RE reported 3Q12 net income of $250.9m or $4.82 per diluted share.
Good day everyone and welcome to the Everest Re Group Limited third quarter 2012 earnings conference release call.

As a reminder, today's presentation is being recorded. Now for opening remarks and introductions I'd like to turn the conference over to Ms. Beth Farrell. Please go ahead.

Beth Farrell - Everest Re Group Ltd - VP IR

Good morning and welcome to Everest Re Group’s third quarter 2012 earnings conference call. On the call with me today are Joe Taranto, the Company's Chairman and Chief Executive Officer, Dom Addesso, our President and Craig Howie, our Chief Financial Officer.

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

Now let me turn the call over to Joe.

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

Thanks, Beth, good morning. As we entered 2012, I indicated that I was optimistic about generating quality earnings for the year. So far through nine months, it's clear that optimism was warranted. Through nine months we have generated $1 billion of comprehensive income for our shareholders resulting in growth in book value per share, adjusted for dividends of 17.4%. The reasons I was positive continue and accordingly I remain upbeat about our future. Let me go through that reasoning.
First, the global reinsurance market, in reaction to $100 billion plus of 2011 catastrophic losses, increased rates and tightened terms and conditions. Our strategy was to benefit from these changes by increasing our potential profit margins without meaningfully increasing our PMLs in our peak zones. Our team did a superb job of executing the strategy. Now we have seen alternative capital sources entering the market also looking to benefit from these improved terms. This additional capacity has stabilized the market at a reasonable level so I continue to expect quality opportunities for 2013. Second, we have a very clear underwriting philosophy that is solely focused on profit, not volume. It is also focused on portfolio management, looking for the best deals on which to deploy our capital.

Third, we continue to pursue opportunities where we possess the specialization to achieve superior results. For our insurance operation, this includes crop insurance, medical stop loss business, financial institution D&O and California workers comp. Of course the drought in the US has produced losses for our crop book. We expect in any given year we will have losses on some portions of our book, but just as 2011 catastrophe losses increased rates and demands for catastrophe reinsurance, going forward we expect we will see increased demand for crop insurance and the government will include the 2012 results as part of future rate making. Fourth, our $16.5 billion of invested assets continue to perform well given the current market conditions.

Fifth, our strong earnings will allow us to buy back more stock, which we expect will increase shareholder return. Through nine months we have bought back $250 million worth of stock or 5% of the outstanding shares as of December 31, 2011. We have also paid $76 million in dividends through nine months. In the third quarter we bought back only $25 million worth of stock, given it was hurricane season, plus we had hurricane Isaac and the drought conditions. Nonetheless, we increased our surplus by $368 million in the quarter and by $714 million for the year. What we didn’t spend yesterday on stock repurchase is in surplus available for tomorrow’s purchases.

Sixth, our management team is the strongest it has ever been. I would stack it up against any company in our space in the world. Working with Dom, John Doucette, Craig Howie and our other senior managers has been great. We have never more focused and energized. Now I will turn it over to Dom for the report on operations, and then Craig will give you the financial report.

**Dom Addesso - Everest Re Group Ltd - President**

Thank you, Joe, and good morning. As Joe mentioned, the results for the year have been quite positive, and the third quarter has added to what was experienced in the first half. In addition, the operating earnings have improved quarter over quarter, which reflects the underwriting gain of $129 million this current quarter versus a $46 million gain in the prior year. Underlying this, is a pattern of continued quarterly improvement in the underwriting result.

The year-over-year comparisons are complicated by the cat losses in 2011, but what is worth noting is the positive trend this year, quarter by quarter, in the attritional combined ratio. That stands at 84.9% in the most recent quarter. This improved operating performance is due to the results in the reinsurance segments, where the attritional combined ratio dropped to 77.9% and to a reported combined ratio of 80.1% including catastrophe losses. After the cat losses of $25 million there was $157 million underwriting gain for the quarter. On the year to date basis, the reinsurance underwriting gain was over $375 million which includes $85 million of cat losses.

All this points to a portfolio, that more recently has been repositioned, to more of an excess of loss mix which has the ability to generate healthy margins. Our year to date cat premium is approximately $1 billion, three quarters of which is written on an excess of loss basis. As a result, the property lines in all regions continue to drive the improved results, despite some slowing of the rate increases. Nevertheless, it was positive rate change during the third quarter, in particular Australia saw improvements of 10% to 15% in rates during the quarter.

Casualty lines on the other hand, while seeing some improvement in rates, are still not hard enough or moving fast enough to make any meaningful improvement in results. We continue to remain cautious on casualty reinsurance, and while from shift in pro rata to excess in the property lines is improving the bottom line, it has resulted in less premium growth than would otherwise be the case.

Turning to the insurance operations for the quarter, the results were mostly affected by the drought related crop losses. The impact of these losses on the quarter was $20 million. The remaining portions of the book performed in line with expectations. In fact, excluding crop business, the attritional combined ratio for the year was at 99.2%. The primary A&H, which is medical stop loss business, is growing nicely and profitably. The
casualty business, which has focused on specialty classes, is experiencing double digit rate increases, and California workers comp also continues at double digit rate increases.

While the insurance marketplace is currently a challenging environment, the core businesses we are now focused on, are trending nicely. We certainly expect the improvements to continue into the fourth quarter with ongoing rate increases, growth in our A&H business, and an expected normal crop season for the winter harvest.

Overall, we continue to focus on ways to improve the underwriting margins, as investment income gains are difficult to achieve in this low yield environment. Despite this, we have done extremely well over the last three years in maintaining investment income. We are pleased with the performance of our invested assets both for the quarter and year to date.

While investment grade bonds constitute the bulk of our assets at 79% of the total, our asset allocation has become increasingly diversified. This has allowed us to reduce the duration exposure of our assets, maintain an average credit quality for our fixed income securities of AA minus, and add investment income and total return beyond that of our investment grade bonds. Our allocations to alternative fixed income securities and publicly traded equities have been accretive to investment income, as those assets carry an average market yield that is nearly 250 basis points more than our investment grade bonds.

The total return of invested assets has also been helped with the non-investment grade bond assets returning 200 basis points more for the quarter, and nearly 600 basis points more year to date than investment grade bonds. So while our investment bond portfolio continues to provide principal protection and predictable investment income, our alternatives have added to income and total return, while providing more diversity in our invested assets. While the investment in the insurance markets may continue to be a challenge, we will benefit from our financial strength and the unique ability of our staff to seek out creative opportunities. I mentioned on the last call that we had made some organizational changes, and the benefits are already being felt in the number and type of opportunities we see. Our security and experience has never been more highly valued. The combined ratio of 87.2% for the quarter is just one of those positive signs.

Thank you and I'll now turn it over to Craig.

Craig Howie - Everest Re Group Ltd - CFO

Thank you, Dom, and good morning, everyone. We're pleased to report that Everest had another very strong quarter with after tax operating income of $210.6 million or $4.05 per diluted common share. I won't be comparing these results to last year given the record catastrophes experienced in 2011.

Net income for the third quarter was $250.9 million or $4.82 per diluted share. Net income includes realized capital gains. On a year to date basis, operating income was $673.5 million or $12.78 per share. This represents an annualized operating return on equity of 15.3%. Net income year to date was $770.2 million or $14.61 per share. These year to date results reflect the continued improvement in the overall current year attritional combined ratio which has declined from 86.3% to 86.0%. This measure excludes the impact of catastrophes, reinstatement premiums, and prior period loss development.

The total reinsurance attritional combined ratio was 81.8% compared to 82.2% in the prior year. The insurance segment attritional combined ratio was 102.8% compared to 101.8% in the prior year. However, eliminating the effects of the primary crop book, this ratio would have 99.2% compared to 101.3% in the prior year. These improvements both on the reinsurance book and the insurance book should continue as rate increases earn in over time. Also providing better margins, is the shift in our reinsurance portfolio from quota share to excess of loss.

Gross written premiums of $1.20 billion for the quarter were up 7% compared to third quarter of 2011. This increase was primarily due to the acquisition of Heartland. More on the crop business in a moment. On a year to date basis, gross written premiums were $3.16 billion. This represents an increase of 2% after adjusting for reinstatement premiums and the effects of foreign currency movements. Earned premiums, at $1.01 billion for the quarter, did not change significantly compared to the same quarter last year after adjusting for reinstatement premiums and foreign exchange. Although we've achieved strong rate increases on portions of our book, especially on catastrophe exposed risks, year to date earned
premums of $3.05 billion also have not changed significantly year-over-year. However, the shift in capacity, away from proportional risks, does mask this effect, as excess of loss business carries lower premium. These increases have provided significant margin improvement on a comparative premium base.

The reinsurance segments reported year to date earned premiums of $2.4 billion, down less than 1% from 2011. The insurance segment reported $219 million of earned premiums for the quarter, which was up 1% over third quarter of 2011. On a year to date basis, insurance earned premiums are $611 million or down 5% year-over-year. This is primarily due to the runoff of certain program business and lower crop earned premium in the current year. Last year the crop premium was earned evenly throughout the year, as reinsurance premiums. The insurance segment reflects $45 million of seasonal earned premiums from crop business in the third quarter with $84 million now earned year to date. We expect full calendar year net premium from this book to total about $150 million.

We booked the primary crop business at 145% combined ratio for the quarter and 120% on a year to date basis. This represented a $20 million pretax underwriting loss for the quarter, but there is still some uncertainty as crop yields and commodity prices are not yet finalized for the year. However, the Company does purchase stop loss reinsurance coverage for its primary crop portfolio. The [MPCI] coverage attaches at a 110% loss ratio. Currently, the book loss ratio remains below 100% on a year to date basis. We would need to see additional pretax losses of more than $16 million for the 2012 crop year before we would attach this cover.

The insurance segment reported a $28.2 million underwriting loss for the quarter and a $22.8 million loss year to date. This reflects the crop loss I just discussed. All reinsurance segments reported underwriting gains for both the quarter and on a year to date basis. Total reinsurance reported on underwriting gain, $157.1 million for the quarter and $375.8 million year to date. The overall underwriting gain for the group was $129 million for the quarter and $352.9 million for the year so far. Our reported combined ratio was 87.2% for the quarter and 88.4% year to date.

The commission ratio for the year is up 1.1 points compared to the prior year. This increase relates to a number of one time adjustments, and settlements, and the change in accounting for deferred acquisition costs. The 21.9% commission ratio for the quarter is within our normal range. The expense ratio for the year is up 0.5 points compared to last year. This increase primarily relates to the increased accrual for personnel costs and incentive compensation.

For the quarter, we reported $25 million of current year catastrophe losses. These losses are primarily related to hurricane Isaac in US this quarter. This brings our year to date gross cat losses to $85 million for 2012 or 2.8% of earned premiums. Regarding 2011 catastrophe losses, we allocated another $15 million of the $50 million cap IBNR established at the end of last year to cover higher estimates on several 2011 events. We still have $15 million of this catastrophe IBNR remaining.

On reserves, our overall quarterly internal reserving metrics continue to be favorable. We are in the process of completing our annual loss reserve studies. The outcome related to this studies, if any, will be booked in the fourth quarter. For investments, pretax investment income was $152 million for the quarter and $453.8 million year to date on our $16.5 billion investment portfolio. Year to date investment income declined $40 million from one year ago. This decrease was primarily driven by lower limited partnership income which was down $19 million this year and by declining reinvestment rates. Despite the declining rates our investment portfolio continues to perform well. It is a conservatively, well diversified portfolio with high average credit quality.

The quarter reflected $62.7 million of pretax realized capital gains and $40.4 million of gains after tax. On a year to date basis, we had $144.9 million of pretax realized capital gains and $96.7 million of gains after tax. These gains are mainly attributable to fair value adjustments. On income taxes, the 17.9% effective tax rate on operating income for the quarter reflects higher than expected income, and the impact of the realized capital gains this quarter on the annualized effective tax rate calculation. The 11.0% year to date effective tax rate on operating income is within our revised expected range for the year.

Turning to other miscellaneous items, the $703,000 derivative gain for the quarter relates to the rise in the equity markets offset by the change in interest rates during the quarter. On a year to date basis, we reported a derivative loss of $9.4 million compared to a loss of $19.3 million in the prior year. Other income largely reflects foreign exchange losses for both this quarter and the quarter one year ago. On a year to date basis, we reported foreign exchange gains compared to foreign exchange losses a year ago.
Operating cash flows were $175 million for the quarter compared to $208 million in the third quarter of 2011. Higher underwriting cash flows were offset by lower investment income receipts and higher tax payments in the current quarter. We earned $407 million of comprehensive income this quarter. This primarily reflects $251 million of net income for the quarter, plus unrealized appreciation on securities of $118 million and foreign currency translation adjustments of $36 million. We now have $997 million of comprehensive income year to date.

Turning now to capital management, in addition to dividend payments to shareholders of $25 million, we repurchased 229,000 shares this quarter, during wind season, at a total cost of $25 million. For the year, we've repurchased 2.6 million shares at a total cost of $250 million. The Company has 4.7 million shares remaining under our share repurchase authorization from the Board of Directors. Shareholders equity increased to $6.8 billion this quarter, up 12% from $6.1 billion at year end 2011. This is after taking into account the $259 million of stock repurchases and the $76 million of dividends paid so far this year. Book value per share increased 16% to $131.22 from $112.99 at year end 2011. Our strong capital position leaves us with capacity to maximize our business opportunities as well as continue share repurchases.

Thank you, and now I'll turn it back to Beth for Q&A.

Beth Farrell - Everest Re Group Ltd - VP IR
Catherine, we are now open for questions.

QUESTIONS AND ANSWERS
Operator
(Operator Instructions)

Gregory Locraft with Morgan Stanley.

Gregory Locraft - Morgan Stanley - Analyst
Thanks. Good morning and congrats on another great quarter. Wanted to just pursue the capital deployment side of things. Can you comment on buy backs in the fourth quarter to date, or have you been blacked-out so far?

Joe Taranto - Everest Re Group Ltd - Chairman, CEO
We haven't bought anything so far in the fourth quarter.

Gregory Locraft - Morgan Stanley - Analyst
Okay. And what is your -- I guess you've said you're interested in doing it. It looks to me between dividends and the repurchases to date, that's about $325 million or so. Yet, you're after tax op income for the year could approach $800 million if your do consensus numbers in the fourth quarter. So that's -- even just to not be building a lot of excess, you need to do an awful lot of buy back this quarter. How do you think about your appetite to buyback and how should we be modeling that in this quarter?

Joe Taranto - Everest Re Group Ltd - Chairman, CEO
Well, your numbers are correct, Greg. And likewise, we see this as a very good year so far and with a good fourth quarter it will be an excellent year. And you're right, that will give us great capacity to buy back more in the future and certainly in the fourth quarter. Third quarter is basically hurricane
season and that's -- that should be over in a couple of weeks. And I guess I'm just going to the same place that I believe you're going. That there should be ample available earnings and surplus, that frankly, we can buy back a fair amount in the fourth quarter and beyond.

Gregory Locraft - Morgan Stanley - Analyst

Okay. I guess it just -- it keeps building up. Is there any other way to deploy it organically, and maybe perhaps the question would be around the January 1 renewals. Where are you seeing? What do you anticipate on the underwriting side in terms of organic growth going forward?

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

Yes, well let me first say the fact that it keeps building up in a big way is a good thing. That means that we are having very good earnings, and our capital is increasing, and we're very, very happy about that--

Gregory Locraft - Morgan Stanley - Analyst

Absolutely.

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

--and that's the main thing. And of course, that does mean that we have more available to buy back. As far as the future and January 1, we're not looking at it as if the market is going to change all that much from where it is now. It will continue to be ample opportunity on the property side and the cash side. We certainly are looking into some other areas, our management team as we noted is very energized, and we do expect to find some opportunities beyond the cat side.

Casualty, Dom talked a bit about that, where we're still in more of a wait and see approach, than putting a lot more capacity into growing that end of the book, but many others are getting much more optimistic about it. We hope they're right. We hope rates continue to go up, and frankly, that we ultimately will be able to grow our casualty business in a very, very meaningful way. So I look at 2013 as if it will be a good year. There'll be a chance for us to deploy, certainly, the capital that we have; maybe some additional opportunities. But I don't look at it as for the world is going to change so much that we won't, especially at today's prices, continue to be very keen on buying back the stock as well.

Dom Addesso - Everest Re Group Ltd - President

I think that's about balance. And we look at our capital management as a long term issue. We certainly will be looking at the opportunities in the fourth quarter, but also as you point out, Greg, we'll soon be approaching 1/1 and some of our underwriters are already in to that, so we will begin to assess what 1/1 opportunities will be like in the next several weeks. And we do think there are opportunities to expand our presence whether it be in the US or mentioned some changes we've made in our management that will allow us to do some new and different things in Asia and Europe. And so there are some unique opportunities that we can pursue. But it will be a little bit of both.

Gregory Locraft - Morgan Stanley - Analyst

Okay, great. Thanks and congrats again.

Operator

(Operator Instructions)
Josh Shanker with Deutsche Bank.

**Josh Shanker - Deutsche Bank - Analyst**

I want to ask some questions about the investment side of the story. There’s been some movements as you mentioned that you don’t think you’re taking more basis risk. But it does suggest that from a radiation standpoint there’s a little bit more credit risk going on and in terms of the balance of taking money out of equities, what is your market view for investment over the next 12 months? Interest rates, buys, market wise, what not?

**Dom Addesso - Everest Re Group Ltd - President**

Well, I don’t know that we are all about trying to predict investment rates. We tried, as I tried to portray or mention in my comments, that we want to maintain some balance. We think what we’ve achieved in our portfolio to date, with an average credit quality of AA, represents a good credit quality. Even in the spaces in the alternative fixed income space, our average credit quality there is just one notch below investment grade. So it’s overall still a high quality portfolio from a credit perspective.

And as I’ve mentioned in previous calls, I tend to believe that corporate credits, just as an overall market condition, are generally underrated if you will. Corporates are well positioned with cash and in fact, one might postulate that they might be better credits that the Sovereign exposures. So it’s not a risky bet. We’re generally, right now we are, as I said earlier, we got invest--75% of our portfolio is investment grade.

We’ve got 13% of our portfolio in equities, including our limited partnerships. That’s certainly within reason in terms of how the industry has invested over the long term. And our alternative fixed income portfolio is just slightly in excess of $2 billion comprised of a mix of high yield, bank loans, and emerging market debt. So it will maintain that relative position or at least our current thinking is that that’s a reasonable allocation and how to think about our position going forward.

That doesn’t mean that next quarter we won’t modify that slightly. But I’m not anticipating any major shifts at this point. And from a rating agency perspective, and that also gets into the capital management discussion, we maintain a sufficient level of capital to carry this kind of an asset allocation. It’s all part of the entire balance sheet management.

**Josh Shanker - Deutsche Bank - Analyst**

So Dom, I’m not really trying to uncover anything. I’m just trying to understand. If we went back in time three months ago, you might have said the same thing about corporates vs sovereign. Is there anything different that happened in the past quarter or merely you just had more cash deployed that caused the weight to move?

**Dom Addesso - Everest Re Group Ltd - President**

The weight actually hasn’t moved all that much, Josh, it really hasn’t. The only thing that we’ve seen is, obviously, the movement in interest rates. Obviously, adjusted the market value of those securities, so that may be what your referencing. I’m not sure. But that’s really the only market movement I can comment on. We actually have seen, obviously, a high yield for example, certainly a compression in rates there. And we actually think that any additional allocation in the high yield space is less likely than not, just given the fact that where rates have come in the high yield sector.

**Josh Shanker - Deutsche Bank - Analyst**

Thank you.
Joe Taranto - Everest Re Group Ltd - Chairman, CEO

Position is something that’s evolved over the last two or three years, no sudden changes in the last quarter.

Josh Shanker - Deutsche Bank - Analyst

All right, and then on the derivative mark on the equities. I’m surprised it was marked down this quarter. It’s a very difficult calculations. Can you walk us through a little bit? This is good quarter for equities. Wouldn’t the market have gone up or the interest rates overrode that? What exactly happened there?

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

It is a complicated formula that we have to follow to come up with the result. And yes, you saw the stock market rise this quarter. So that would suggest that it would have increased more than it did. But a big part of the calculation is interest rates which went down a bit.

Now, interest rates in terms of settlements of these instruments ultimately don’t come into play whatsoever. So as far as we’re concerned the stock market going up is far more important. But, nonetheless, there is a set formula that we’ve been following for years, continue to follow, and that’s why you saw little change even though the stock market went up because one offset the other.

Josh Shanker - Deutsche Bank - Analyst

Okay, thank you very much for your time.

Operator

Michael Nannizzi with Goldman Sachs.

Michael Nannizzi - Goldman Sachs - Analyst

Thank you very much. Sorry about that. Just one question I guess. There was some movement second quarter, it looks like US reinsurance grew this quarter, but shrunk last quarter on a year over year basis. International reinsurance was down last quarter -- down this quarter, but grew last quarter. Just trying to understand. Is there some strategy involved or some tactical reason for that? Or does it just have to do with renewals and the movement of your book? And then just one follow-up.

Dom Addesso - Everest Re Group Ltd - President

Yes Michael, this is Dom.

Michael Nannizzi - Goldman Sachs - Analyst

Hi, Dom.

Dom Addesso - Everest Re Group Ltd - President

There’s a mix of things going on. Let’s take the international, which is comprised of Middle East, South Africa, Latin America, and our Asian portfolio. Most of what we have seen going on there is the shift from pro rata to excess of loss. That’s what is driving the results there.
And in the US we see -- we have some adjustments in our subject premium base on certain clients, which give rise to increased estimates, as well as increased shares on certain clients, so just -- for the quarter it's a little bit of an anomaly. And that should smooth out into the fourth quarter. And then in Bermuda, it’s a reflection of some weakening and some casualty opportunities, and so lessening of our casualty portfolio in that space.

Michael Nannizzi - Goldman Sachs - Analyst
Okay, okay. Thanks. And then, so I guess, I mean, maybe building on Greg’s question a little bit from before. You have a little bit, it sounds like, and let me know if I am wrong, a little bit more cat exposure this year than last, more excess of loss. A bit of a move in the investment portfolio. Just trying to understand. What is the capital intensiveness of your book today versus a year ago? Is that -- have the changes, subtle and maybe less subtle, have they had an impact on the capital that you need to hold in the business that maybe we just can’t see so well from our perspective?

Joe Taranto - Everest Re Group Ltd - Chairman, CEO
The answer is no. You mentioned our cat book. Really, in terms of the peak zones, it really is no meaningful increases. We may have expanded in some of the non-peak zones. But, when you get back to the capital that we need, especially since we are looking at more rate and tighter terms, I wouldn't tell you that we need any more today than we needed a year or two ago, which kind of gets you back to the fact that, especially with surplus building quite nicely, we have a substantial amount of excess capital.

Now, whether we can deploy that going forward into other opportunities, well we'll see what 1/1 brings. We do have ideas for 2013 and beyond. Right now I would probably say that those ideas don't take up all the extra that we have, and that's why it gets back to stock buy back, particularly at today's prices, as a very, very attractive alternative. So we'll do both. But, it's not that we need a great deal of extra capital today. I would say virtually none relative to a year or two ago.

The investment side, yes, there are some things that we've done there that we think will produce and have produced better returns. But frankly, I look at it, at least from a Company management point of view, as if -- not putting off your eggs into -- in corporate bonds and taking 20% and putting it into other items, is frankly making it less risky as you diversify your portfolio. Could be some additional charges in the rating agency models but nothing significant. And again we get back to the fact that we have plenty of extra surplus at this point.

Michael Nannizzi - Goldman Sachs - Analyst
Okay. And I guess building on that, I mean, with yields where they are, another option certainly is to take advantage of that on the debt side. Your leverage is lower. Is that a lever, that at some point if you're capital builds this way or even if not, is that a lever that you're interested in pulling or is there a reason why you want to maintain just a bit lower financial leverage?

Dom Addesso - Everest Re Group Ltd - President
I'll take that one and as I've mentioned in the past relative to that question, it's really an arbitrage issue. And it's a negative arbitrage. If we raised additional debt, where would we invest it? It would be dilutive to earnings. We're already dealing with an excess capital position so adding debt doesn't help that. It doesn't mean that we liked having -- that we wouldn’t in the future, and that's always for discussion. But we like the flexibility of where we're at, and we don't have any immediate plans on that front.

Michael Nannizzi - Goldman Sachs - Analyst
Great. And then just last, one quick one. I didn't understand Heartland. The acquisition was accomplished or completed a while ago. The lift in gross premiums this quarter? I was just trying to understand the reason for that. Did it have something to do with reinsurance or some other legacy relationship associated with that acquisition? And thank you for all your answers.
Craig Howie - Everest Re Group Ltd - CFO

Mike, this is Craig. Basically what happened with the Heartland premium was, you may recall in 2011? That premium was treated as reinsurance premium and earned in evenly throughout the year. In 2012 when it moved over to the insurance segment, it’s now at the gross written premium, is now premium before sessions to the government or third party reinsurers and now that premium is earned in on a seasonal basis. So that’s really the difference in the gross premium.

Michael Nannizzi - Goldman Sachs - Analyst

I see.

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

if you look at the net premium for that business, it’s relatively flat year over year.

Michael Nannizzi - Goldman Sachs - Analyst

That makes perfect sense. Great. Okay. Thank you very much.

Operator

Vinay Misquith with Evercore Partners.

Vinay Misquith - Evercore Partners - Analyst

Hi, congratulations on a very strong quarter. The first question is on the margins this quarter. They were very strong. The accident, year loss ratio x-cats, was about 54.1%, if you exclude the crop. Did this quarter benefit from an abnormally low, sort of non-cat weather?

Dom Addesso - Everest Re Group Ltd - President

Absolutely Vinay. And the shift, again, movement from pro rata to excess of loss contracts is what’s driving that.

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

Vinay, I take your question to be that if you take catastrophes out, whether everything was so good beyond that, that there was just a benefit to property beyond--

Vinay Misquith - Evercore Partners - Analyst

Yes.

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

--the losses? The small losses were unusual. I don’t think that’s the case, no.
Vinay Misquith - Evercore Partners - Analyst
Okay, so this quarter's number -- I mean the true pro forma number that you had for the quarter--

Joe Taranto - Everest Re Group Ltd - Chairman, CEO
Yes, that's the way we look at it, yes.

Vinay Misquith - Evercore Partners - Analyst
Okay, that is interesting. And in terms of cats, what sort of cat loads should we be looking at normally for this business?

Dom Addesso - Everest Re Group Ltd - President
We generally have given guidance that our cat losses, at least for the past year or two, have been around 9 points.

Vinay Misquith - Evercore Partners - Analyst
Right, great. And do you think that the most excessive loss would mean that it should be slightly higher now than the past?

Dom Addesso - Everest Re Group Ltd - President
Not -- no. That in and of itself would not drive that number.

Vinay Misquith - Evercore Partners - Analyst
Okay. All right. And the last question is on margins, actually for next year. You've had rate increases for workers compensation come through. The transition to excess of loss, which has helped your margins. So as you go to next year, and there'll probably be some pricing pressure on prop cat excessive loss, how do you see margins next year versus this year?

Joe Taranto - Everest Re Group Ltd - Chairman, CEO
I'll start. I mean on the cat side I kind of said there is some leveling that's taking place, and I do think you'll see that into 2013. I don't know if there is so much pressure that you'll see rates come down in any sort of meaningful way. I am not anticipating that. Again, I think, when you get back to our position with A plus paper, and the security, and the clients that we have around the world, I kind of look at our portfolio, at least in terms of rate quality on the cat side, as it will be about the same as it is today.

We are hoping on the casualty side and for some other pockets, that there is continued improvement. You mentioned California comp, where we continue to get rate increases, but our GL business, we continue to get rate increases. Some pockets of the casualty we're still not getting as much as we would like, but we are hopeful that, again, some pockets of the casualty continue to do well into 2013. Again, just forecasting a year out, I'm not thinking that margins will be a whole lot different than they are today, when you put it all together.

Vinay Misquith - Evercore Partners - Analyst
Okay. That's helpful. Thank you.
Jay Gelb with Barclays Capital.

Jay Gelb - Barclays Capital - Analyst

Thank you. I wanted to touch base on prior year reserve development. It’s been notably absent for the past three years, and I'd like to better understand how your reserving process is somewhat different from what we are seeing from other companies in the rest of the industry that have been releasing a lot of reserves.

Dom Addesso - Everest Re Group Ltd - President

Jay, it’s Dom. I really can’t speak to how other companies reserve. But obviously, the mission and the objective is to have an adequate reserve position. Not to be deficient or redundant. Of course the reserve estimation process is difficult as you know, but I do think we’ve done a great job historically. The reserve charges that Everest has had, let's say, prior to three years ago, were really one time unusual events, and I think it points to the fact that our core reserves, development has been frankly, favorable over time. And so I don’t know if it’s much different than many other folks.

We attempt to reserve conservatively and what goes into that is an attempt to pick the current year -- the year of loss pick is so very important to that. As I've described many times on calls, we have a multi-pronged process for going through that, which involves the prior year loss reserve review. And baking on top of that, loss trend, as well as taking note of any rate increases or decreases that are going on in the marketplace. And we think that has given us the opportunity to have an appropriate and adequate loss reserve position. And I think that's demonstrated itself, as you point out, over the last couple of years and frankly, even prior to that, but certainly for sure, over the last three years.

Jay Gelb - Barclays Capital - Analyst

And then on a separate topic, the US insurance underlying combined ratio, excluding cats and prior development, ticked up again in Q3, now running at about a 101, and that excludes the impact of crop as well. What would it take to get that back well into profitable underwriting territory?

Dom Addesso - Everest Re Group Ltd - President

Well, as I pointed out it was running at a 99.2 for the quarter ex those items, and so it’s trending in that direction. As I pointed out in my comments earlier, increased growth in our A&H portfolio, continued double digit increases in work comp. We are seeing rate increases on casualty, and continued deployment of our professional lines which is also tracking nicely. So all of our core portfolios are moving in the right direction and that - so it is trending towards that currently.

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

And of course, crop has become a big part of that book. Clearly we're hopeful for a very good year in 2013 as opposed to what we’ve had this year.

Jay Gelb - Barclays Capital - Analyst

Right. And on a normalized basis, the net to gross premium percentage in US Insurance, looks like it was mainly influenced by the crop result in Q3. What’s the normalized result going forward since it’s been in the 80% to 85% range in the first half?
Dom Addesso - Everest Re Group Ltd - President

That's about right. But you have to realize that historically, that number has moved around a bit in the insurance operation because of some of our program business that was a much bigger influence in the portfolio a couple years ago. So if you're looking at it historically, you have to recognize some of those differences in the portfolio.

Jay Gelb - Barclays Capital - Analyst

Right. Fourth quarter a year ago net to gross was 77%. Is that a seasonal issue or is that should we expect it to be more in the 80%s going forward?

Dom Addesso - Everest Re Group Ltd - President

I don't know that I could answer that precisely for you right now, Jay. Call it 80%.

Jay Gelb - Barclays Capital - Analyst

That's helpful. Thank you.

Operator

Matt Heimermann with JPMorgan Chase.

Matt Heimermann - JPMorgan Chase & Co. - Analyst

Hi, good morning, everybody. The first question I have is just with the remixing of the portfolio from XOL. Can you give us a sense of where you think we are in that process both respect to the US and international?

Dom Addesso - Everest Re Group Ltd - President

Well, I'll put it in terms of cat premium. As I mentioned in my comments, we had $1 billion of cap premium through the nine months. And 75% of that was XOL. And that's -- I would think we're probably about where we're going to be in that regard into next year.

Matt Heimermann - JPMorgan Chase & Co. - Analyst

So no further shifts 1/1 even on the international side then?

Dom Addesso - Everest Re Group Ltd - President

No and that could change modestly from year-to-year or quarter-to-quarter depending on what opportunities we see. Don't get me wrong, we're not necessarily opposed to a pro rata business, but it has to be at the right terms and conditions.

Matt Heimermann - JPMorgan Chase & Co. - Analyst

And then, how about, just qualitatively on some of the other property, exposed lines, things like marine or energy or aviation. Has that bias kind of spilled over into those lines too? Or that's -- you're not seeing any noticeable trends one way or another.
Dom Addesso - Everest Re Group Ltd - President

We're not huge market participants in those lines of business. Yes, we do have marine and aviation business. But we've been relatively conservative, given rates and experience frankly, in the marine and energy space.

Matt Heimermann - JPMorgan Chase & Co. - Analyst

Okay. And then just with respect to, I guess either Joe or Dom, when you think about, I guess how would you, if casualty does get better, how would you think about how the demand for -- might play out from a [seed in] perspective? There's obviously a quota share that you do on companies, XOL portfolios for them to manage there, and that's which I would assume would pass through. But, more from historical surplus relief, just capacity to expand. Do you foresee a lot of that? I just ask because it doesn't, from a balance sheet perspective, the industry, nobody seems to be starving for capital at least as a generalization.

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

No. I think that is a good point Matt. I would agree with that, and if casualty improved dramatically to the point where most of the world thought it was doing quite well, I would imagine at least some of the bigger companies might not be looking for more quota share reinsurance. Maybe some more XOL. Some of the smaller companies might be looking for more reinsurance as their capital might get tested. We might see some more opportunities that way. But I think a lot of the opportunities might be on the insurance side.

We've been talking about things like California comp, where there was a time a few years back, when we wrote four times what we're writing today. And we'd love to have the opportunity to do that again, but we don't think the market is positioned for that right now. So a think a lot of the areas on the casualty side if they improved dramatically, where we could do more, I think it would be as important for our insurance operation as it would be for our reinsurance operation.

Dom Addesso - Everest Re Group Ltd - President

Also, Matt we're not totally dependent upon a market expansion, if you will, for us to expand our casualty writings. In the US for example, we've certainly leveraged our property opportunities and where we write the meaningful portion of property business [forcedents] into a casualty opportunity especially if they want to improve the credit quality of their panel of reinsurers. Those are where the opportunities might lie.

Europe, might be some opportunities portion side in casualty as companies are having difficult with capital positions. But it doesn't necessarily require a terrific expansion of demand, if you will, from a market perspective, for us to increase our casualty.

Matt Heimermann - JPMorgan Chase & Co. - Analyst

That sounds a little more like -- I mean -- that's seems very company specific though in terms of -- kind of -- well, put another way, sounds like your outlook for your own prospects is probably a different answer than you might give for the industry overall.

Dom Addesso - Everest Re Group Ltd - President

Perhaps, yes.

Matt Heimermann - JPMorgan Chase & Co. - Analyst

In opportunities, per se. All right, that's helpful. That was it. Thank you.
Operator

Amit Kumar with Macquarie Research Equities.

Amit Kumar - Macquarie Research Equities - Analyst

Thanks and good morning. I guess just two quick follow-up questions to the prior questions. First of all, just under discussion on capital management. I’m somewhat curious what is your view on a possible special dividend since you’re approaching the fiscal cliff?

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

Well, up until now we certainly have preferred stock buy back over increasing the dividend or special dividend. Now, we’re focused on what’s going on, and if indeed we start to believe that the taxes -- tax treatment of dividends will change dramatically, then clearly I think we’d have more conversations amongst ourselves and with our board, as to whether or not special dividend might make more sense as a way to give back to shareholders. So our eyes are on what's going on, and again if we see that as being the case, then we’ll talk quite a bit about it.

Amit Kumar - Macquarie Research Equities - Analyst

Got it. That's actually quite helpful. The only other question I had is, I think in the opening remarks you mentioned about an impending reserve study. And I was curious, does that, I'm sure you look at the asbestos reserves too, in other areas. Do you have sort of an early view on that? Or is it, I guess, too early?

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

Well, you know, in terms of the study, this is the study that we do every year end. And we do a study every quarter, but most companies like ours, tend to do a more comprehensive study if you will, at the end of the year. No, I wouldn’t say that we have anything to report to you unusual at this stage, but really those studies will be taking place between now and the close of the year.

Dom Addesso - Everest Re Group Ltd - President

We have other metrics that we follow during the year before we actually have reserve studies on some of our major lines, and we do reserve studies on the smaller lines throughout the year, and they have all been favorable. But we also have other metrics that we look at, and those again are all pointing to no surprises.

Amit Kumar - Macquarie Research Equities - Analyst

No surprises. Okay. That’s what I was looking for. Thanks for the answers and congrats on the quarter.

Operator

That’s all the time we have for questions today. I’ll turn things back to our speakers for any additional or closing remarks.

Beth Farrell - Everest Re Group Ltd - VP IR

I’d like to thank everybody for participating on the call, and if you have any questions, please feel free to call. Thank you.
Operator

Ladies and gentlemen, that does conclude today's conference. Thank you all for your participation.