AXIS CAPITAL HOLDINGS LTD
Form 10-Q
April 29, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2008

Commission file number 001-31721

AXIS CAPITAL HOLDINGS LIMITED

(Exact name of registrant as specified in its charter)

BERMUDA

(State or other jurisdiction of incorporation or organization)

98-0395986

(I.R.S. Employer Identification No.)

92 Pitts Bay Road, Pembroke, Bermuda HM 08

(Address of principal executive offices and zip code)

(441) 496-2600

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of April 25, 2008 there were 148,752,414 Common Shares, $0.0125 par value per share, of the registrant outstanding.

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AXIS CAPITAL HOLDINGS LIMITED

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PART I FINANCIAL INFORMATION

Cautionary Statement Regarding Forward-looking Statements

This quarterly report contains forward-looking statements within the meaning of the U.S. federal securities laws. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the United States securities laws. In some cases, these statements can be identified by the use of forward-looking words such as may, should, could, anticipate, estimate, expect plan, believe, predict, potential and intend . Forward-looking statements contained in this report include information regarding our estimates losses related to hurricanes and other catastrophes, our expectations regarding pricing and other market conditions, our growth prospects, the amount of our acquisition costs, the amount of our net losses and loss reserves, the projected amount of our capital expenditures, managing interest rate and foreign currency risks, valuations of potential interest rate shifts and foreign currency rate changes and measurements of potential losses in fair market values of our investment portfolio. Forward-looking statements only reflect our expectations and are not guarantees of performance.

These statements involve risks, uncertainties and assumptions. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements. We believe that these factors include, but are not limited to, the following:

- the occurrence of natural and man-made disasters,
- actual claims exceeding our loss reserves,
- the failure of any of the loss limitation methods we employ,
- the effects of emerging claims and coverage issues,
- the failure of our cedants to adequately evaluate risks,
- the loss of one or more key executives,
- a decline in our ratings with rating agencies,
- loss of business provided to us by our major brokers,
- changes in accounting policies or practices,

- changes in governmental regulations,
- increased competition,
- changes in the political environment of certain countries in which we operate or underwrite business,
- interest rate and/or currency value fluctuations,
- general economic conditions, and
- the other matters set forth under Item 1A, Risk Factors and Item 7, Management s Discussion and Analysis of Financial Conditions and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2007.

We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2008 (UNAUDITED) AND DECEMBER 31, 2007

(in thousands)	**2008**	**2007**
Assets		
Investments:		
Fixed maturity investments available for sale, at fair value *(Amortized cost 2008: $8,419,887; 2007: $8,301,528)*	**$ 8,423,794**	$ 8,331,66
Other investments, at fair value	**652,111**	645,98
Total investments	**9,075,905**	8,977,653
Cash and cash equivalents	**1,578,801**	1,332,921
Accrued interest receivable	**80,990**	87,338
Insurance and reinsurance premium balances receivable	**1,607,609**	1,231,494
Reinsurance recoverable balances	**1,330,965**	1,280,295
Reinsurance recoverable balances on paid losses	**95,348**	76,598
Deferred acquisition costs	**369,000**	276,801
Prepaid reinsurance premiums	**238,466**	242,940
Securities lending collateral	**1,025,343**	865,256
Net receivable for investments sold	**18,086**	86,356
Goodwill and intangible assets	**61,344**	61,653
Other assets	**158,337**	156,004
Total assets	**$ 15,640,194**	$ 14,675,309
Liabilities		
Reserve for losses and loss expenses	**$ 5,814,208**	$ 5,587,311
Unearned premiums	**2,574,755**	2,146,087
Insurance and reinsurance balances payable	**225,715**	244,988
Securities lending payable	**1,024,752**	863,906
Senior notes	**499,288**	499,261
Other liabilities	**130,054**	175,134
Total liabilities	**10,268,772**	9,516,687
Commitments and Contingencies		
Shareholders Equity		
Preferred shares - Series A and B	**500,000**	500,000
Common shares *(2008: 144,590; 2007: 142,520)*	**1,875**	1,850
Additional paid-in capital	**1,902,336**	1,869,810
Accumulated other comprehensive (loss) income	**(104)**	22,668
Retained earnings	**3,176,654**	2,968,900
Treasury shares, at cost *(2008: 5,585; 2007: 5,466)*	**(209,339)**	(204,606)
Total shareholders equity	**5,371,422**	5,158,622
Total liabilities and shareholders equity	**$ 15,640,194**	$ 14,675,309

See accompanying notes to Consolidated Financial Statements

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AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

	2008	2007
	(in thousands, except for per share amounts)	
Revenues		
Net premiums earned	**$ 658,634**	$ 685,304
Net investment income	**85,651**	125,280
Net realized investment gains	**35,685**	301
Other insurance related income	**2,002**	1,940
Total revenues	**781,972**	812,825
Expenses		
Net losses and loss expenses	**361,681**	392,797
Acquisition costs	**94,480**	98,139
General and administrative expenses	**78,750**	62,606
Foreign exchange gains	**(20,297)**	(2,391)
Interest expense and financing costs	**7,958**	15,144
Total expenses	**522,572**	566,295
Income before income taxes	**259,400**	246,530
Income tax expense	**12,459**	9,747
Net income	**246,941**	236,783
Preferred share dividends	**9,219**	9,204
Net income available to common shareholders	**$ 237,722**	$ 227,579
Weighted average common shares and common share equivalents:		
Basic	**143,239**	150,433
Diluted	**160,184**	166,035
Earnings per common share:		
Basic	**$ 1.66**	$ 1.51
Diluted	**$ 1.48**	$ 1.37
Cash dividends declared per common share	**$ 0.185**	$ 0.165

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

	2008	2007
	(in thousands)	
Net income	**$ 246,941**	$ 236,783
Other comprehensive income, net of tax		
Change in unrecognized prior service cost on the supplemental executive retirement plans (SERPs)	**563**	563
Unrealized gains arising during the period	**9,494**	25,176
Adjustment for re-classification of investment gains realized in net income	**(32,829)**	(3,226)
Comprehensive income	**$ 224,169**	$ 259,296

See accompanying notes to Consolidated Financial Statements

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AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2008 AND 2007

	2008	2007
	(in thousands)	
Common shares (shares outstanding)		
Balance at beginning of period	**142,520**	149,982
Shares issued	**2,189**	522
Shares repurchased for treasury	**(119)**	-
Shares repurchased and cancelled	**-**	(87)
Balance at end of period	**144,590**	150,417
Preferred shares - Series A and B		
Balance at beginning and end of period	**$ 500,000**	$ 500,000
Common shares (par value)		
Balance at beginning of period	**1,850**	1,875
Shares issued	**25**	5
Balance at end of period	**1,875**	1,880
Additional paid-in capital		
Balance at beginning of period	**1,869,810**	1,929,406
Shares issued	**2,069**	1,115
Shares repurchased and cancelled	**-**	(2,889)
Stock options exercised	**20,121**	1,513
Share-based compensation expense	**10,336**	7,373
Balance at end of period	**1,902,336**	1,936,518
Accumulated other comprehensive loss		
Balance at beginning of period	**22,668**	(44,638)
Unrealized (depreciation) appreciation on fixed maturities	**(28,148)**	22,713
Amortization of prior service cost on the SERPs	**563**	563
Change in deferred taxes	**4,813**	(763)
Balance at end of period	**(104)**	(22,125)
Retained earnings		
Balance at beginning of period	**2,968,900**	2,026,004
Net income	**246,941**	236,783
Series A and B preferred share dividends	**(9,219)**	(9,204)
Common share dividends	**(29,968)**	(28,109)
Balance at end of period	**3,176,654**	2,225,474

Treasury shares, at cost		
Balance at beginning of period	**(204,606)**	-
Shares repurchased for treasury	**(4,733)**	-
Balance at end of period	**(209,339)**	-
Total shareholders equity	**$ 5,371,422**	$ 4,641,747

See accompanying notes to consolidated financial statements.

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AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2008 AND 2007

	2008	2007
	(in thousands)	
Cash flows from operating activities:		
Net income	**$ 246,941**	$ 236,783
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized investment gains	**(35,685)**	(301)
Change in fair value of other investments	**42,626**	(19,583)
Amortization/accretion of fixed maturities	**319**	4,715
Other amortization and depreciation	**5,914**	1,854
Share-based compensation expense	**10,336**	7,373
Changes in:		
Accrued interest receivable	**6,348**	8,911
Reinsurance recoverable balances	**(69,420)**	(42,739)
Deferred acquisition costs	**(92,199)**	(94,105)
Prepaid reinsurance premiums	**4,474**	3,463
Reserve for loss and loss expenses	**226,897**	171,078
Unearned premiums	**428,668**	450,657
Insurance and reinsurance balances, net	**(395,388)**	(390,339)
Other items	**(55,960)**	(33,083)
Net cash provided by operating activities	**323,871**	304,684
Cash flows from investing activities:		
Purchases of available-for-sale fixed maturities	**(2,602,669)**	(1,740,912)
Sales and maturities of available-for-sale fixed maturities	**2,554,324**	1,520,091
Purchases of other investments	**(63,500)**	(20,171)
Sales of other investments	**43,509**	72,479
Purchase of assets	**(3,068)**	-
Net cash used in investing activities	**(71,404)**	(168,513)
Cash flows from financing activities:		
Repurchase of shares	**(4,733)**	(2,889)
Dividends paid - common shares	**(27,402)**	(28,583)
Dividends paid - preferred shares	**(9,219)**	(9,204)
Proceeds from issuance of common shares	**22,215**	2,633
Net cash used in financing activities	**(19,139)**	(38,043)
Effect of exchange rate changes on foreign currency cash	**12,552**	3,419
Increase in cash and cash equivalents	**245,880**	101,547
Cash and cash equivalents - beginning of period	**1,332,921**	1,989,287
Cash and cash equivalents - end of period	**$ 1,578,801**	$ 2,090,834

See accompanying notes to Consolidated Financial Statements

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

Our consolidated balance sheet at March 31, 2008 and the consolidated statements of operations, comprehensive income, shareholders equity and cash flows for the three months ended March 31, 2008 and 2007 have not been audited. The balance sheet at December 31, 2007 is derived from the audited financial statements.

These statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for interim financial information and with the Securities and Exchange Commission s instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of our financial position and results of operations as at the end of and for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year. All significant inter-company accounts and transactions have been eliminated. In these notes, the terms we, us, our, or the Company refer to AXIS Capital Holdings Limited and its subsidiaries.

The following information is unaudited and should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007. Tabular dollars and share amounts are in thousands, except per share amounts.

Adoption of New Accounting Standards

The terms FAS and FASB used in these notes refer to Statements of Financial Accounting Standards issued by the United States Financial Accounting Standards Board.

(a) Fair Value Measurement

We adopted FAS 157, *Fair Value Measurements* (FAS 157), effective January 1, 2008. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, we use various valuation approaches, including market and income approaches. FAS 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Assets and liabilities utilizing Level 1 inputs include: exchange-traded equity securities and listed derivatives that are actively traded.

- Level 2 Valuations based on quoted prices in markets that are not active or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Assets and liabilities utilizing Level 2 inputs include: exchange-traded equity securities and listed derivatives that are not actively traded; U.S. government and agency securities; non-U.S. government obligations; corporate and municipal bonds; mortgage-backed securities (MBS) and asset-backed securities (ABS); and over-the-counter (OTC) derivatives (e.g. foreign currency options and forward contracts).

AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect our own assumptions about assumptions that market participants might use.

Assets and liabilities utilizing Level 3 inputs include: insurance and reinsurance derivative contracts; hedge funds with partial transparency; and collateralized loan obligation (CLO) equity tranche securities, credit funds and short duration high yield funds that are traded in less liquid markets.

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors, including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. We use prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified between levels.

The adoption of FAS 157 did not result in any cumulative-effect adjustment to our beginning retained earnings at January 1, 2008, or any material impact on our results of operations, financial position or liquidity. In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 157-2), which permits a one-year deferral of the application of FAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Accordingly, we have also adopted FSP FAS 157-2 effective January 1, 2008, and FAS 157 will not be applied to our goodwill and other intangible assets measured annually for impairment testing purposes only. We will adopt FAS 157 for non-financial assets and non-financial liabilities on January 1, 2009, and we do not anticipate this adoption will have a material impact on our results of operations, financial position or liquidity.

(b) Fair value option

FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), became effective on January 1, 2008. Under this standard, an entity is permitted to irrevocably elect fair value on a contract-by-contract basis as the initial and subsequent measurement attribute for many financial instruments and certain other items including insurance contracts. We did not elect the fair value option for our available for sale investments and therefore future changes in unrealized gains and losses on these investments, net of tax, will continue to be reported through accumulated other comprehensive income (loss) in our shareholders equity. Accordingly, FAS 159 did not have an impact on our results of operations, financial position or liquidity.

Accounting Standards Not Yet Adopted

(a) Business Combinations and Non-controlling Interests

In December 2007, the FASB issued FAS No. 141(R), *Business Combinations* (FAS 141(R)) and FAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of Accounting Research Bulletin No. 51 (FAS 160). SFAS 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to provide additional disclosures on the nature and financial effect of the business combination. FAS 141(R) applies to all transactions or other events in which the acquirer obtains control of one or more businesses, even if control is not obtained by purchasing equity interests or net assets. FAS 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. Both FAS 141(R) and FAS 160 apply prospectively to business combinations for which the acquisition date is on or after December 15, 2008, except for the presentation and disclosure requirements of FAS 160 which will be applied retrospectively for all periods presented.

AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

(b) *Derivative Instruments and Hedging Activities*

In March 2008, the FASB issued FAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (FAS 161). This Statement expands the disclosure requirements of FAS 133 and requires the reporting entity to provide enhanced disclosures about the objectives and strategies for using derivative instruments, quantitative disclosures about fair values and amounts of gains and losses on derivative contracts, and credit-risk related contingent features in derivative agreements. FAS 161 will be effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. We are evaluating the potential impact of adoption of FAS 161 on our financial statements.

2. SEGMENT INFORMATION

Our underwriting operations are organized around our two global underwriting platforms, AXIS Insurance and AXIS Re and therefore we have determined that we have two reportable segments, insurance and reinsurance. Except for goodwill and intangible assets, we do not allocate our assets by segment as we evaluate the underwriting results of each segment separately from the results of our investment portfolio.

Insurance

Our insurance segment offers specialty insurance products to a variety of niche markets on a global basis. The following are the lines of business in our insurance segment:

Property: provides physical damage and business interruption coverage primarily for industrial and commercial properties and physical damage, business interruption and liability coverage for onshore energy properties and operations. The book consists of both primary and excess risks, some of which are catastrophe-exposed.

Marine: provides coverage for hull, liability, cargo and specie and recreational marine risks. These risks include property damage or physical loss to ships, pollution damage caused by vessels on a sudden and accidental basis, protection for general cargo and the contents of armored cars, vaults, exhibitions and museums, and specific war related risks. This line of business also provides physical damage, business interruption and liability coverage for offshore energy property and operations.

Terrorism: provides coverage for physical damage and business interruption of an insured following an act of terrorism.

Aviation: includes hull and liability and specific war coverage for passenger and cargo airlines and privately owned aircraft as well as select aviation product liability coverage.

Political risk: provides protection against sovereign default or sovereign actions that result in the impairment of cross-border investments for banks and major corporations. This book also provides sovereign and corporate credit insurance within emerging markets, where lenders seek to mitigate the risk of non-payment from their borrowers.

Professional lines: includes coverage for directors and officers liability, errors and omissions liability, employment practices liability, media, cyber, technology and miscellaneous professional liability coverage.

Liability: primarily targets general liability and umbrella and excess liability in the U.S. excess and surplus lines markets. Target classes include mercantile, manufacturing and building/premises, with particular emphasis on commercial and consumer products, commercial construction and miscellaneous general liability.

Accident and Health: primarily provides employee medical coverage for self-insured, small and medium sized employers for losses in excess of a retention.

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2. SEGMENT INFORMATION (CONTINUED)
Reinsurance

Our reinsurance segment provides treaty and facultative property and casualty reinsurance to insurance companies on a worldwide basis. The following are the lines of business in our reinsurance segment:

Catastrophe: provides protection for most catastrophic losses that are covered in the underlying insurance policies written by our ceding company clients. The exposure in the underlying policies is principally property exposure but also covers other exposures including workers compensation, personal accident and life. The principal perils in this portfolio are hurricane and windstorm, earthquake, flood, tornado, hail and fire. In some instances, terrorism may be a covered peril or the only peril. We underwrite catastrophe reinsurance principally on an excess of loss basis, meaning that our exposure only arises when our customers claims exceed a certain retained amount.

Property: includes reinsurance written on both a pro rata and a per risk basis and covers underlying personal lines and commercial property exposures. Property pro rata treaty reinsurance covers a cedent s aggregate losses from all events in the covered period on a proportional basis. Property per risk treaty reinsurance reinsures a portfolio of particular property risks of ceding companies on an excess of loss basis.

Professional Liability: covers directors and officers liability, employment practices liability, medical malpractice and miscellaneous errors and omissions insurance risks.

Credit and Bond: consists principally of reinsurance of trade credit insurance products and includes both proportional and excess-of loss structures. The underlying insurance indemnifies sellers of goods and services against a payment default by the buyer of those goods and services. Also included in this book is coverage for ceding insurers against losses arising from a broad array of surety bonds issued by bond insurers principally to satisfy regulatory demands in a variety of jurisdictions around the world, but predominantly in Europe.

Motor: provides coverage to insurers for motor liability losses arising out of any one occurrence. The occurrence can involve one or many claimants where the ceding insurer aggregates the claims from the occurrence.

Liability: provides coverage to insurers of standard casualty lines, including auto liability, general liability, personal and commercial umbrella and workers compensation.

Engineering: provides coverage for all types of civil construction risks and risks associated with erection, testing and commissioning of machinery and plants during the construction stage. This line of business also includes operational risks for machinery, plant and equipment, electronic equipment and business interruption. We write engineering business on a proportional and non-proportional treaty basis as well as on a facultative basis.

Other: includes aviation, marine, personal accident and crop reinsurance.

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2. SEGMENT INFORMATION (CONTINUED)

The following table summarizes the underwriting results of our operating segments for the three months ended and the carrying values of goodwill and intangible assets as at March 31:

	2008			2007		
	Insurance	**Reinsurance**	**Total**	**Insurance**	**Reinsurance**	**Total**
Gross premiums written	**$ 434,857**	**$ 829,324**	**$ 1,264,181**	$ 436,488	$ 866,134	$ 1,302,622
Net premiums written	**271,732**	**820,043**	**1,091,775**	282,046	857,311	1,139,357
Net premiums earned	**299,557**	**359,077**	**658,634**	314,932	370,372	685,304
Other insurance related income	**1,187**	**815**	**2,002**	767	1,173	1,940
Net losses and loss expenses	**(159,450)**	**(202,231)**	**(361,681)**	(185,952)	(206,845)	(392,797)
Acquisition costs	**(31,714)**	**(62,766)**	**(94,480)**	(35,348)	(62,791)	(98,139)
General and administrative expenses	**(47,819)**	**(17,370)**	**(65,189)**	(35,523)	(14,743)	(50,266)
Underwriting income	**$ 61,761**	**$ 77,525**	**139,286**	$ 58,876	$ 87,166	146,042
Corporate expenses			**(13,561)**			(12,340)
Net investment income			**85,651**			125,280
Net realized investment gains			**35,685**			301
Foreign exchange gains			**20,297**			2,391
Interest expense and financing costs			**(7,958)**			(15,144)
Income before income taxes			**$ 259,400**			$ 246,530
Net loss and loss expense ratio	**53.2%**	**56.3%**	**54.9%**	59.0%	55.8%	57.3%
Acquisition cost ratio	**10.6%**	**17.5%**	**14.3%**	11.2%	17.0%	14.3%
General and administrative expense ratio	**16.0%**	**4.8%**	**12.0%**	11.3%	4.0%	9.1%
Combined ratio	**79.8%**	**78.6%**	**81.2%**	81.5%	76.8%	80.7%
Goodwill and intangible assets	**$ 61,344**	**$ -**	**$ 61,344**	$ 28,786	$ -	$ 28,786

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. INVESTMENTS

a) Fixed Maturity Investments

The following tables summarize the fixed income securities in an unrealized loss position and the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

As at March 31, 2008	**12 months or greater**		**Less than 12 months**		**Total**	
Type of Investment	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. government and agency	**$ -**	**$ -**	**$ 24,448**	**$ (102)**	**$ 24,448**	**$ (102)**
Non-U.S. government	**-**	**-**	**17,680**	**(357)**	**17,680**	**(357)**
Corporate	**70,959**	**(4,340)**	**1,014,692**	**(102,187)**	**1,085,651**	**(106,527)**
Mortgage-backed	**396,903**	**(10,213)**	**859,056**	**(24,845)**	**1,255,959**	**(35,058)**
Asset-backed	**36,049**	**(3,812)**	**121,179**	**(3,264)**	**157,228**	**(7,076)**
Municipals	**483**	**(1)**	**71,167**	**(1,518)**	**71,650**	**(1,519)**
Total	**$ 504,394**	**$ (18,366)**	**$ 2,108,222**	**$ (132,273)**	**$ 2,612,616**	**$ (150,639)**

As at December 31, 2007	**12 months or greater**		**Less than 12 months**		**Total**	
Type of Investment	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. government and agency	$ 67,131	$ (169)	$ 7,304	$ (18)	$ 74,435	$ (187)
Non-U.S. government	-	-	87,214	(4,244)	87,214	(4,244)
Corporate	188,901	(4,391)	776,234	(56,296)	965,135	(60,687)
Mortgage-backed	1,064,646	(13,100)	241,920	(2,204)	1,306,566	(15,304)
Asset-backed	68,959	(1,391)	132,735	(6,754)	201,694	(8,145)
Municipals	32,053	(150)	50,782	(87)	82,835	(237)
Total	$ 1,421,690	$ (19,201)	$ 1,296,189	$ (69,603)	$ 2,717,879	$ (88,804)

At March 31, 2008, 992 securities (2007: 1,440) were in an unrealized loss position with a fair value of $2,613 million (2007: $2,718 million) of which 367 securities (2007: 1,065) have been in an unrealized loss position for 12 months or greater and have a fair value of $504 million (2007: $1,422 million). The unrealized losses from these securities were not a result of credit, collateral or structural issues. In the first three months of 2008, we recorded an impairment charge of $15 million (2007: $ nil) relating to 26 securities that we determined to be other than temporarily impaired which were included in net realized investment losses in the Consolidated Statements of Operations.

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. INVESTMENTS (CONTINUED)

b) Fair Value Hierarchy Disclosures

In accordance with FAS 157, we have categorized our investments held at March 31, 2008, between levels as follows:

	March 31, 2008			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Fixed maturity investments	$ 93,681	$ 8,330,113	$ -	$ 8,423,794
Other investments	5,558	45,656	600,897	652,111
Total	**$ 99,239**	**$ 8,375,769**	**$ 600,897**	**$ 9,075,905**

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the quarter ended March 31, 2008:

	Three months ended March 31, 2008		
	Fixed Maturity Investments	Other Investments	Total
Level 3 investments as of January 1, 2008	$ -	$ 592,593	$ 592,593
Total realized and unrealized losses	-	(42,633)	(42,633)
Net purchases (sales and distributions)	-	50,937	50,937
Net transfers in and/or (out) of Level 3	-	-	-
Level 3 investments as of March 31, 2008	$ -	$ 600,897	$ 600,897

Amount of total losses for the period included in earnings attributable to the fair value of changes in assets still held at the reporting date	**$ (42,633)**

c) Net Investment Income

Net investment income was derived from the following sources:

Three months ended March 31,	**2008**	2007
Fixed maturities and cash equivalents	**$ 123,703**	$ 102,706
Other investments	**(35,690)**	25,310
Gross investment income	**88,013**	128,016
Investment expenses	**(2,362)**	(2,736)
Net investment income	**$ 85,651**	$ 125,280

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

4. RESERVE FOR LOSSES AND LOSS EXPENSES

The following table shows a reconciliation of our beginning and ending gross losses and loss expenses:

Three months ended March 31,	**2008**	**2007**
Gross unpaid losses and loss expenses at beginning of period	**$ 5,587,311**	$ 5,015,113
Less reinsurance recoverable balances at beginning of period	**(1,356,893)**	(1,359,154)
Net losses and loss expense reserves at beginning of period	**4,230,418**	3,655,959
Net incurred losses related to:		
Current year	**449,792**	458,760
Prior years	**(88,111)**	(65,963)
	361,681	392,797
Net paid losses related to:		
Current year	**(10,310)**	(8,785)
Prior years	**(214,187)**	(258,830)
	(224,497)	(267,615)
Foreign exchange loss	**20,293**	3,157
Net losses and loss expense reserves at end of period	**4,387,895**	3,784,298
Reinsurance recoverable balances at end of period	**1,426,313**	1,401,893
Gross unpaid losses and loss expenses at end of period	**$ 5,814,208**	$ 5,186,191

Net losses and loss expenses incurred include net favorable prior period reserve development of $88 million and $66 million for the three months ended March 31, 2008 and 2007, respectively. Prior period development arises from changes to loss estimates recognized in the current year that relate to losses incurred in previous calendar years. The following table summarizes net favorable reserve development by segment:

Three months ended March 31,	**2008**	**2007**
Insurance	**$ 54,580**	$ 28,727
Reinsurance	**33,531**	37,236
Total	**$ 88,111**	$ 65,963

The first quarter of 2008 included favorable development of $33 million from the political risk line of business of our insurance segment, to recognize both the absence of reported losses on the sovereign and corporate credit products within the line and the lower likelihood of future reported losses emanating from our traditional political risk coverages from accident years 2004 and prior.

The remaining net favorable development in both quarters was predominately generated from our short tail insurance and reinsurance lines of business, and reflected the occurrence of fewer late reported claims than we originally anticipated in our reserving process. In addition to the many uncertainties inherent in our reserving process, the potential for deviation between expected and actual claims experience is often greater for a company like ours which relies more heavily upon industry based loss development profiles as a result of having a limited operating history. Given the inherent limitations of this, our estimate of ultimate losses in prior years have included a provision for reporting delays and other uncertainties specific to our business. This includes, for example, the inherent delays we expect to arise from obtaining loss information on high excess layers of business across our diverse worldwide exposures. Because late reporting has been less prevalent than we anticipated, our actual claims experience has been better than we projected.

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. STOCK-BASED COMPENSATION

Stock Options

The following is a summary of stock options as of March 31, 2008, and related activity for the three months ended:

	Number of Stock Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value* (000s)
Outstanding - January 1, 2008	4,810	$	18.46			
Granted	-		-			
Exercised	(1,592)		12.66			
Forfeited	-		-			
Outstanding - March 31, 2008	**3,218**	**$**	**21.33**	**5.26 years**	**$**	**40,713**
Options exercisable at March 31, 2008	**3,218**	**$**	**21.33**	**5.26 years**	**$**	**40,713**

* The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between our closing stock price on March 31, 2008, and the exercisable price, multiplied by the number of in-the-money-options) that would have been received by the stock option holders had all stock option holders exercised their stock options on March 31, 2008.

The total intrinsic value of stock options exercised during the first three months of 2008 and 2007 was $34 million and $1 million, respectively, and we received proceeds of $20 million and $2 million, respectively. During 2008, we incurred no compensation expense related to stock options.

The following table summarizes information about our stock options outstanding and exercisable at March 31, 2008:

Range of Exercise Prices	Number of Stock Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
$12.50 - $13.75	937	$	12.62	3.81
$13.76 - $15.00	582		14.50	4.70
$15.01 - $16.25	29		16.25	5.25
$16.26 - $25.65	40		25.50	5.34
$25.66 - $29.62	1,630		28.77	6.30
	3,218	**$**	**21.33**	**5.26**

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. STOCK-BASED COMPENSATION (CONTINUED)

Restricted stock

The following table provides a reconciliation of the beginning and ending balance of unvested restricted stock for three months ended March 31, 2008:

	Number of Shares		Weighted Average Grant Date Fair Value
Nonvested restricted stock - January 1, 2008	3,312	$	31.44
Granted	1,559		39.20
Vested	(578)		27.97
Forfeited	(38)		31.70
Nonvested restricted stock - March 31, 2008	**4,255**	**$**	**34.82**

During the first three months ended March 31, 2008 and 2007, we incurred compensation costs of $10 million and $7 million, respectively, in respect of restricted stock, and recorded tax benefits thereon of $1 million and $2 million, respectively. The total fair value of shares vested during the first three months of 2008 and 2007 was $16 million and $13 million, respectively. At March 31, 2008 and December 31, 2007, there was $103 million and $47 million, respectively, of unrecognized compensation cost related to restricted stock awards, which is expected to be recognized over the weighted average period of 2.1 years.

During the first three months ended March 31, 2008 and 2007, we also realized additional tax benefits for certain vested restricted stocks and exercised stock options of $1 million. These excess tax benefits are included in our cash flows from financing activities in the Consolidated Statements of Cash Flows.

6. EARNINGS PER COMMON SHARE

The following table sets forth the comparison of basic and diluted earnings per common share:

Three months ended March 31,		**2008**		**2007**
Basic earnings per common share				
Net income available to common shareholders	**$**	**237,722**	$	227,579
Weighted average common shares outstanding		**143,239**		150,433
Basic earnings per common share	**$**	**1.66**	$	1.51

Diluted earnings per common share				
Net income available to common shareholders	**$**	**237,722**	$	227,579
Weighted average common shares outstanding		**143,239**		150,433
Share equivalents:				
Warrants		**13,160**		12,384
Options		**2,258**		2,192
Restricted stock		**1,527**		1,026
Weighted average common shares outstanding - diluted		**160,184**		166,035
Diluted earnings per common share	**$**	**1.48**	$	1.37

AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

6. EARNINGS PER COMMON SHARE (CONTINUED)

For the three months ended March 31, 2008, there were 870,814 restricted shares, which would have resulted in the issuance of common shares that were excluded in the computation of diluted earnings per share because the effect would be anti-dilutive. There were no such anti-dilutive restricted shares or options at March 31, 2007.

7. COMMITMENTS AND CONTINGENCIES

a) Legal Proceedings

Except as noted below, we are not a party to any material legal proceedings. From time to time, we are subject to routine legal proceedings, including arbitrations, arising in the ordinary course of business. These legal proceedings generally relate to claims asserted by or against us in the ordinary course of insurance or reinsurance operations. In our opinion, the eventual outcome of these legal proceedings is not expected to have a material adverse effect on our financial condition or results of operations.

In 2005, a putative class action lawsuit was filed against our U.S. insurance subsidiaries. In re Insurance Brokerage Antitrust Litigation was filed on August 15, 2005 in the United States District Court for the District of New Jersey and includes as defendants numerous insurance brokers and insurance companies. The lawsuit alleges antitrust and Racketeer Influenced and Corrupt Organizations Act (RICO) violations in connection with the payment of contingent commissions and manipulation of insurance bids and seeks damages in an unspecified amount. On October 3, 2006, the District Court granted, in part, motions to dismiss filed by the defendants, and ordered plaintiffs to file supplemental pleadings setting forth sufficient facts to allege their antitrust and RICO claims. After plaintiffs filed their supplemental pleadings, defendants renewed their motions to dismiss. On April 15, 2007, the District Court dismissed without prejudice plaintiffs complaint, as amended, and granted plaintiffs thirty (30) days to file another amended complaint and/or revised RICO Statement and Statements of Particularity. In May 2007, plaintiffs filed (i) a Second Consolidated Amended Commercial Class Action complaint, (ii) a Revised Particularized Statement Describing the Horizontal Conspiracies Alleged in the Second Consolidated Amended Commercial Class Action Complaint, and (iii) a Third Amended Commercial Insurance Plaintiffs RICO Case Statement Pursuant to Local Rule 16.1(B)(4). On June 21, 2007, the defendants filed renewed motions to dismiss. On September 28, 2007, the District Court dismissed with prejudice plaintiffs antitrust and RICO claims and declined to exercise supplemental jurisdiction over plaintiffs remaining state law claims. On October 10, 2007, plaintiffs filed a notice of appeal of all adverse orders and decisions to the United States Court of Appeals for the Third Circuit. We believe that the lawsuit is completely without merit and we continue to vigorously defend the filed action.

b) Dividends for Common Shares and Preferred Shares

On March 6, 2008 the Board of Directors declared a dividend of $0.185 per common share to shareholders of record at March 31, 2008 and payable on April 15, 2008. The Board of Directors also declared a dividend of $0.453125 per Series A 7.25% Preferred Share and a dividend of $1.875 per Series B 7.5% Preferred Share. The Series A Preferred Share dividend is payable on April 15, 2008, to shareholders of record at the close of business on March 31, 2008 and the Series B Preferred Share dividend is payable on June 2, 2008, to shareholders of record at the close of business on May 15, 2008.

AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

8. DERIVATIVE INSTRUMENTS

The following fair value hierarchy table presents information about our derivatives measured at fair value at March 31, 2008:

	March 31, 2008			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Liabilities				
Foreign currency derivatives	$ -	$ 361	$ -	$ 361
Insurance-related derivative contract	-	-	16,346	16,346
Total	**$ -**	**$ 361**	**$ 16,346**	**$ 16,707**

There was no movement in the insurance-related derivative contracts for three months ended March 31, 2008.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of our financial condition and results of operations. This should be read in conjunction with the consolidated financial statements and related notes included in Item 1 of this report and also our Management s Discussion and Analysis of Results of Operations and Financial Condition contained in our Annual Report on Form 10-K for the year ended December 31, 2007. Tabular dollars are in thousands, except per share amounts. Amounts in tables may not reconcile due to rounding differences.

FINANCIAL MEASURES

We believe the following financial indicators are important in evaluating our performance and measuring the overall growth in value generated for our common shareholders:

Return on average common equity (ROACE): ROACE represents the level of net income available to common shareholders generated from the average of the opening and closing common shareholders equity during the period. Our objective is to generate superior returns on capital that appropriately reward our common shareholders for the risks we assume and to grow revenue only when we deem the returns meet or exceed our requirements. ROACE for the first three months of 2008 and 2007 was 20.0% and 22.6%, respectively. The decrease was driven by the fact that our average common shareholders equity increased by 18% over the last year, primarily from the increase in retained earnings during this period.

Diluted book value per common share: Diluted book value per common share represents total common shareholders equity divided by the number of common shares and diluted common share equivalents outstanding, using the treasury stock method. We consider diluted book value per common share an appropriate measure of our returns to common shareholders, as we believe growth in our book value on a diluted basis ultimately translates into growth of our stock price. Diluted book value per share increased from $28.79 at December 31, 2007 to $29.96 at March 31, 2008. The increase was substantially due to earnings generated in the first three months of 2008.

***Cash dividends per common share*:** Our dividend policy is an integral part of the value we create for our shareholders. Our quarterly cash dividend was $0.185 per common share in the first three months of 2008 compared to $0.165 in the first three months of 2007. Our Board of Directors reviews our dividend policy on a regular basis and in December 2007, they authorized a 12% increase in the quarterly dividend.

RESULTS OF OPERATIONS

OVERVIEW

The table below breaks out net income into three components; underwriting income, investment income and net realized gains/losses, and other revenues and expenses. Underwriting income on a segment basis is a measure of underwriting profitability that takes into account net premiums earned and other insurance related income as revenue and net losses and loss expenses, acquisition costs and underwriting related general and administrative costs as expenses. Underwriting income is the difference between these revenue and expense items. Because our investment portfolio is managed on a total return basis, we have reviewed investment income and net realized gains/losses together. Other revenues and expenses represent corporate expenses, foreign exchange gains/losses, interest expense and income tax expense.

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Three months ended March 31,		2008	Percentage Change		2007
Underwriting income:					
Insurance	$	**61,761**	5%	$	58,876
Reinsurance		**77,525**	(11%)		87,166
Investment income and net realized gains		**121,336**	(3%)		125,581
Other revenues and expenses		**(13,681)**	(61%)		(34,840)
Net income		**246,941**	4%		236,783
Preferred share dividends		**(9,219)**	-		(9,204)
Net income available to common shareholders	$	**237,722**	4%	$	227,579

Net income available to common shareholders in the first quarter of 2008 was impacted by among other things, the following significant items:

Underwriting results

A declining premium base in both our underwriting segments: a $27 million, or 4% reduction in net premiums earned, associated with a 10% reduction in net premiums written in the rolling twelve months to March 31, 2008 and 2007, respectively. The reduction in net premiums written primarily reflects exposure reduction in many of our lines as a result of deteriorating market conditions and through our decision to purchase additional reinsurance coverage.

Higher current accident year claims: our current accident year loss ratio increased 1.4 ratio points, emanating from an unusually high level of individual property risk losses this quarter, primarily in our insurance segment. This was partially offset by lower catastrophe losses in our reinsurance segment this quarter.

Prior year favorable reserve development: $88 million of net favorable reserve development on prior year loss reserves, an increase of $22 million from the first quarter of 2007. The first quarter of 2008 included $33 million of favorable reserve development from our political risk line within our insurance segment.

Higher general and administrative costs: including corporate expenses, our general and administrative costs increased $16 million, or 2.9 ratio points, this quarter. The increase in our general and administrative ratio was primarily due to a combination of lower net premiums earned and also additional staffing costs.

Investment results

Reduction in other investment income: a $61 million decrease in other investment income, the majority of which emanated from credit related funds and, to a lesser extent, hedge funds. The deterioration in the fair value of these funds during the quarter reflects the ongoing technical imbalances and illiquidity proliferating throughout the credit markets resulting in a continued re-pricing of risk.

Higher average investment balances: a 15% increase in average cash and fixed income investment balances over the last year, which drove a $21 million, or 20%, increase in net investment income from these investments.

Increase in realized investment gains: a $35 million increase in net realized investment gains, net of a $15 million increase other-than-temporary impairments charges.

Other Items

Increase in foreign exchange gains: $18 million increase in foreign exchange gains, generated by the positive impact of a weakening U.S. dollar on our foreign-denominated net asset balances.

Lower interest costs: $7 million reduction in interest costs relating to the termination of our $400 million repurchase agreement in September 2007, following the related sale of a life settlement investment.

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UNDERWRITING REVENUES

Premiums Written: Gross and net premiums written by segment for the three months ended March 31 were as follows:

	Gross Premiums Written		
	2008	**Change**	**2007**
Insurance	**$ 434,857**	-	$ 436,488
Reinsurance	**829,324**	(4%)	866,134
Total	**$ 1,264,181**	(3%)	$ 1,302,622
% ceded			
Insurance	**37.5%**	2.1%	35.4%
Reinsurance	**1.1%**	0.1%	1.0%
Total	**13.6%**	1.1%	12.5%

	Net Premiums Written		
	2008	**Change**	**2007**
Insurance	**$ 271,732**	(4%)	$ 282,046
Reinsurance	**820,043**	(4%)	857,311
Total	**$ 1,091,775**	(4%)	$ 1,139,357

The 3% reduction in gross premiums written is driven by increasingly competitive market conditions in both our insurance and reinsurance segments, with pricing deterioration prevalent across many of our lines. In addition, there was a continued trend within certain parts of our reinsurance segment for clients to retain more business. As a result, premiums were generally down compared to the prior year quarter across the majority of our insurance and reinsurance lines. However, we were still able to identify business which met our profitability requirements, and in certain areas of our portfolio, such as our political risk insurance line and engineering reinsurance business, we found opportunity to grow our book. Our insurance segment also benefited from renewal rights acquired in conjunction with our purchase of the Media Pro business in the second quarter of 2007.

The increase in our ceded premiums ratio primarily relates to additional reinsurance coverage purchased within various lines of our insurance segment. In addition, we recorded ceded premiums of $4 million, to reinstate coverage exhausted by several individual property per risk losses in our insurance segment this quarter.

Premiums Earned: Net premiums earned by segment were as follows:

Three months ended March 31,	**2008**		**2007**		**Percentage Change**
Insurance	**$ 299,557**	**45%**	$ 314,932	46%	(5%)
Reinsurance	**359,077**	**55%**	370,372	54%	(3%)
Total	**$ 658,634**	**100%**	$ 685,304	100%	(4%)

Changes in net premiums earned reflect period to period changes in net premiums written and business mix, together with normal variability in premium earning patterns. In our reinsurance segment, where a significant portion of our business is written in the first quarter, the 3% reduction in net premiums earned largely reflects the 4% decrease in gross premiums written this quarter, as discussed above. In our insurance segment, where premiums are written more evenly throughout the year, the 5% reduction in net premiums earned largely reflects changes in our mix of business and exposure reduction primarily achieved through increased reinsurance coverage. Refer to the segment sections below for further discussion.

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UNDERWRITING EXPENSES

The following table provides a break down of our combined ratio:

Three months ended March 31,	2008	Point Change	2007
Loss ratio	**54.9%**	(2.4%)	57.3%
Acquisition cost ratio	**14.3%**		14.3%
General and administrative expense ratio (1)	**12.0%**	2.9%	9.1%
Combined ratio	**81.2%**	0.5%	80.7%

(1) Our general and administration expense ratio includes corporate expenses not allocated to our underwriting segments of 2.1% and 1.8%, for 2008 and 2007, respectively. These costs are discussed further in Other Revenue and Expenses below.

Loss ratio: The table below shows the components of our net loss and loss expense ratio (loss ratio):

Three months ended March 31,	2008	Point Change	2007
Current year	**68.3%**	1.4%	66.9%
Prior period development	**(13.4%)**	(3.8%)	(9.6%)
Loss ratio	**54.9%**	(2.4%)	57.3%

Current Year:

The increase in our current accident year loss ratio primarily reflects an unusually high level of large individual property risk losses this quarter, mostly impacting our insurance segment. This was partially offset by lower catastrophe losses in our reinsurance segment. Our initial expected loss ratios in 2008 were generally higher than those in 2007, reflecting the impact of pricing deterioration across many of our insurance and reinsurance lines. Offsetting this, our initial expected loss ratios were favorably impacted by the incorporation of more of our own historical loss experience, rather than industry benchmarks, relative to the prior year quarter.

Prior Year:

Prior period development was the net favorable result of several underlying reserve developments, identified during our quarterly reserving process. The following table provides a break down of prior period development by segment:

Three months ended March 31,	2008	2007
Insurance	**$ 54,580**	$ 28,727
Reinsurance	**33,531**	37,236

Total	**$**	**88,111**	$	65,963

The first quarter of 2008 included favorable development of $33 million from the political risk line of business of our insurance segment, to recognize both the absence of reported losses on the sovereign and corporate credit products within the line and the lower likelihood of future reported losses emanating from our traditional political risk coverages from accident years 2004 and prior.

The remaining net favorable development in both quarters was predominately generated from our short tail insurance and reinsurance lines of business, and reflected the occurrence of fewer late reported claims than we originally anticipated in our reserving process. In addition to the many uncertainties inherent in our reserving process, the potential for deviation between expected and actual claims experience is often greater for a company like ours which relies more heavily upon industry based loss development profiles as a result of having a limited operating history. Given the inherent limitations of this, our estimate of ultimate losses in prior years have included a provision for reporting delays and other uncertainties specific to our business. This includes, for example, the inherent delays we expect to arise from obtaining loss information on high excess layers of business across our diverse worldwide exposures. Because late reporting has been less prevalent than we anticipated, our actual claims experience has been better than we projected.

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As our company matures and we accumulate more loss experience, we expect that our loss profiles will become more credible, and our reserving assumptions will incorporate more of our own experience, as discussed above.

Conditions and trends that affected the development of liabilities in the past may not necessarily occur in the future. Accordingly, it is inappropriate to anticipate future redundancies or deficiencies based on historical experience.

***General and Administrative ratio*:**

Our general and administrative ratio of 12.0% increased by 2.9 ratio points compared to the prior year quarter. The increase was primarily due to a combination of lower net premiums earned and also additional staffing costs. Those additional staffing costs largely emanate from our insurance segment and are associated with our Media Pro business, which we acquired during the second quarter of 2007.

NET INVESTMENT INCOME AND NET REALIZED INVESTMENT GAINS

Our investment portfolio is structured to preserve capital and provide us with a high level of liquidity. Additionally, we invest our portfolio with a focus on total return rather than establishing yield or income targets. The following table provides a breakdown of net investment income and net realized investment gains:

Three months ended March 31,	**2008**	**Percentage Change**	**2007**
Fixed maturities	**$ 108,812**	24%	$ 87,875
Cash and cash equivalents	**14,891**	-	14,831
Other investments	**(35,690)**	nm	25,310
Gross investment income	**88,013**	(31%)	128,016
Investment expense	**(2,362)**	(14%)	(2,736)
Net investment income	**85,651**	(32%)	125,280
Net realized investment gains	**35,685**	nm	301
Net investment income and net realized investment gains	**$ 121,336**	(3%)	$ 125,581
Average investment balances [(1)] :			
Cash and fixed maturity investments	**$ 10,008,350**	15%	$ 8,716,528
Other investments	**639,436**	(43%)	1,120,648
Total cash and investments	**$ 10,647,786**	8%	$ 9,837,176