what 1/1 is going to look like, pricing, particularly property cat, and then your thoughts on what cedants are going to do with respect to retentions?

Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO
Well, I think most people believe that there will be some moderation in pricing that will continue into January 1, so the general expectation is cat rates will be off a bit. I guess I hear 5%-ish change down is what most people believe. Clearly, if it’s in a pocket where there have been losses, it will be different. There will be a correction. We saw that in Chile. You’ll see that in Australia, any other pockets that have had losses, you’ll see some upward correction. Sometimes you’ll see a model change that might lead to an upward correction. We saw some of that in Canada.
But in the main, I think on the property side, on the cat side, you’ll probably see things come down a bit, same for retro cat pricing. Insurance rates, property and casualty, US and outside the US, again, we continue to see a bit of a slope down. Casualty rates, you’ve heard about my concern in the US. So, I think you’re going to see more of what you’ve seen in the last three, six months, except for some selective pockets.

I mean, we’re pretty lucky that we have this international franchise that we can go into the product lines and into the countries that we really think are offering some new and exciting opportunities. Brazil was a good example of that in the last year or so. But China, I would probably add to that list, and even Africa to a degree. But it will be tough sledding in terms of any company that’s immature, growing its top line business in 2011. I think we’ll see some more challenges, and I think discipline is the word to be used.

**Brian Meredith** - UBS - Analyst

What about terms and conditions?

**Joe Taranto** - Everest Re Group, Ltd. - Chairman & CEO

I haven’t really seen much change on that front, either at the insurance level or the reinsurance level. It may creep in as you go into 2011. I don’t expect much of that to change in January. We expect there will still be some very good pockets of opportunity besides the international space. I think it was Vinay that mentioned the Florida quota shares. We’re involved there in a pretty important way, and that’s actually one of the spots that is improving in the sense that underlying insurance rates are going up by a meaningful amount for the first time in years. So, it will be a question of picking the spots that make sense, and being disciplined in those that don’t make sense.

**Brian Meredith** - UBS - Analyst

Great. Thank you.

**Operator**

(Operator Instructions). And we’ll take our next question from Matthew Heimermann with JPMorgan.

**Matthew Heimermann** - JPMorgan - Analyst

Hi, good morning, everybody. Couple questions. First, just for Dom, I had a question, last quarter you changed the definition of cat from $5 million to $10 million. I was curious if you could potentially give us a sense of how that would impact the underlying loss ratios historically, because I would assume you would get losses reported as attritional on a go-forward basis, and whether that’s a material delta if we were to look at the last couple of years, for example?

**Dom Addesso** - Everest Re Group, Ltd. - CFO

It is not a material delta, which is why we changed it from $5 million to $10 million.
Matthew Heimermann - JPMorgan - Analyst

Okay. And then with respect to the quota share book in Florida, could you just remind us how big that book is today. And I would just be curious, given we haven't really gotten any rate, there's been some underlying loss issues, I'd be curious where that business is running relative to the rest of the US reinsurance book today?

Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO

The book is roughly about $300 million book of business. Our clients have received pretty much approval for 15% rate increase this year over last year, so their book tends to be growing on the back of that. Keep in mind, too, in terms of cat rates, they're paying a little bit less this year than they did last year, so their net is improved that way, and they're trying to improve the book in some other ways, as well.

So, I think at least for the important relationships that we have, there's much more margin this year, if you will, than there was a year ago. And of course, there needs to be, because you have to have a good result to pay for those cats when they do come along. Fortunately, they haven't had a hurricane in a few years, and they didn't have one so far this year. But that's actually improving in terms of the quality of the attritional and the overall combined for the partners that we have. So we're happy about that.

Keep in mind, we also have some containment on that book in terms of where we get stopped out. So, that's an equation that actually has gotten better in the last year. In fact, we've done less excess of loss in Florida, and a bit more on the quota share. Our PML has pretty much stayed the same, but remember, the excess of loss rates have actually gone down, probably will continue to go down into next year, so the ROE on that business is a little bit less favorable.

Matthew Heimermann - JPMorgan - Analyst

Okay. And then just in terms of underlying combined ratios, because I mean if I looked at homeowner's as a proxy for some of the primary guides, it looks like I would guess that ex-cats, that's probably running around 80%. Is that ballpark?

Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO

I was going to say 75%, but I think we're in the same ballpark, yes.

Matthew Heimermann - JPMorgan - Analyst

All right. That's it. Thanks much.

Operator

We'll now move on to our next question with Ian Gutterman with Adage Capital.

Ian Gutterman - Adage Capital Management - Analyst

Hi, Joe. I actually want to follow up on that question, too. What have you seen as far as -- part of the reason, I guess combining Matt and Vinay's questions on the US reinsurance business, is part of the reason we saw the accident year tick up, were there any issues in Florida with sort of the attritional claims have been worse for awhile? Was this a bad quarter for sinkholes or anything like that on the attritional side, or some of the fraud stuff?
Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO

It really wasn't, Ian. I really do think much of the issue just goes back to what Dom said about picking some numbers that are higher. It really is nothing emanating specifically from Florida. That portion of our book we do like better, as we just discussed.

But we know at the same time that we have this overall market that, if I put it all together, it's not better this year than it was last year, and so let's pick some higher numbers. If they prove to be too high as things play out next year or the year after, that's all well and fine by us. But no, there was nothing new and different coming out of the Florida claim side that I looked at as particularly worse.

Ian Gutterman - Adage Capital Management - Analyst

Okay. Good. And then Dom, to that point about how you're setting the picks--is it new at Everest to be setting picks above where the underwriters come out, or is it just that the margin above it is greater than it used to be?

Dom Addesso - Everest Re Group, Ltd. - CFO

I can't speak specifically as to what our practices have been in the past, but I can tell you that generally I think our approach more recently has been a bit more conservative.

Ian Gutterman - Adage Capital Management - Analyst

Okay. Fair enough. And then if I can just ask one more on California comp. You mentioned, Joe, how 10% rate increase is just keeping up with trend. Has your view on the attractiveness of that business changed at all, given just what's gone on politically there, plus some of the results of some of your smaller competitors in that state?

Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO

Well, it's certainly not an easy state. I think some of the smaller competitors are in a -- no, that hasn't concerned me. I think they're in a different part of the market than we are. Some of them are the US L&H business, or the high hazard groups. We've been in the low hazard group. We haven't really grown our book of business in quite some time. We have a book of business that's been very steady, with a very high renewal and retention ratio, and we've been there for quite a number of years. So we have a team that knows what it's doing.

It is still very difficult to figure out just what the medical inflation's going to be for 2010. A lot of the tort reform that was put in place, some of that is certainly being attacked. It will be fought out in the courts. It will be awhile before we know exactly what the answer on that front will be. So, there's still a fair amount of guesswork in terms of just what the severity will be.

And I think there's every reason, given that, to push for rate, and to try to be safer, and that's why we're pushing for 10%. And even, as you heard, with the 10%, much of that may get taken, in our mind, to pay for severity changes, and we'll continue to push for something next year on top of what we're getting this year. So, it's a dicey market. And no question about it, and that's why even there, it's more rate and a lot of discipline as far as we're concerned, and watch it closely.

Ian Gutterman - Adage Capital Management - Analyst

Okay. And can you remind me just ballpark what your premiums and reserves are for Cal comp?
Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO
Premiums, I would guess about $240 million-ish, that's pretty close.

Ian Gutterman - Adage Capital Management - Analyst
Okay.

Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO
Reserves, I don't have in front of me, but Dom, do you have that?

Dom Addesso - Everest Re Group, Ltd. - CFO
Yes, about $160 million.

Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO
No, it has to be more than that.

Beth Farrell - Everest Re Group, Ltd. - VP, Investor Relations
$160 million is the premium.

Dom Addesso - Everest Re Group, Ltd. - CFO
Premium, I'm sorry.

Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO
It's $201 million through nine months. $160 million through nine months. So again, would be a bit over $200 million annualized.

Ian Gutterman - Adage Capital Management - Analyst
Right.

Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO
And we don't seem to have the reserve number in front of us, so we'll get back to you with that, Ian.

Ian Gutterman - Adage Capital Management - Analyst
Okay. Great. Thank you, guys.
Operator
We’ll move on to our next question with Josh Shanker from Deutsche Bank.

Josh Shanker - Deutsche Bank - Analyst
Good morning, everyone. Back in, I guess probably the early part of 2009, as you guys were very topical on the market, and you decided to go back into equities, and you kind of doubled the size of the portfolio, but it’s still nowhere near where you guys were back in 2007. How are you viewing your ultimate equities as part of the investment portfolio, and what does the NEIC think, and what would you do in the future?

Dom Addesso - Everest Re Group, Ltd. - CFO
There’s a lot of questions.

Josh Shanker - Deutsche Bank - Analyst
Yes.

Dom Addesso - Everest Re Group, Ltd. - CFO
The last one first, I don't know what's in the future. But we're thinking about it. One thing to keep in mind is, as we look at our equity exposure, we consider both our limited partnerships and our public equity, and we put those kind of in the same basket even though maybe specifically they're not. But in terms of evaluating our equity-like exposure, that would be appropriate. And we have just recently increased our allocation to the public equity market, and we’ll probably continue to do that a little bit more into the next couple of quarters, and given our level of investments in limited partnerships.

We also are likely going to be seeing our limited partnership investments continue to trend down, as some of those mature, if you will, or get cashed out. And at that point we will probably, again, given wherever the state of the markets are at that point in time, we would more than likely, all other things being equal, allocate some of that takedown in limited partnerships more than likely back into the public equity markets. But that’s all predicated on an appropriate market environment at that -- at whatever point in the future that is. Does that help?

Josh Shanker - Deutsche Bank - Analyst
What do you think about NAIC considerations?

Dom Addesso - Everest Re Group, Ltd. - CFO
No, there are none.

Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO
No, it’s purely where we want to put the money that we think it would be best. And it’s a tough call, as you can imagine, for anyone in today’s market, but we are a little bit more drawn to the equity space. Some of that’s because we’re less drawn to the bond world.
Dom had mentioned we've gone into the bank loan space to some degree, and the high yield, so we're like the rest of the world, looking for the best opportunity. We'll still have a very big bond portfolio being an insurance and reinsurance company, but pound for pound, we probably are finding more opportunities in the equity side today with new money than we are in the bond side.

**Josh Shanker - Deutsche Bank - Analyst**

Understood. And I don’t mean to belabor a point, I do apologize, but I’m trying to understand also, you decided to retire maybe about a year ago. Why did you choose to come back as CEO, and not interim CEO?

**Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO**

I've never left as a CEO.

**Josh Shanker - Deutsche Bank - Analyst**

Well, and I understand. But it seems like in your mind you maybe had some thoughts about retiring, and just what's going -- how are you thinking about this yourself?

**Joe Taranto - Everest Re Group, Ltd. - Chairman & CEO**

Well, I think I told you that the Board asked me to stay on, and I have agreed to, and that means that I'll need to be dedicated towards that end, and I am. And that's why I said I'm energized, and I will just do all the work that needs to get done. There will be a succession plan put in place. The Board will work on that. But they can do that in a way that it's sensible and deliberate. So I'm here, I'm energized, I'm dedicated to working hard.

**Josh Shanker - Deutsche Bank - Analyst**

Very good. Thank you.

**Operator**

At this time, we have no further questions.

**Beth Farrell - Everest Re Group, Ltd. - VP, Investor Relations**

Okay. Well, thank you for joining us on our third quarter call. And certainly if you have any questions, please feel free to call me after the call. Thank you.

**Operator**

Ladies and gentlemen, that does conclude today's conference call. Thank you for attending.
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