AXIS CAPITAL HOLDINGS LTD
Form 10-K
February 25, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common shares, par value $0.0125 per share	New York Stock Exchange
7.25% Series A preferred shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 for 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 ¨ (Do not check if a smaller reporting company)	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

The market value of the common equity held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant s most recently completed second fiscal quarter, June 30, 2008, was approximately $3.8 billion.

At February 19, 2009, there were 141,804,212 common shares ($0.0125 par value per share) outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A relating to the annual meeting of shareholders to be held on May 6, 2009 are incorporated by reference in Part III of this Form 10-K.

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Cautionary Statement Regarding Forward-looking Statements

This Annual Report on Form 10-K 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 may include information regarding our estim of losses related to catastrophes and other large losses, including Hurricanes Ike and Gustav, measurements of potential losses in the fair value of our investment portfolio and derivative contracts, our expectations regarding pricing and other market conditions, our growth prospects, and valuations of the potential impact of movements in interest rates, equity prices, credit spreads and foreign currency rates. 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,
- general economic, capital and credit market conditions,
- the failure of any of the loss limitation methods we employ,
- 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,

- fluctuations in interest rates, credit spreads, equity prices and/or currency values, and

- the other matters set forth under Item 1A, Risk Factors included in this report.

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

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PART I

ITEM 1. BUSINESS

As used in this report, references to we, us, our or the Company refer to the consolidated operations of AXIS Capital Holdings Limited (AXIS Capital) and its direct and indirect subsidiaries and branches, including AXIS Specialty Limited (AXIS Specialty Bermuda), AXIS Specialty Limited (Singapore Branch), AXIS Specialty Europe Limited (AXIS Specialty Europe), AXIS Specialty London, AXIS Specialty Australia, AXIS Specialty Insurance Company (AXIS Specialty U.S.), AXIS Re Limited (AXIS Re Ltd.), AXIS Reinsurance Company (AXIS Re U.S.), AXIS Reinsurance Company (Canadian Branch), AXIS Surplus Insurance Company (AXIS Surplus), AXIS Insurance Company (AXIS Insurance Co.) and AXIS Re Europe, unless the context suggests otherwise. Tabular dollars are in thousands. Amounts in tables may not reconcile due to rounding differences.

GENERAL

AXIS Capital is the Bermuda-based holding company for the AXIS Group of Companies. AXIS Capital was incorporated on December 9, 2002. AXIS Specialty Bermuda commenced operations on November 20, 2001. AXIS Specialty Bermuda and its subsidiaries became wholly owned subsidiaries of AXIS Capital pursuant to an exchange offer consummated on December 31, 2002. Through our various operating subsidiaries and branches, we provide a broad range of insurance and reinsurance products to insureds and reinsureds worldwide operations with primary locations in Bermuda, the United States and Europe. Our business consists of two distinct global underwriting platforms, AXIS Insurance and AXIS Re.

During 2007, we purchased the assets of the Media Professional Division (Media Pro) of MPI Insurance Agency, Inc., an Aon Group, Inc. subsidiary. Media Pro was a full-service managing general underwriter with operations in the U.S., Canada and the U.K. We were the exclusive carrier for several of Media Pro s programs for the prior two years, and this purchase gave us the renewal rights to their broader professional lines portfolio.

During 2008, as part of our long-term strategy of global expansion, we established new underwriting branches in Singapore, Australia and Canada.

In January 2009, we purchased Dexta Corporation Pty Ltd (Dexta), an underwriting agency in Australia. Since 2005, we have been providing professional indemnity, directors and officers liability and information technology liability insurance coverages as a direct offshore foreign insurer in Australia through Dexta. Effective January 1, 2009, the insurance coverages previously underwritten through Dexta are underwritten directly by AXIS Specialty Australia.

OUR BUSINESS STRATEGY

Our long-term business strategy focuses on utilizing our management s extensive expertise, experience and long-standing market relationships to identify and underwrite attractively priced risks while delivering insurance and reinsurance solutions to our customers. Our underwriters worldwide are focused on constructing a portfolio of risks that effectively utilizes our capital while optimizing the risk-reward characteristics of the portfolio. We exercise disciplined underwriting practices and manage a diverse book of business while seeking to maximize our profitability and generate superior returns on equity. To afford ourselves ample opportunity to construct a portfolio diversified by product and geography that meets our profitability and return objectives, we have implemented organic growth strategies in key markets worldwide.

The markets in which we operate have historically been cyclical. During periods of excess underwriting capacity, as defined by availability of capital, competition can result in lower pricing and less favorable policy terms and conditions for insurers and reinsurers. During periods of reduced underwriting capacity, pricing and policy terms and conditions are generally more favorable for insurers and reinsurers. Historically, underwriting capacity has been impacted by several factors, including industry losses, catastrophes, changes in legal and regulatory guidelines, investment results and the ratings and financial strength of competitors.

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Our near-term strategies conform to our long-term objectives but also reflect changes and opportunities within the global market place. The following is an overview of the insurance and reinsurance market since our first full year of operations in 2002, together with a discussion as to how we have evolved during this period. The following table shows gross premiums written in each of our segments over the last five years:

Year ended December 31,	2008	2007	2006	2005	2004
Insurance	**$ 1,841,934**	$ 2,039,214	$ 2,070,467	$ 1,875,017	$ 1,919,563
Reinsurance	**1,548,454**	1,550,876	1,538,569	1,518,868	1,092,748
Total	**$ 3,390,388**	$ 3,590,090	$ 3,609,036	$ 3,393,885	$ 3,012,311

We were established in late 2001 to take advantage of the significant imbalance that had been created between the demand for insurance and reinsurance and the supply of capacity from adequately capitalized insurers and reinsurers. Pricing and deductibles were increasing dramatically and policy terms and coverages tightening across many specialist lines of business. In a short period of time following our formation, we were able to assemble a diverse portfolio of specialist insurance risks. We also established a property reinsurance portfolio largely comprising worldwide catastrophe exposure. Since our inception, we have focused our efforts on identifying and recruiting talented specialist underwriters and diligently building our infrastructure to access and analyze risks for our global portfolio and to deliver service of the highest quality to our clients.

During 2003, we were able to further diversify our global business by adding select underwriting teams and infrastructure in the U.S. and in Europe. Specifically, we established a meaningful presence in the wholesale insurance market in the U.S., which allowed us to quickly take advantage of favorable market conditions. We also entered the professional lines insurance business through a renewal rights transaction and simultaneous recruitment of an underwriting team from Kemper. The shortage of capacity for U.S. professional lines reinsurance business served as an opportunity for further diversification of our global treaty reinsurance business and establishment of a local presence in the U.S. reinsurance marketplace. By the end of 2003, we had also established a local presence in the Continental European reinsurance marketplace, allowing us to diversify into other traditional European treaty reinsurance business including motor liability and credit and bond. The establishment and growth of our U.S. and European reinsurance underwriting operations contributed to the significant premium growth in our reinsurance segment during 2004 and 2005.

Since these early years of substantial growth, we have continued to establish our position in the global insurance and reinsurance marketplace. This has been against the backdrop of a softening market cycle throughout many of our property and casualty lines of business, with increased competition, surplus underwriting capacity and deteriorating rates, terms and conditions all having an impact on our ability to write business. Despite this, our strong diversity by product and geography, has allowed us to effectively reallocate underwriting capacity around our business operations as we see market conditions change and business opportunities arise, allowing us to maintain a relatively stable level of gross premiums written during this period.

Within our reinsurance segment, the deteriorating market conditions have generally been less severe than those experienced in a number of areas in the primary insurance market, although our opportunity for growth has also been restricted by a trend of greater risk and retention appetite in the industry. In terms of premium growth, we have offset the impact of these changes through greater market penetration in the U.S. and European reinsurance markets, particularly in 2006 and 2007, as well as specific growth opportunities, such as our engineering business, which we expanded in 2008.

Within our insurance segment, market conditions have been increasingly competitive for several years, with surplus capacity and price deterioration prevalent across most of our portfolio. While we have therefore reduced our participation in several areas, we have focused on risks with a better risk-reward profile. In the last few years we have continued to expand our professional lines business, with the purchase of the Media Pro business in 2007 further strengthening our diversification strategy in this line. In 2008, we also identified new business opportunities in our financial institutions business arising from the impact of the financial market crisis. In recent years we have also added underwriting expertise

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to our credit and political risk team and established a branch in Singapore, which have provided us with access to a broader range of distribution channels. This has allowed us to access more products which are not as closely correlated to the property and casualty cycle, in particular emerging market sovereign and corporate credit. Our ability and appetite to write this business was negatively impacted in the latter part of 2008 by the effects of the global financial crisis. In early 2009, we established a new Accident and Health line of business in our insurance segment, which will provide corporate personal accident and business travel coverage as well as specialty and catastrophe health and ancillary property and casualty coverage. We intend to initially grow this business in the U.S. market and expand into the European, Canadian, Australian and Asian markets over time.

During 2007, we created a new Ceded Reinsurance Unit to coordinate our purchasing activities to improve efficiency and consistency and take advantage of new opportunities in the marketplace. During 2007 and 2008, we have been able to effectively expand our reinsurance coverage at attractive costs, particularly within our professional lines, casualty and property insurance lines of business. This strategy has allowed us to reduce our overall net retentions relative to previous years and therefore deliver more value through an improvement in our risk/reward position.

Our use of technology allows us to maintain a low-cost infrastructure and efficient underwriting operations. In addition, we believe our technological capabilities provide us with competitive advantages as we seek to improve our relationships with our customers, provide enhanced levels of customer service and optimize our internal decision making process. During 2008, we continued to enhance our IT infrastructure, further developing our proprietary systems and other technologies, enabling us to increase our processing and underwriting capabilities. In addition, we further engaged offshore third party vendors to operate a portion of our technology infrastructure, including network operations, data center processing, data storage and application maintenance, and conversion and utility programming efforts to focus core resources exclusively on solutions which are of greater strategic significance.

During 2008, we continued to strengthen our enterprise risk management framework, creating a separate Risk Management department, led by our new Chief Risk Officer. This reflects the enhanced role for risk management in today s complex environment, and the strategic importance we place on risk management.

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. Financial data relating to our segments is included in Item 8, Note 3 Segment Information to our Consolidated Financial Statements and in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Insurance Segment

Lines of Business and Distribution

Our insurance segment offers specialty insurance products to a variety of niche markets on a worldwide 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. This line of business 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.

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

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

Credit and political risk: provides credit insurance, sovereign default insurance coverage and traditional political risk insurance coverage. The credit insurance coverage is primarily for lenders seeking to mitigate the risk of non-payment from their borrowers in emerging markets. For the credit insurance contracts, it is necessary for the buyer of the insurance (most often a bank) to hold an insured asset (most often an underlying loan) in order to claim compensation under the insurance contract. The traditional political risk coverage provides protection against sovereign actions that result in the impairment of cross-border investments for banks and major corporations (known as CEND coverages).

Professional lines: provides 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.

Other: primarily consists of employee medical coverage for self-insured, small and medium sized employers, for losses in excess of a given retention.

We produce our business primarily through wholesale and retail brokers worldwide. Some of our insurance products are also distributed through managing general agents and underwriters. In the U.S., we have the ability to write business on an admitted basis using forms and rates as filed with state insurance regulators and on a non-admitted basis, or surplus lines basis, with flexibility in forms and rates as these are not filed with state regulators. Having non-admitted carriers in our U.S. group of companies provides the pricing flexibility needed to write non-standard coverage. Substantially all of our insurance business is written subject to aggregate limits, in addition to event limits.

Gross premiums written by broker, shown individually where premiums are 10% or more of the total in any of the last three years, were as follows:

Year ended December 31,	**2008**		**2007(1)**		**2006(1)**	
Marsh	**$ 262,417**	**14%**	$ 264,964	13%	$ 320,574	15%
Aon	**237,993**	**13%**	259,929	13%	265,314	13%
Willis	**156,887**	**9%**	202,531	10%	242,580	12%
Other brokers	**953,852**	**52%**	1,056,163	52%	956,519	46%
Managing general agencies and underwriters	**230,785**	**12%**	255,627	12%	285,480	14%
Total	**$ 1,841,934**	**100%**	$ 2,039,214	100%	$ 2,070,467	100%

(1) To facilitate period to period comparisons, we have made certain reclassification to prior year balances to conform to our current presentation, which reflects broker consolidations during 2008.

Competitive Environment

We operate in highly competitive markets. In our insurance segment, where competition is focused on price as well as availability, service and other considerations, we compete with U.S. based companies with global insurance operations, as well as non U.S. global carriers and indigenous companies in regional and local markets. We believe we achieve a competitive advantage through our strong capital position and the strategic and operational linking of our practices, which allows us to design our insurance programs on a global basis in alignment with the global needs of many of our clients.

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Reinsurance Segment

Lines of Business and Distribution

Our reinsurance segment operates through offices based in Bermuda, Singapore, the U.S. and Europe. The majority of our business is written on an excess of loss basis, whereby we typically provide an indemnification to the cedant for a portion of losses both individually and in the aggregate, on policies in excess of a specified individual or aggregate loss deductible. For business written on a proportional basis, we receive an agreed percentage of the premium and are liable for the same percentage of incurred losses. Reinsurance may be written on a portfolio/treaty basis or on an individual risk/facultative basis. The majority of our business is written on a treaty basis and primarily underwritten through brokers worldwide. Substantially all our reinsurance business written is subject to aggregate limits in addition to event limits.

Our reinsurance segment provides 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 cedants. 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.

Property: includes reinsurance written on both a proportional and a per risk excess of loss basis and covers underlying personal lines and commercial property exposures.

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 in the event of a payment default by the buyer of those goods and services. Also included in this line of business is coverage for 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 cedants 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 coverage for losses arising from operational failures of machinery, plant and equipment and electronic equipment as well as business interruption.

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

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Gross premiums written by broker, shown individually where premiums are 10% or more of the total in any of the last three years, were as follows:

Year ended December 31,	2008		2007(1)		2006(1)	
Aon	**$ 536,435**	**35%**	$ 506,198	33%	$ 547,646	35%
Marsh	**507,257**	**33%**	550,036	35%	548,016	36%
Willis	**253,647**	**16%**	190,603	12%	148,317	10%
Other brokers	**145,834**	**9%**	194,224	13%	242,354	16%
Direct	**105,281**	**7%**	109,815	7%	52,236	3%
Total	**$ 1,548,454**	**100%**	$ 1,550,876	100%	$ 1,538,569	100%

(1) To facilitate period to period comparisons, we have made certain reclassification to prior year balances to conform to our current presentation, which reflects broker consolidations during 2008.

Competitive Environment

In our reinsurance segment where competition tends to be focused on availability, service, financial strength and increasingly price, we compete with major U.S. and non-U.S. reinsurers as well as reinsurance departments of numerous multi-line insurance organizations. We believe we achieve a competitive advantage through our strong capital position as well as our technical expertise that allows us to respond quickly to customer needs and provide quality and innovative underwriting solutions. In addition, our customers highly value our exemplary service, strong capitalization and financial strength ratings.

REINSURANCE PROTECTION

Our Ceded Reinsurance Unit purchases treaty and facultative reinsurance to reduce our exposure to large losses or a series of large losses. All treaty reinsurance purchases and our facultative reinsurance strategies are pre-approved by our Reinsurance Purchasing Group, which consists of senior management. Facultative reinsurance provides for all or a portion of the insurance provided by a single policy and each policy reinsured is individually negotiated. Treaty reinsurance provides for a specified type or category of risks. Our reinsurance agreements may be on an excess of loss or quota share basis. Excess of loss covers provide a contractually set amount of cover after an excess point has been reached. This excess point can be based on the size of an industry loss or a fixed monetary amount. These covers can be purchased on a package policy basis, which provide cover for a number of lines of business within one contract. Quota share covers provide a proportional amount of coverage from the first dollar of loss. All of these reinsurance covers provide for recovery of a portion of losses and loss expenses from reinsurers. We remain liable to the extent that reinsurers do not meet their obligations under these agreements.

RESERVE FOR UNPAID LOSSES AND LOSS EXPENSES

We establish reserves for losses and loss expenses that arise from our insurance and reinsurance products. These reserves are balance sheet liabilities representing estimates of future amounts required to pay losses and loss expenses for insured or reinsured claims that have occurred at or before the balance sheet date, whether already known or not yet reported. Our loss reserves are established based upon our estimate of the total cost of claims that were reported to us but not yet paid (case reserves), and the anticipated cost of claims incurred but not yet reported to us (IBNR).

The table below shows the development of our loss reserves since inception. To illustrate an understanding of the information in this table, following is an example using reserves established at December 31, 2005.

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The top lines of the table show for successive balance sheet dates the gross and net unpaid losses and loss expenses recorded at or prior to each balance sheet date. It can be seen that at December 31, 2005, a reserve of $3,225 million, net of reinsurance had been established.

The lower part of the table presents the net amounts paid as of periods subsequent to the balance sheet date. Hence in the year ended December 31, 2006 net payments of $899 million were made from the December 31, 2005, reserve balance. By the end of 2008, cumulative net payments against the December 31, 2005 net reserves were $1,552 million.

The upper part of the table shows the revised estimate of the net liabilities originally recorded as of the end of subsequent years. With the benefit of actual loss emergence over the intervening period, the net liabilities incurred as of December 31, 2005, are now estimated to be $2,706 million, rather than the original estimate of $3,225 million. Of the cumulative redundancy of $520 million recognized in the three years since December 31, 2005, $217 million was identified and recorded in 2006, $115 million in 2007 and $188 million in 2008.

Importantly, the cumulative deficiency or redundancy for different balance sheet dates is not independent and therefore, should not be added together. In 2008, we have revised our estimate of the December 31, 2005, liabilities from $2,894 million to $2,706 million. This favorable development of $188 million will also be included in each column to the right of December 31, 2005, to recognize that there was also reserve redundancy in the reserves established at December 31, 2006 and December 31, 2007.

	Year ended December 31							
	2001	2002	2003	2004	2005	2006	2007	2008
Gross reserve for losses and loss expenses	$ 963	$ 215,934	$ 992,846	$ 2,404,560	$ 4,743,338	$ 5,015,113	$ 5,587,311	$ 6,244,783
Reinsurance recoverable	-	(1,703)	(124,899)	(596,299)	(1,518,110)	(1,359,154)	(1,356,893)	(1,378,630)
Net losses and loss expenses reserve	963	214,231	867,947	1,808,261	3,225,228	3,655,959	4,230,418	4,866,153
Net reserves reestimated as of:								
1 Year later	$ 165	$ 158,443	$ 686,235	$ 1,425,265	$ 3,008,692	$ 3,318,982	$ 3,854,131	
2 Years later	165	141,290	539,110	1,147,866	2,893,865	3,027,775		
3 Years later	165	109,711	434,221	1,048,098	2,705,607			
4 Years later	196	97,981	386,029	930,925				
5 Years later	196	96,864	347,544					
6 Years later	196	96,179						
7 Years later	196							
Cumulative redundancy	$ 767	$ 118,052	$ 520,403	$ 877,336	$ 519,621	$ 628,184	$ 376,287	
Cumulative net paid losses								
1 Year later	$ 15	$ 46,096	$ 113,024	$ 333,543	$ 898,562	$ 658,650	$ 628,889	
2 Years later	125	55,437	175,235	475,721	1,329,078	1,038,533		
3 Years later	165	73,647	210,100	558,609	1,552,021			
4 Years later	196	69,118	230,374	633,052				
5 Years later	196	77,539	257,724					
6 Years later	196	83,641						
7 Years later	196							
Impact of unrealized foreign exchange movements:	$ -	$ 961	$ 3,240	$ 4,664	$ (13,329)	$ 23,581	$ 28,588	$ (133,317)

The table above also shows the impact of foreign exchange rate movements. Movements in foreign exchange rates between periods result in variations in our net loss reserves, as the U.S. dollar, our reporting currency, strengthens or weakens against underlying currencies. For example, for the year ended December 31, 2008, the strengthening of the U.S. dollar, primarily against Euro and Sterling, resulted in a $133 million reduction in our net loss reserves, established prior to, or during, 2008. We generally hold investments in the same currency as our net reserves, with the intent of matching the impact of foreign exchange movements on our assets and liabilities.

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Conditions and trends that affected the development of liabilities in the past may not necessarily occur in the future. Accordingly, it may be inappropriate to anticipate future redundancies or deficiencies based on historical experience. The key issues and considerations involved in establishing our estimate of our loss reserves is discussed in more detail within the *Critical Accounting Estimates - Reserve for Losses and Loss Expenses* section of Item 7. For additional information regarding the key underlying movements in our loss reserves in the last three years, refer to the *Group Underwriting Results* *Loss Ratio* section of Item 7.

CASH AND INVESTMENTS

We follow an investment strategy designed to optimize book value growth and generate appropriate risk adjusted returns while providing sufficient liquidity to meet our claims and other obligations. As such, our funds are primarily invested in cash and cash equivalents and investment-grade fixed maturity investments as measured by the major rating agencies. As part of our diversification program, we also allocate funds to other investments classes. These investments, which primarily consist of hedge funds and credit funds, are invested to further diversify our portfolio.

Our funds are invested by external investment managers in accordance with investment guidelines established by us. These guidelines specify minimum criteria on the overall credit quality and liquidity characteristics of our portfolio and include limitations on the size of holdings as well as restrictions on types of securities which may be purchased. Our cash and cash equivalents are invested directly by our investment managers or invested in high quality money market funds under the direction of our treasury department.

Our investment team determines target asset allocations which are derived from asset and liability modeling that measures correlated histories of returns and volatility of returns. Permitted investment classes are further refined for each subsidiary through analysis of our operating environment, including expected volatility of cash flows, overall capital position, regulatory, and rating agency considerations. The Finance Committee of the Board of Directors approves our overall group asset allocation targets and reviews our investment guidelines to ensure that it is consistent with our overall goals, strategies, and objectives. We also have an Investment Committee, comprising senior management, which oversees the implementation of our investment strategy.

The following table summarizes the composition of our cash and investment at December 31, 2008 and 2007:

At December 31,	**2008**		**2007**	
U.S. government and agency	**$ 1,353,511**	**13%**	$ 1,058,926	10%
Non U.S. government	**320,102**	**3%**	280,577	3%
Corporate debt	**2,116,141**	**20%**	2,149,666	21%
Mortgage-backed	**3,475,096**	**33%**	3,482,215	33%
Asset-backed	**381,006**	**4%**	532,780	5%
Municipals	**366,677**	**4%**	827,502	8%
Total Fixed Maturities	**8,012,533**	**77%**	8,331,666	80%
Total Equities	**107,283**	**1%**	7,746	-
Cash at investment managers, net of unsettled trades	**663,192**	**6%**	572,897	5%
Total Invested Assets	**8,783,008**	**84%**	8,912,309	85%
Other cash and cash equivalents	**1,092,664**	**10%**	846,380	8%
Total Cash, Fixed Maturities and Equities	**$ 9,875,672**	**94%**	$ 9,758,689	93%
Other investments	**492,082**	**5%**	638,241	6%
Accrued interest receivable	**79,232**	**1%**	87,338	1%

Total Cash and Investments	**$ 10,446,986**	**100%**	$ 10,484,268	100%

For additional information regarding the investment portfolio refer to the *Cash and Investments* section of Item 7.

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ENTERPRISE RISK MANAGEMENT

OVERVIEW

Enterprise Risk Management (ERM)

ERM is our group-wide framework for identifying, managing, reporting and responding to risks that could affect the achievement of our strategic and financial objectives. The objectives of our ERM are to:

- Protect our capital base by ensuring that capital is deployed in the most efficient way and that risks are not taken beyond our risk-taking appetite;
- Enhance value creation and contribute to an optimal risk-return profile; and
- Support our group-wide decision making process by providing reliable and timely risk information.

Our ERM efforts build upon our foundation of internal control. ERM expands the internal control objectives of effective and efficient operations, reliable financial reporting and compliance with laws and regulations, to fostering, leading and supporting an integrated, risk-based culture that focuses on value creation and preservation. However, internal controls and ERM can provide only reasonable, not absolute, assurance that the control objectives will be met. As a result, the possibility of material financial loss remains in spite of our enterprise risk management efforts. An investor should carefully consider the risks and all information set forth in this report, including the discussions included in *Item 1A Risk Factors* , *Item 7A Quantitative and Qualitative Disclosure About Market Risk* and Item 8, *Financial Statements and Supplementary Data*.

Risk Landscape

Our ERM takes into account the following sources of risk:

- *Insurance* the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities transferred to us through the underwriting process.
- *Credit* the risk of incurring financial loss due to diminished creditworthiness of our counterparties.
- *Investment* risk of potential losses in our investment portfolio as a result of market risks, as well as risk inherent in individual securities.
- *Operational* risks associated with our people, processes and systems, including external events.

Funding and liquidity the risk that we are unable to meet our short-term financial obligations or raise funds to finance our commitments at an affordable cost. For further review of our liquidity and capital management refer to the *Liquidity and Capital Resources* section of Item 7.

Risk Governance

Our Board of Directors (Board), through the Risk Committee of the Board (Risk Committee), approves our enterprise risk management framework as recommended by our Risk Management Committee. The Risk Committee reviews our risk management methodologies, standards, tolerances, and risk strategies, and assesses whether management is addressing risk issues in a timely and appropriate manner.

Our Risk Management Committee, comprising our Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and senior management from both our insurance and reinsurance segments and operations, is responsible for developing and maintaining our risk standards as well as monitoring aggregations, risk tolerances and emerging risks. The Risk Management Committee acts as an interface between our Risk Committee and management, who are responsible for managing our business within defined risk tolerances.

During 2008, we created a separate Risk Management department, led by our Chief Risk Officer, reflecting the enhanced role for risk management in today s complex environment, and the strategic significance we place on risk management. Our Chief Risk Officer provides guidance and support for risk management practices throughout our Company.

Our risk governance structure is complemented by our Internal Audit department. Internal Audit is an independent, objective assurance function that assesses the adequacy and effectiveness of our internal control systems. Internal audit also coordinates risk-based audits and compliance reviews and other specific initiatives to evaluate and address risk within targeted areas of our business.

Risk Appetite

Our basis for accepting risk is determined by our risk appetite, as approved by our Board. Our risk appetite is a function of our capital, profitability and stakeholder expectations of the types of risk we hold within our business. The Risk Committee regularly reviews our risk profile to ensure alignment with our risk appetite.

Our risk appetite primarily reflects our tolerance for risk from our overall underwriting portfolio, including individual events (natural peril or non natural peril catastrophes), and from our investment portfolio. In addition, we specifically focus on the relationship between combinations of different risks to assess the potential for reduction in our profitability and capital base. Ensuring that our capital is sufficient to take advantage of market opportunities even in stressed market conditions is of key importance.

An element of our ERM is our economic capital model. Utilizing this modeling framework, we review the relative interaction between all of the risks impacting us from underwriting and investment risk through to operational risks.

Recognizing that in extreme scenarios, many risks may interact to cause an impairment of our capital, our Board requires that the enterprise risk within our business is managed to preserve capital under such stress conditions. Our Board also recognizes that financial strength ratings are a key element of our competitive positioning and our ability to raise further capital. We therefore aim to maintain and improve our capital ratings while ensuring that we have sufficient capital strength to preserve our ratings even under stress scenarios.

MANAGING INSURANCE RISKS

Overview

Since our inception in 2001, we have expanded our international underwriting presence, with offices in Bermuda, the U.S., Europe, Singapore, Canada and Australia. Our disciplined underwriting approach coupled with an extensive group wide peer review process has enabled us to ensure that this growth has been managed in a controlled and consistent manner. This, coupled with our focus on maintaining high levels of experience in our underwriting teams, has ensured that our risk profile aligns closely with our defined risk appetite. We emphasize quality of underwriting rather than volume of business or market share.

A critical element of our management of insurance risk is our rigorous peer review process which allows us to monitor market conditions and aggregations risk-by-risk, at the highest levels within the Company. Another key component of our mitigation of insurance risk is the purchase of reinsurance. The business that we accept is not always fully retained; but instead portions may be reinsured. We have a centralized Reinsurance Purchasing Group which coordinates our reinsurance purchasing as part of our overall risk management strategy.

Modeling natural peril catastrophes

Natural peril catastrophes risk is our biggest single exposure. In managing this risk, we are concerned with both the loss of capital due to a single event and the loss of capital that would occur from multiple (but perhaps small) events in any year. Natural catastrophes such as earthquakes, storms and floods represent a challenge for risk management due to their accumulation potential and occurrence volatility.

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For natural peril catastrophes, our current risk tolerance is intended to limit our exposure from a modeled single occurrence 1-in-250 year return period probable maximum net loss to no more than 25% of our prior year capital. We reserve the right to change these thresholds at any time.

To help us remain within these tolerance levels, we use multiple commercial vendor models to price and accumulate risks. In our reinsurance segment, we have also developed an internal proprietary application which allows us to track the results from various models for both pricing and aggregation purposes. Modeling allows us to simulate many hypothetical loss scenarios. Our executive management receives regular reports on our group-wide total natural peril exposures by peril and territory to ensure active monitoring of our risk positions. Accumulation risks pursuant to individual natural perils are limited at the group level. We also impose limits on probable maximum losses in any one zone from a single event. A zone is a geographical area in which insurance risks are considered to be correlated to a single catastrophe event.

While appreciating the value of modeling tools in assessing the risk in our business, we are also aware of the weakness of an approach that is solely reliant on modeling output. We therefore ensure that we take an approach to managing our risks where management judgment is influenced and informed by the modeling output along with other more qualitative measures.

The table below shows our loss exposures to peak natural peril catastrophe territories as at January 1, 2009. We have developed these loss estimates using catastrophe models and our own assessments for non-modeled exposures. These estimates include assumptions regarding the location, size and magnitude of an event, the frequency of events, the construction type and damageability of property in a zone, and the cost of rebuilding property in a zone.

(in thousands of U.S. dollars)

Zone	Perils	50 Year Return Period	100 Year Return Period	250 Year Return Period
U.S.	Hurricane	$ 639,748	$ 845,518	$ 1,168,917
California	Earthquake	326,586	508,487	842,248
Europe	Windstorm	438,325	663,105	927,714
Japan	Typhoon	208,067	306,508	514,382
Japan	Earthquake	75,896	128,775	142,162

The following table provides our estimate of industry losses for the corresponding scenarios above:

(in billions of U.S. dollars)

Zone	Perils	50 Year Return Period	100 Year Return Period	250 Year Return Period
U.S.	Hurricane	$ 75.9	$ 117.6	$ 191.5
California	Earthquake	23.2	35.2	60.7
Europe	Windstorm	26.9	39.4	56.4
Japan	Typhoon	19.3	55.1	112.6
Japan	Earthquake	13.4	19.8	32.6

The return period refers to the frequency with which losses of a given amount or greater are expected to occur. The figures take into account the fact that an event may trigger claims in a number of lines of business. For instance, our U.S. hurricane modeling includes, among other things, the estimated pre-tax impact to our financial results arising from our catastrophe, property, engineering, energy, marine and aviation lines of business. As indicated in the table above, our modeled single occurrence 1-in-100 year return period U.S. hurricane probable maximum loss, net of reinsurance, is approximately $845 million (or 19% of shareholders equity at December 31, 2008). According to our modeling, there is a one percent chance that our losses incurred in any single U.S. hurricane event could be in excess of $845 million. Conversely, there is a 99% chance that the loss from a U.S. hurricane will fall below $845 million. We estimate that, at such hypothetical loss levels, aggregate industry losses would be approximately $118 billion, resulting in an estimated market share of insured losses for us of 0.7%.

The application of vendor catastrophe models and assumptions on non modeled catastrophe exposures may vary. Accordingly, catastrophe estimates provided by different insurers may not be comparable.

Managing risks from man-made catastrophes

Similar to our management of natural peril catastrophe exposures, we also take a similar focused and analytical approach to our management of man-made catastrophes. Man-made catastrophes, which include such risks as train collisions, airplane crashes, hotel fires or terrorism, are harder to model in terms of assumptions regarding intensity and frequency. For these risks we couple the vendor models (where available) with our bespoke modeling and underwriting judgment and expertise. This allows us to take advantage of business opportunities relating to man-made catastrophe exposures particularly where we can measure and limit the risk sufficiently and obtain risk-adequate pricing.

As an example of our approach, our assessment of terrorism risk is based on a mixture of qualitative and quantitative data (e.g., for estimating property damage, business interruption, mortality and morbidity subsequent to an attack of a predefined magnitude), which we use to control, limit and manage our aggregate terrorism exposure. We use vendor modeling and bespoke modeling tools to measure accumulations around potential terrorism accumulation zones on a deterministic and probabilistic basis. We supplement the results of our modeling with underwriting judgment.

Managing reserving risk

Our prudent reserving process demands data quality and reliability and requires a quantitative and qualitative review of both our overall reserves and individual large claims. Within a structured control framework, real-time claims information is communicated on a regular basis throughout our organization, including to senior management, to provide an increased awareness regarding the losses that have taken place throughout the insurance markets. The detailed and analytical reserving approach, which is described below, that follows is designed to absorb and understand the latest information on our reported and unreported claims, to recognize the resultant exposure as quickly as possible, no matter how large, and above all else, to make appropriate and realistic provisions in our financial statements.

Reserving for long-tail lines of business (e.g., casualty and professional lines) generally represents the most significant reserving risk for us, as actual loss trends on these lines could turn out to be higher than the assumptions underlying our ultimate loss estimates. We manage and mitigate reserve risk on long-tail lines in a variety of ways. First, we limit the amount of long-tail business we write in line with maintaining a well balanced and diversified global portfolio of business. In 2008, net premiums written on our professional lines and casualty business represented less than one-third of our consolidated total. We purchase extensive reinsurance on these lines in our insurance segment, which we increased further in 2008, to reduce our net positions. Second, we limit the amount of occurrence-based business that we write. Our professional lines business, which is the largest component of our long-tail lines, is primarily written on a claims-made basis. This means that notice of a claim has to be provided during the policy period. Third, we follow a disciplined underwriting process that utilizes all available information, including industry trends.

Managing claims handling risk

In accepting risk, we are committing to the payment of claims and therefore these risks must be understood and controlled. We have claims teams located throughout our main operating locations. Our claims team includes a diverse group of experienced professionals, including claims adjusters and attorneys. We also use approved external service providers, such as independent adjusters and appraisers, surveyors, accountants, investigators and specialist attorneys, as appropriate. We maintain claims handling guidelines and claims reporting control and escalation procedures in all our claims units. To ensure that claims are handled and reported in accordance with these guidelines, all large claims matters are reviewed during weekly claims meetings. The minutes from each meeting also are circulated to our underwriters, senior management and others involved in the reserving process. To maintain communication between underwriting and claims teams, claims personnel regularly report at underwriting meetings and frequently attend client meetings.

When we receive notice of a claim, regardless of size, it is recorded within our underwriting and claims system. To assist with the reporting of significant claims, we have also developed a large claims information database, or LCID. The database is primarily used to produce flash reports for significant events and potential insurance or reinsurance losses, regardless of whether we have exposure. The system allows a direct notification to be promptly communicated to underwriters and senior management worldwide. Similarly, for natural peril catastrophes, we have developed a catastrophe database that allows for the gathering, blending and reporting of loss information as it develops from early modeled results to fully adjusted and paid losses.

MANAGING CREDIT RISKS

Credit risk represents the risk of incurring financial loss due to diminished creditworthiness (eroding credit rating and, ultimately, default) among our third party counterparties, related to, but not limited to, cash and cash equivalents, investments, premium receivables, unpaid reinsurance recoverable balances and derivatives. Additionally, we have credit risk exposure within our underwriting portfolios. Our most significant exposures to credit risk are discussed further below.

Credit risk relating to our fixed maturities

With our fixed maturity investment portfolio, which represents $8 billion, or 56% of our total assets, we are exposed to potential losses arising from the diminished creditworthiness of third party counterparties, where we hold securities. We limit such credit risk by setting high standards on the credit quality of our issuers, by diversifying our investments and by setting limits for credit concentration.

Specifically, we attempt to limit our credit exposure by purchasing fixed income investments rated BBB or higher. In addition, we limit our exposure to any single corporate issuer to 5% or less of our portfolio for securities rated A- or above and 3% or less of our portfolio for securities rated between BBB and BBB+. At December 31, 2008, we did not have an aggregate exposure to any single issuer of 3% or more of our shareholders equity, other than with respect to U.S. government and agency securities.

Credit risk relating to reinsurance recoverable assets

Within our reinsurance purchasing activities, we are exposed to the credit risk of a reinsurer failing to meet its obligations under our reinsurance contracts. To help mitigate this, all of our reinsurance purchasing is subject to financial security requirements specified by our Reinsurance Security Committee. This committee, comprising senior management personnel, maintains a list of approved reinsurers, performs credit risk assessments for existing and potential counterparties, recommends counterparty tolerance levels for different types of ceded business and monitors concentrations of credit risk. This assessment considers a whole range of individual attributes, including a thorough review of the counterparty s financial strength, industry position and other qualitative factors. We regularly monitor counterparty credit quality and exposures, with special monitoring of those cases that merit close attention. It is generally our Reinsurance Security Committee s policy to require reinsurers which do not meet our counterparty security requirements to provide adequate collateral. We further mitigate credit risk by diversifying our exposure by counterparty.

Credit risk relating to our underwriting portfolio

In our insurance segment, we provide credit insurance primarily for lenders (financial institutions) seeking to mitigate the risk of non-payment from their borrowers in emerging markets. This product has complemented our more traditional political risk insurance business in recent years. For the credit insurance contracts, it is necessary for the buyer of the insurance, most often a bank, to hold an insured asset, most often an underlying loan, in order to claim compensation under the insurance contract. The vast majority of the credit insurance provided is for single-name illiquid risks, primarily in the form of senior secured bank loans that can be individually analyzed and underwritten. As part of this underwriting process, our evaluation of credit worthiness and reputation of the obligor is critical and forms the cornerstone of the underwriting process. Our clients generally are required to retain a significant share of each transaction that we insure. A key element to our underwriting analysis is the assessment of recovery in the event of default and accordingly the strength of the collateral and the enforceability of rights to the collateral are paramount. We seek to avoid insurance for structured finance products defined by pools of risks and insurance for synthetic products that would expose us to mark-to-market losses. We also seek to avoid terms in our credit insurance contracts which introduce liquidity risk, most notably, in the form of a collateralization requirement upon a ratings downgrade. We also provide protection against sovereign default or sovereign actions that result in impairment of cross-border investments for banks and corporations. Our contracts

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generally include warranties, representations, exclusions and waiting periods. A loss payment is made in the event the debtor failed to pay our client when payment is due subject to a waiting period of up to 180 days.

Our underwriting portfolios are subject to credit limits by country, region, industry and individual counterparty (obligor on a loan or buyer on a trade credit receivable). We review credit exposures in each of our insurance and reinsurance segments at an aggregate level as well as by country, region, industry segment and counterparty. We measure credit exposures in terms of probable maximum loss, which is the expected loss at a given return period, net of expected recoveries and taking into account, contract terms and conditions. We model the risks in this part of our portfolio on a stand-alone basis and within our economic capital model.

In our reinsurance segment, we provide reinsurance of credit and bond insurers exposed to the risks of financial loss arising from non-payment of trade receivables covered by a policy (credit insurance) or non-performance (bonding). This credit exposure in our reinsurance segment relates primarily to exposures arising in western economies. Our insureds are generally able to react quickly to changing economic climate which in turn reduces our loss potential in the current economic downtown.

MANAGING INVESTMENT RISKS

Investment risk encompasses the risk of loss in our investment portfolio as a result of market risks, as well as risks inherent in individual securities. Market risks represent the adverse impact on our invested assets from fluctuations in interest rates, equity prices, credit spreads, foreign currency rates and other market prices/rates.

We manage the risks in our portfolio in a number of ways. To ensure diversification and avoid aggregation of risks, limits on asset types, economic sector exposure, industry exposure and individual security exposure are placed on our investment portfolio, and monitored on an ongoing basis. We actively manage the duration of our investment portfolio to approximately match the anticipated duration and cash flows of our re/insurance liabilities, so that the economic value of changes in interest rates have offsetting impacts on our assets and liabilities. We manage foreign currency risk by seeking to match our liabilities under insurance and reinsurance policies that are payable in foreign currencies with assets including cash and investments that are denominated in such currencies. When necessary, we may also use derivatives, such as forward contracts and currency options, to economically hedge portions of our un-matched foreign currency exposures.

We regularly stress test our investment portfolio using historical and hypothetical scenarios to analyze the impact of unusual market conditions, estimate potential losses, and ensure that we remain within our risk appetite. One measure of assessing our aggregate investment exposures is Value-at-Risk (VaR). Using VaR methodologies, the volatility and correlations between the asset classes within our investment portfolio are assessed over various time horizons. The 95% VaR of our cash and investments at December 31, 2008 was $945 million, or 9.0% compared to $276 million, or 2.6% at December 31, 2007, which represents the potential loss in fair value of our cash and investments over a one year time horizon within a 95% confidence level. In other words, 95% of the time, should the risks taken into account in the VaR calculation perform to their historical tendencies, losses on our cash and investment portfolio is expected to be less than or equal to the calculated VaR.

The increase in the VaR of our cash and investment portfolio during the year was primarily related to the impact of the global financial crisis. Given our VaR model is skewed towards the most recent months and quarters, our VaR at December 31, 2008 incorporates the impact of the unprecedented widening of credit spreads on certain fixed maturities during the second half of 2008. The increase in VaR also partially reflects the impact of a strengthening U.S. dollar this year.

During the second half of 2008, in response to the financial market crisis, we took steps to reduce the overall risk profile of our cash and investment portfolio. These changes included increasing our asset allocation to cash and cash equivalents and U.S. government and agency securities while reducing our exposure to municipal bonds. In 2009, we will continue to proactively manage our asset allocations in response to market conditions and opportunities, and in line with our investment strategy and risk tolerances.

MANAGING OPERATIONAL RISKS

Operational risk represents the risk of financial loss as a result of inadequate processes, system failures, human error or external events. Operational risks include for example, employee or third party fraud, business interruptions, inaccurate processing of transactions, IT failures, the loss of key employees without appropriate successors, and non-compliance with reporting obligations.

We manage transaction type operational risks on a regular basis through the application of strong process controls throughout our business. In testing these controls, we supplement the work of our internal audit team, with regular management initiated audits (MIAs). These are audits completed within all of our business segments by teams independent of the professionals who originated the transactions under audit. The MIAs allow us to test the robustness of our underwriting and operating processes to ensure that we have early indicators for any future trends in our operational risk.

For enterprise-wide risks, such as business continuity, IT and human capital, we continue to review our key risks, and focus our efforts accordingly. One such focus is our business continuity plans, with an emphasis on recovery from unexpected events such as a natural catastrophe and possibility of a pandemic. During 2008, we continued to review our Business Continuity Planning procedures through cyclical planned tests, all of which were completed satisfactorily.

With respect to IT risk, the dependency of our core processes on IT is rapidly increasing, with corresponding implications for risk. It is therefore important that we ensure the availability of applications and the integrity and security of critical data. During 2008, we further improved our existing plans and safeguards on (e.g. crisis communication, data back-up) to deal with the failure of fundamental business processes. We also upgraded our financial reporting systems this year to meet the needs of a larger, more geographically dispersed organization.

Our use of third party vendors exposes us to a number of increased operational risks, including the risk of security breaches, fraud, non-compliance with laws and regulations or internal guidelines and inadequate service. We manage third party vendor risk, by, among other things, performing a thorough risk assessment on potential vendors, reviewing a vendor s financial stability, ability to provide ongoing service, business continuity planning and its scalability (up or down). We also allocate appropriate resources to monitor our significant third party relationships and provide the necessary oversight.

REGULATION

General

The business of insurance and reinsurance is regulated in most countries, although the degree and type of regulation varies significantly from one jurisdiction to another.

Bermuda

As a holding company, AXIS Capital is not subject to Bermuda insurance regulations. However, the Insurance Act 1978 of Bermuda and related regulations, as amended, regulate the insurance business of our operating subsidiary in Bermuda, AXIS Specialty Bermuda, and provide that no person may carry on any insurance business in or from within Bermuda unless registered as an insurer by the Bermuda Monetary Authority, (BMA), under the Insurance Act. Insurance as well as reinsurance is regulated under the Insurance Act.

The Insurance Act also imposes on Bermuda insurance companies solvency and liquidity standards and auditing and reporting requirements, and grants the BMA powers to supervise, investigate, require information and the production of documents and intervene in the affairs of insurance companies. Significant requirements include the appointment of an independent auditor, the appointment of a loss reserve specialist and the filing of the Annual Statutory Financial Return with the BMA.

We also must comply with provisions of the Bermuda Companies Act 1981, as amended, regulating the payment of dividends and distributions. A Bermuda company may not declare or pay a dividend or make a distribution out of

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contributed surplus if there are reasonable grounds for believing that: (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the company s assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

United States

U.S. Insurance Holding Company Regulation of AXIS Capital s Insurance Subsidiaries

As members of an insurance holding company system, each of AXIS Capital s U.S. insurer subsidiaries are subject to the insurance holding company system laws and regulations of the states in which they do business. These laws generally require each of the U.S. subsidiaries to register with its respective domestic state insurance department and to furnish financial and other information which may materially affect the operations, management or financial condition within the holding company system. All transactions within a holding company system must be fair and equitable. Notice to the insurance departments is required prior to the consummation of transactions affecting the ownership or control of an insurer and of certain material transactions between an insurer and an entity in its holding company system, and certain transactions may not be consummated without the department s prior approval.

State Insurance Regulation

Our U.S. subsidiaries also are subject to regulation and supervision by their respective states of domicile and by other jurisdictions in which they do business. The regulations generally are derived from statutes that delegate regulatory and supervisory powers to an insurance official. The regulatory framework varies from state to state, but generally relates to approval of policy forms and rates, the standards of solvency that must be met and maintained, including risk-based capital standards, material transactions between an insurer and its affiliates, the licensing of insurers, agents and brokers, restrictions on insurance policy terminations, the nature of and limitations on the amount of certain investments, limitations on the net amount of insurance of a single risk compared to the insurer s surplus, deposits of securities for the benefit of policyholders, methods of accounting, periodic examinations of the financial condition and market conduct of insurance companies, the form and content of reports of financial condition required to be filed, and reserves for unearned premiums, losses, expenses and other obligations.

Our U.S. insurance and reinsurance subsidiaries are required to file detailed quarterly statutory financial statements with state insurance regulators in each of the states in which they conduct business. In addition, the U.S. insurance subsidiaries operations and accounts are subject to financial condition and market conduct examination at regular intervals by state regulators.

Regulators and rating agencies use statutory surplus as a measure to assess our U.S. subsidiaries ability to support business operations and pay dividends. Our U.S. subsidiaries are subject to various state statutory and regulatory restrictions that limit the amount of dividends that may be paid from earned surplus without prior approval from regulatory authorities. These restrictions differ by state, but generally are based on calculations using statutory surplus, statutory net income and investment income. In addition, many state regulators use the National Association of Insurance Commissioners promulgated risk-based capital requirements as a means of identifying insurance companies which may be undercapitalized.

Although the insurance industry generally is not directly regulated by the federal government, federal legislation and initiatives can affect the industry and our business. In November 2002, the Terrorism Risk Insurance Act, (TRIA), was enacted. TRIA, amended and restated in 2005, established a temporary federal program that requires U.S. and other insurers writing specified commercial property and casualty insurance policies in the U.S. to make available in some policies coverage for losses resulting from terrorists acts committed by foreign persons or interests in the U.S. or with respect to specified U.S. air carriers, vessels or missions abroad. In December 2007, the Terrorism Risk Insurance Revision and Extension Act of 2007 was enacted, which extended the material provisions of TRIA for an additional seven years and expanded coverage to include domestic acts of terrorism.

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Operations of AXIS Specialty Bermuda, AXIS Re Ltd., AXIS Re Europe, AXIS Specialty Europe and AXIS Specialty London

The insurance laws of each state of the United States and of many other countries regulate or prohibit the sale of insurance and reinsurance within their jurisdictions by insurers and reinsurers that are not admitted to do business within such jurisdictions, or conducting business pursuant to exemptions. AXIS Specialty Europe is eligible to write surplus lines business in 47 states in the United States and the District of Columbia, and is in the process of applying for authorization to write surplus lines business in other states. AXIS Specialty Bermuda and AXIS Re Ltd. (including its branch AXIS Re Europe) are not licensed or eligible to write business in the United States. AXIS Specialty Bermuda, AXIS Specialty Europe, AXIS Re Ltd. and AXIS Re Europe do not maintain offices, solicit, advertise, underwrite, settle claims or conduct any insurance activities in any jurisdiction in the United States where the conduct of such activities would require these companies to be admitted or authorized.

In addition to the regulatory requirements imposed by the jurisdictions in which they are licensed, reinsurers business operations are affected by regulatory requirements in various states of the U.S. governing credit for reinsurance that are imposed on their ceding companies. In general, a ceding company obtaining reinsurance from a reinsurer that is licensed, accredited or approved by the jurisdiction or state in which the ceding company files statutory financial statements is permitted to reflect in its statutory financial statements a credit in an aggregate amount equal to the ceding company s liability for unearned premiums (which are that portion of premiums written which applies to the unexpired portion of the policy period), loss reserves and loss expense reserves ceded to the reinsurer. Neither AXIS Specialty Bermuda, AXIS Specialty Europe nor AXIS Re Ltd. are licensed, accredited or approved in any state in the U.S. The great majority of states, however, permit a credit to statutory surplus resulting from reinsurance obtained from a non-licensed or non-accredited reinsurer to be recognized to the extent that the reinsurer provides a letter of credit, trust fund or other acceptable security arrangement. A few states do not allow credit for reinsurance ceded to non-licensed reinsurers except in certain limited circumstances and others impose additional requirements that make it difficult to become accredited.

Ireland

AXIS Specialty Europe

AXIS Specialty Europe is a non-life insurance company incorporated under the laws of Ireland and is authorized and regulated by the Irish Financial Regulator (IFR) pursuant to the Irish Insurance Acts 1909 to 2000 as amended, regulations relating to insurance business and the Central Bank and Financial Services Authority of Ireland Acts 2003 and 2004. AXIS Specialty Europe is authorized to conduct business in 14 non-life insurance classes of business.

Ireland is a member of the European Economic Area, (EEA), which comprises each of the countries of the European Union, or EU, and some additional countries. Ireland has adopted the EU s Third Non-Life Insurance Directive into Irish law. This directive introduced a single system for the authorization and financial supervision of non-life insurance companies by their home member state. Under this system, AXIS Specialty Europe (including its UK branch) is permitted to carry on insurance business in any other EEA member state by way of freedom to provide services, on the basis that it has notified the IFR of its intention to do so and subject to complying with such conditions as may be established by the regulator of the jurisdiction in which the insurance activities are carried out for reasons of the general good . AXIS Specialty Europe has permission from the IFR to provide insurance services on a freedom of services basis in all EEA countries.

The Third Non-Life Directive also permits AXIS Specialty Europe to carry on insurance business in any other EEA member state under the principal of freedom of establishment. In May 2003, AXIS Specialty Europe established a UK branch, AXIS Specialty London. IFR remains responsible for the prudential supervision of the UK branch. In addition, AXIS Specialty London must comply with the general good requirements of the Financial Services Authority of the United Kingdom.

AXIS Re Ltd.

AXIS Re Ltd. is a reinsurance company incorporated under the laws of Ireland. On December 10, 2007, IFR authorized AXIS Re Ltd to conduct non-life and life reinsurance as and from July 15, 2006 in accordance with the implementation into Irish law of the European Communities (Reinsurance) Regulations 2006, or Regulations. The Regulations introduce a comprehensive framework for the authorization and supervision of reinsurers in Ireland for the first time.

The European Reinsurance Directive provides for a single passport system within Europe for reinsurers similar to that which currently applies to direct insurers. The Reinsurance Directive provides that the authorization and supervision of European reinsurers is the responsibility of the EU member where the head office of the relevant reinsurer is located (known as the home state). Once authorized in its home state, a reinsurer is automatically entitled to conduct reinsurance business in all EEA member states under the principles of freedom of establishment and freedom to provide services. The Directive provides that the financial supervision of a reinsurer, including that of the business it carries on in other member states, either through branches or under the freedom to provide services, is the sole responsibility of the home state. Significant reinsurance regulation includes the Irish Financial Regulator s Corporate Governance for Reinsurance Undertakings guidance, Fit and Proper requirements and Investment Policy guidance.

United Kingdom

Under the law of England and Wales, a company may only transact insurance and/or reinsurance business in the United Kingdom upon authorization. AXIS Specialty Bermuda is not authorized to transact insurance and/or reinsurance business in the United Kingdom. AXIS Re Ltd. is authorized to conduct business in the United Kingdom pursuant to the reinsurance directive, and AXIS Specialty Europe is authorized to conduct business through its London branch, AXIS Specialty London.

Switzerland

In September 2003, AXIS Re Ltd. established a branch in Zurich, Switzerland named AXIS Re Europe. The Swiss Financial Regulator does not impose additional regulation upon a branch of an authorized reinsurer. On January 1, 2009, the Federal Act on the Swiss Financial market Supervisory Authority (FINMA), which the Swiss Parliament approved in June 2007, went into full legal force. The effect of the Act was to merge three bodies the Federal Office of Private Insurance, the Swiss Federal Banking Commission and the Anti-Money Laundering Control Authority into FINMA. Until their merger and incorporation into FINMA, these three authorities retained responsibility for their own areas of activity.

Singapore

In August 2008, AXIS Specialty Bermuda (Singapore Branch) received regulatory approval from the Monetary Authority of Singapore to operate as a branch insurer in Singapore to transact insurance and reinsurance domestically and internationally. The branch is regulated by the Monetary Authority of Singapore pursuant to The Insurance Act. AXIS Specialty Limited (Singapore Branch) is also registered by the Accounting and Corporate Regulatory Authority (ACRA) as a foreign company in Singapore and is regulated by ACRA pursuant to The Companies Act. Prior to establishing its Singapore branch, AXIS Specialty Bermuda had maintained a representative office in Singapore since 2004.

Canada

In September 2008, AXIS Reinsurance Company established a branch in Ontario, Canada (AXIS Reinsurance Company (Canadian Branch)). The branch was authorized by The Office of the Superintendent of Financial Institutions Canada (OSFI) to transact insurance and reinsurance. OSFI is the federal regulatory authority that supervises federal Canadian and non-Canadian insurance companies operating in Canada pursuant to the Insurance Companies Act (Canada). In addition, the branch is subject to the laws and regulations of each of the provinces and territories in which it is licensed.

Australia

In July 2008, AXIS Specialty Europe established AXIS Specialty Australia, a branch office in Australia to transact general insurance business. The Australia Prudential Regulation Authority authorized and supervises the branch.

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EMPLOYEES

As of February 19, 2009 we had 801 employees. We believe that our employee relations are excellent. None of our employees are subject to a collective bargaining agreement.

AVAILABLE INFORMATION

We file periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (such as us) and the address of that site is (*http://www.sec.gov*). Our common shares are traded on the NYSE with the symbol AXS and you can review similar information concerning us at the office of the NYSE at 20 Broad Street, New York, New York, 10005. Our website address is *http://www.axiscapital.com*. Information contained on our website is not part of this report.

We make available free of charge, including through our website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934 (the Exchange Act) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Current copies of the charter for each of our Audit Committee, Corporate Governance and Nominating Committee, Compensation Committee, Finance Committee, Executive Committee and Risk Committee, as well as our Corporate Governance Guidelines and Code of Business Conduct, are available on our website and are available, without charge, in print to any shareholder who requests it by contacting the Company s Secretary at 92 Pitts Bay Road, Pembroke, Bermuda, HM 08.

ITEM 1A: RISK FACTORS

You should carefully consider the following risks and all of the other information set forth in this report, including our consolidated financial statements and the notes thereto:

The continuation of the recent financial crisis could materially and adversely affect our business, our liquidity and financial condition.

Worldwide financial markets have recently experienced unprecedented volatility and disruption including, among other things, dislocation in the mortgage and asset-backed securities markets, deleveraging and decreased liquidity generally, widening of credit spreads, bankruptcies and government intervention in a number of large financial institutions. These events have resulted in extraordinary responses by governments worldwide, including the enactment of the Emergency Economic Stabilization Act of 2008 in the U.S. These conditions may potentially affect (among other aspects of our business) the demand for and claims made under our products, the ability of customers, counterparties and others to establish or maintain their relationships with us, our ability to access and efficiently use internal and external capital resources and our investment performance. In the event that these conditions persist and result in a prolonged economic downturn or recession, our results of operations, our financial condition and/or liquidity, and competitor landscape could be materially and adversely affected.

Our results of operations and financial condition could be materially adversely affected by the occurrence of natural and man-made disasters.

We have substantial exposure to unexpected losses resulting from natural disasters, man-made catastrophes and other catastrophic events. Catastrophes can be caused by various events, including hurricanes, earthquakes, hailstorms, explosions, severe winter weather, fires, and other natural or man-made disasters. The incidence and severity of catastrophes are inherently unpredictable and our losses from catastrophes could be substantial. As an example of the impact of catastrophe events, in 2008 we incurred net losses on Hurricanes Ike and Gustav of $408 million, which materially reduced our net income for the year. Increases in the values and concentrations of insured property may also increase the severity of these occurrences in the future. Although we attempt to manage our exposure to such events through the use of underwriting controls and the purchase of third-party reinsurance, the actual nature of such events when they occur could be more frequent or severe than contemplated in our pricing and risk management expectations. As a result, the occurrence of one or more catastrophe events could have a material effect on our results of operations, financial condition and/or liquidity.

We could face unanticipated losses from war, terrorism and political unrest, and these or other unanticipated losses could have a material adverse effect on our financial condition and results of operations.

We have substantial exposure to unexpected losses resulting from war, acts of terrorism and political instability. In certain instances, we specifically insure and reinsure risks resulting from acts of terrorism. Even in cases where we attempt to exclude losses from terrorism and certain other similar risks from some coverages written by us, there can be no assurance that a court or arbitration panel will interpret policy language or otherwise issue a ruling favorable to us. Accordingly, we can offer no assurance that our reserves will be adequate to cover losses should they materialize.

We have limited terrorism coverage in our own reinsurance program for our exposure to catastrophe losses related to acts of terrorism. Furthermore, although the Terrorism Risk Insurance Extension Act of 2005 (TRIEA) provides benefits in the event of certain acts of terrorism, those benefits are subject to a deductible and to other limitations. Under TRIEA, once our losses attributable to certain acts of terrorism exceed 20% of our direct commercial property and casualty insurance premiums for the preceding calendar year, the federal government will reimburse us for 85% of such losses in excess of this deductible. Notably, TRIEA does not provide coverage for reinsurance losses or for losses involving nuclear, biological, chemical or radiological events. Given the unpredictable frequency and severity of terrorism losses, as well as the limited terrorism coverage in our own reinsurance program, future losses from acts of terrorism, particularly those in our reinsurance segment or those involving nuclear, biological, chemical or radiological events, could materially and adversely affect our results of operations, financial condition and/or liquidity in future periods. TRIEA may not be extended beyond 2014.

Our credit and political risk insurance line of business protects insureds with interests in foreign jurisdictions in the event governmental action prevents them from exercising their contractual rights and may also protect their assets against physical damage perils. This may include risks arising from expropriation, forced abandonment, license cancellation, trade embargo, contract frustration, non-payment, war on land or political violence (including terrorism, revolution, insurrection and civil unrest). Political risk insurance is typically provided to financial institutions, equity investors, exporters, importers, export credit agencies and multilateral agencies in an array of industries, in connection with investments and contracts in both emerging markets and developed countries.

Our credit and political risk line of business also protects insureds in foreign jurisdictions against non-payment coverage on specific loan obligations as a result of commercial as well as political risk events. The vast majority of the credit insurance provided is for single-named illiquid risks, primarily in the form of secured bank loans that can be individually analyzed and underwritten. We avoid insurance for structured finance products defined by pools of risks and insurance for synthetic products that would expose us to mark-to-market losses. We also avoid terms in our credit insurance contracts which introduce liquidity risk, most notably, in the form of a collateralization requirement upon a ratings downgrade. Although we also attempt to manage our exposure, by among other things, setting credit limits by country, region, industry and individual counterparty and regularly reviewing our aggregate exposures, the occurrence of one or more large losses on our credit insurance portfolio could have a material adverse effect on our results of operations, financial condition and/or liquidity.

If actual claims exceed our loss reserves, our financial results could be adversely affected.

While we believe that our loss reserves at December 31, 2008 are adequate, new information, events or circumstances, unknown at the original valuation date, may lead to future developments in our ultimate losses significantly greater or less than the reserves currently provided. The actual final cost of settling both claims outstanding at December 31, 2008 and claims expected to arise from unexpired period of risk is uncertain. There are many other factors that would cause our reserves to increase or decrease, which include, but are not limited to, changes in claim severity, changes in the expected level of reported claims, judicial action changing the scope and/or liability of coverage, changes in the regulatory, social and economic environment and unexpected changes in loss inflation.

The uncertainty in our reserve estimate is particularly pronounced for a company like ours that has a limited operating history and therefore relies more upon industry benchmarks. To reduce some of the uncertainty, management performs an analysis of additional factors to be considered when establishing our IBNR, intended to enhance our best estimate beyond quantitative techniques. At December 31, 2008, we recorded additional IBNR for uncertainties relating to the timing of the emergence of claims. Although time lags are incorporated within the actuarial methods discussed above, these rely on industry experience which may not be indicative of our business. For example, the low frequency, high severity nature of much of our business, together with the vast and diverse expanse of our worldwide exposures, may limit the usefulness of claims experience of other insurers and reinsurers for similar types of business.

Changes to our previous estimate of prior year loss reserves can impact the reported calendar year underwriting results by worsening our reported results if reserves prove to be deficient or improving our reported results if reserves prove to be redundant. If our net income is insufficient to absorb a required increase in our loss reserves, we would incur an operating loss and could incur a reduction of our capital.

The failure of any of the loss limitation methods we employ could have a material adverse effect on our results of operations or financial condition.

We seek to mitigate our loss exposure by writing a number of our insurance and reinsurance contracts on an excess of loss basis. Excess of loss insurance and reinsurance indemnifies the insured against losses in excess of a specified amount. In addition, we limit the program size for each client on our insurance business and purchase reinsurance for many of our lines of business. In the case of quota share reinsurance treaties, we seek per occurrence limitations or loss and loss expense ratio caps to limit the impact of losses from any one event. In quota share reinsurance, the reinsurer shares a proportional part of the premiums and losses of the reinsured. We cannot be sure that any of these loss limitation methods will be effective and mitigate our loss exposure. We also seek to limit our loss exposure by geographic diversification. Geographic zone limitations involve significant underwriting judgments, including the determination of the area of the zones and the inclusion of a particular policy within a particular zone s limits. Various provisions of our policies, such as limitations or exclusions from coverage or choice of forum negotiated to limit our risks may not be enforceable in the manner we intend. As a result of these risks, one or more catastrophic or other events could result in claims that substantially exceed our expectations, which could have a material adverse effect on our results of operations or financial condition.

The risk associated with reinsurance underwriting could adversely affect us.

In our reinsurance business, we do not always separately evaluate each of the individual risks assumed under reinsurance treaties. This is common among reinsurers. Therefore, we are largely dependent on the original underwriting decisions made by insurers that reinsure their liabilities, or ceding companies. We are subject to the risk that the ceding companies may not have adequately evaluated the risks to be reinsured and that the premiums ceded may not adequately compensate us for the risks we assume.

We could be materially adversely affected to the extent that managing general agents, general agents and other producers in our program business exceed their underwriting authorities or otherwise breach obligations owed to us.

In program business conducted by our insurance segment, following our underwriting, financial, claims and information technology due diligence reviews, we authorize managing general agents, general agents and other producers to write business on our behalf within underwriting authorities prescribed by us. Once a program incepts, we must rely on the underwriting controls of these agents to write business within the underwriting authorities provided by us. Although we monitor our programs on an ongoing basis, our monitoring efforts may not be adequate or our agents may exceed their underwriting authorities or otherwise breach obligations owed to us. To the extent that our agents exceed their authorities or otherwise breach obligations owed to us in the future, our results of operations and financial condition could be materially adversely affected.

If we choose to purchase reinsurance, we may be unable to do so, and if we successfully purchase reinsurance, we may be unable to collect.

We purchase reinsurance for our insurance and reinsurance operations in order to mitigate the volatility of losses upon our financial results. A reinsurer s insolvency, or inability or refusal to make payments under the terms of its reinsurance agreement with us, could have a material adverse effect on our business because we remain liable to the insured. From time to time, market conditions have limited, and in some cases have prevented, insurers and reinsurers from obtaining the types and amounts of reinsurance that they consider adequate for their business needs.

There is no guarantee that our desired amounts of reinsurance or retrocessional reinsurance will be available in the marketplace in the future. In addition to capacity risk, the remaining capacity may not be on terms we deem appropriate or acceptable or with companies with whom we want to do business. Finally, we face counterparty risk whenever we purchase reinsurance or retrocessional reinsurance. Many re/insurance companies have been negatively impacted by deteriorating financial and economic conditions, including unprecedented financial market disruption. A number of these companies, including some of those with which we conduct business, have been downgraded and/or have been placed on negative outlook by various rating agencies. Consequently, the insolvency, inability or unwillingness of any of our present or future reinsurers to make timely payments to us under the terms of our reinsurance or retrocessional agreements could have an adverse effect on us.

If we experience difficulties with technology and/or data security our ability to conduct our business might be negatively impacted.

While technology can streamline many business processes and ultimately reduce the cost of operations, technology initiatives present certain risks. Our business is dependent upon our employees and outsourcers ability to perform, in an efficient and uninterrupted fashion, necessary business functions, such as processing policies and paying claims. A shutdown of, or inability to, access one or more of our facilities, a power outage, or a failure of one or more of our information technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis. If sustained or repeated, such a business interruption, system failure or service denial could result in a deterioration of our ability to write and process business, provide customer service, pay claims in a timely manner or perform other necessary business functions. Computer viruses, hackers and other external hazards including catastrophic events could expose our data systems to security breaches. These risks could expose us to data loss and damages. As a result, our ability to conduct our business might be adversely affected.

We outsource certain technology and business process functions to third parties and may do so increasingly in the future. If we do not effectively develop and implement our outsourcing strategy, third party providers do not perform as anticipated or we experience technological or other problems with a transition, we may not realize productivity improvements or cost efficiencies and may experience operational difficulties, increased costs and a loss of business. Our outsourcing of certain technology and business process functions to third parties may expose us to enhanced risk related to data security, which could result in monetary and reputational damages. In addition, our ability to receive services from third party providers might be impacted by cultural differences, political instability, unanticipated regulatory requirements or policies. As a result, our ability to conduct our business might be adversely affected.

A decline in our investment performance could reduce our profitability.

The performance of our cash and investments portfolio has a significant impact on our financial results. A failure to successfully execute our investment strategy could have a significant impact on our results of operations or financial condition.

Our investment portfolio is subject to a variety of market risks, including risks relating to general economic conditions, interest rate fluctuations, equity price risk, foreign currency movements, pre-payment or reinvestment risk, and credit risk. Although we attempt to manage market risks through, among other things, stressing diversification and conservation of principal and liquidity in our investment guidelines, it is possible that, in periods of economic weakness or periods of turmoil in capital markets, we may experience significant losses in our portfolio. We experienced such market conditions during 2008 which drove a 67% reduction in our total net investment income and net realized investment gains/losses as compared with 2007.

Our fixed maturities, which represent 77% of our total cash and investments at December 31, 2008, may be adversely impacted by changes in interest rates. Increases in interest rates could cause the fair value of our investment portfolio to decrease, perhaps substantially. Conversely, a decline in interest rates could reduce our investment yield, which would reduce our overall profitability. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Our fixed maturities may also be adversely impacted by fluctuations in credit spreads. A credit spread is the difference between the yield on the fixed maturity security of a particular borrower (or a class of borrowers with a specified credit rating) and the yield of similar maturity U.S. Treasury fixed maturity. As credit spreads widen, the fair value of our fixed maturities falls, and the converse is also true.

Our fixed maturity portfolio also includes exposure to mortgage-backed and asset-backed securities. During 2008, a significant increase in mortgage default rates negatively impacted the value of mortgage backed securities held by foreign and domestic institutions. The defaults also lead to a corresponding increase in foreclosures, which drove down house values, resulting in additional losses in mortgage-backed and asset-backed securities. These market conditions significantly impacted the fair value of these securities during 2008. In the event that these conditions persist, our financial position and/or liquidity could be materially and adversely affected.

As part of our diversification strategy, 5% of our investment portfolio is invested in other investments. These investments consist primarily of hedge funds and credit funds. Return expectations are, as a rule, correlated with risk expectation, i.e. investments with potentially higher returns entail a potentially higher risk of loss. The fact that our other investments can be a risky form of investment was illustrated by losses incurred from this portfolio of $221 million during 2008, which significantly impacted our overall results. Many of our other investments are also subject to restrictions on redemptions and sales which are determined by the governing documents and limit our ability to liquidate these investments in the short term.

During an economic downturn, our investment portfolio could be subject to higher risk. The value of our investment portfolio is subject to the risk that certain investments may default or become impaired due to deterioration in the financial condition of one or more issuers of the securities held in our portfolio, or due to deterioration in the financial condition of an insurer that guarantees an issuer s payments of such investments. Such defaults and impairments could reduce our net investment income and result in realized investment losses.

Our investment portfolio is also subject to increased valuation uncertainties when investment markets are illiquid. The valuation of investments is more subjective when markets are illiquid, thereby increasing the risk that the estimated fair value (i.e., the carrying amount) of our investment portfolio is not reflective of prices at which actual transactions would occur.

Because of the risks set forth above, the value of our investment portfolio could decrease, we could experience reduced net investment income, and we could incur realized investment losses, which could materially and adversely affect our results of operations, financial condition and/or liquidity.

Given our reliance on external investment managers, we could also be exposed to operational risks, that may include, but are not limited to, a failure to follow our investment guidelines, technological and staffing deficiencies and inadequate disaster recovery plans.

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Our operating results may be adversely affected by currency fluctuations.

Our functional currency is the U.S. dollar. However, a portion of our gross premiums are written in currencies other than the U.S. dollar. A portion of our loss reserves and investments are also in non-U.S. currencies. We may, from time to time, experience losses resulting from fluctuations in the values of these non-U.S. currencies, which could adversely affect our operating results. Although we attempt to manage our foreign currency exposure through matching of our major foreign denominated assets and liabilities, as well as through the use of currency derivatives, there is no guarantee that we will successfully mitigate our exposure to foreign exchange losses.

We may require additional capital in the future, which may not be available or may only be available on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to write new business successfully, the frequency and severity of catastrophic events and our ability to establish premium rates and reserves at levels sufficient to cover losses. We may need to raise additional funds through financings. If we are unable to do so, it may curtail our growth and reduce our assets. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. Equity financings could be dilutive to our existing shareholders and could result in the issuance of securities that have rights, preferences and privileges that are senior to those of our other securities. If we cannot obtain adequate capital on favorable terms or at all, our business, operating results and financial condition could be adversely affected.

Our inability to obtain the necessary credit could affect our ability to offer reinsurance in certain markets.

Neither AXIS Specialty Bermuda nor AXIS Re Ltd. is licensed or admitted as an insurer or reinsurer in any jurisdiction other than Bermuda, Ireland and Singapore, respectively. Because the U.S. and some other jurisdictions do not permit insurance companies to take credit on their statutory financial statements for reinsurance obtained from unlicensed or non-admitted insurers unless appropriate security mechanisms are in place, our reinsurance clients in these jurisdictions typically require AXIS Specialty Bermuda and AXIS Re Ltd. to provide letters of credit or other collateral. Our credit facility is used to post letters of credit. However, if our credit facility is not sufficient, or if we are unable to renew our credit facility on commercially affordable terms when it expires on August 25, 2010, or if we are unable to arrange for other types of security on commercially affordable terms, AXIS Specialty Bermuda and AXIS Re Ltd. could be limited in their ability to write business for some of our clients.

A downgrade in our credit ratings by one or more rating agencies could materially and negatively impact our business, financial condition, results of operations and/or liquidity.

As our ability to underwrite business is dependent upon the quality of our claims paying and financial strength ratings as evaluated by independent rating agencies, a downgrade by any of these institutions could cause our competitive position in the insurance and reinsurance industry to suffer and make it more difficult for us to market our products. If we experience a credit rating downgrade in the future, we could incur higher borrowing costs and may have more limited means to access capital. A downgrade could also result in a substantial loss of business for us as ceding companies and brokers that place such business may move to other insurers and reinsurers with higher credit ratings.

Since we depend on a few brokers for a large portion of our revenues, loss of business provided by any one of them could adversely affect us.

We market our insurance and reinsurance worldwide primarily through insurance and reinsurance brokers. MMC (Marsh & McLennan Companies, Inc.), including its subsidiary Guy Carpenter & Company, Inc., Aon Corporation and Willis Group Holdings Ltd., provided a total of 58% of our gross premiums written during 2008. These brokers also have, or may in the future acquire, ownership interests in insurance and reinsurance companies that may compete with us. Loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our business.

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Our reliance on brokers subjects us to their credit risk.

In accordance with industry practice, we pay amounts owed on claims under our insurance and reinsurance contracts to brokers, and these brokers pay these amounts over to the clients that have purchased insurance or reinsurance from us. Although the law is unsettled and depends upon the facts and circumstances of the particular case, in some jurisdictions, if a broker fails to make such a payment, we might remain liable to the insured or ceding insurer for the deficiency.

Conversely, in certain jurisdictions, when the insured or ceding insurer pays premiums for these policies to brokers for payment over to us, these premiums might be considered to have been paid and the insured or ceding insurer will no longer be liable to us for those amounts, whether or not we have actually received the premiums from the broker. Consequently, we assume a degree of credit risk associated with brokers with whom we transact business. These risks are heightened during financial instability or an economic downturn or recession.

Changes in current accounting practices and future pronouncements may materially impact our reported financial results.

Unanticipated developments in accounting practices may require us to incur considerable additional expenses to comply with such developments, particularly if we are required to prepare information relating to prior periods for comparative purposes or to apply the new requirements retroactively. The impact of changes in current accounting practices and future pronouncements cannot be predicted but may affect the calculation of net income, net equity and other relevant financial statement line items. In particular, recent guidance and ongoing projects put in place by standard setters globally have indicated a possible move away from the current insurance accounting models toward more fair value based models which could introduce significant volatility in the earnings of insurance industry participants.

We could be adversely affected by the loss of one or more key executives or by an inability to attract and retain qualified personnel.

Our success depends on our ability to retain the services of our existing key executives and to attract and retain additional qualified personnel in the future. The loss of the services of any of our key executives or the inability to hire and retain other highly qualified personnel in the future could adversely affect our ability to conduct our business. We do not maintain key man life insurance policies with respect to our employees, except for our Chief Executive Officer and President, John R. Charman. There can be no assurance that we will be successful in identifying, hiring or retaining successors on terms acceptable to us or on any terms.

Under Bermuda law, non-Bermudians, with some limited exceptions, may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. Work permits may be granted or extended by the Bermuda government only upon showing that, after proper public advertisement in most cases, no Bermudian or spouse of a Bermudian, holder of a permanent resident s certificate or holder of a working resident s certificate is available who meets the minimum standard requirements for the advertised position. In 2001, the Bermuda government announced a new immigration policy limiting the duration of work permits to between six and nine years, with specified exemptions for key employees. In March 2004, the Bermuda government announced an amendment to the immigration policy which expanded the categories of occupations recognized by the government as key and for which businesses are eligible to apply for holders of jobs in those categories to be exempt from the six to nine year term limits. The categories include senior executives (chief executive officers, presidents through vice presidents), managers with global responsibility, senior financial posts (treasurers, chief financial officers through controllers, specialized qualified accountants, quantitative modeling analysts), certain legal professionals (general counsel, specialist attorneys, qualified legal librarians and knowledge managers), senior insurance professionals (senior underwriters, senior claims adjustors), experienced/specialized brokers, actuaries, specialist investment traders/analysts and senior information technology engineers/managers. All executive officers who work in our Bermuda office that require work permits have obtained them.

Competition in the insurance industry could reduce our risk margins

The insurance and reinsurance industry is highly competitive. We compete on an international and regional basis with major U.S., Bermuda, European and other international insurers and reinsurers and with Lloyds underwriting syndicates,

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some of which have greater financial, marketing and management resources than we do. We also compete with new companies that continue to be formed to enter the insurance and reinsurance markets. In addition, capital market participants have recently created alternative products that are intended to compete with reinsurance products. Increased competition could result in fewer submissions, lower premium rates and less favorable policy terms and conditions, which could have a material adverse effect on our growth and profitability.

The insurance and reinsurance business is historically cyclical, and we expect to experience periods with excess underwriting capacity and unfavorable premium rates.

The insurance and reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of capacity permitted favorable premium levels. An increase in premium levels is often offset by an increasing supply of insurance and reinsurance capacity, either by capital provided by new entrants or by the commitment of additional capital by existing insurers or reinsurers, which may cause prices to decrease. Any of these factors could lead to a significant reduction in premium rates, less favorable policy terms and fewer submissions for our underwriting services. In addition to these considerations, changes in the frequency and severity of losses suffered by insureds and insurers may affect the cycles of the insurance and reinsurance business significantly.

The regulatory system under which we operate, and potential changes thereto, could have a material adverse effect on our business.

In a time of financial uncertainty or a prolonged economic downturn or recession, regulators may choose to adopt more restrictive insurance laws and regulations, which may result in lower revenues and/or higher costs and thus could materially and adversely affect our results of operations.

Our insurance and reinsurance subsidiaries conduct business globally, including in 50 states of the U.S. and the District of Columbia. Our businesses in each of these jurisdictions are subject to varying degrees of regulation and supervision. The laws and regulations of the jurisdictions in which our insurance and reinsurance subsidiaries are domiciled require, among other things, that our subsidiaries maintain minimum levels of statutory capital and liquidity, meet solvency standards, participate in guaranty funds and submit to periodic examinations of their financial condition and compliance with underwriting regulations. These laws and regulations also sometimes restrict payments of dividends and reductions of capital. These statutes, regulations and policies may also restrict the ability of these subsidiaries to write insurance and reinsurance policies, to make certain investments and to distribute funds. The purpose of insurance laws and regulations generally is to protect insureds and ceding insurance companies, not our shareholders. We may not be able to comply fully with, or obtain appropriate exemptions from these statutes and regulations. Failure to comply with or to obtain appropriate authorizations and/or exemptions under any applicable laws could result in restrictions on our ability to do business or undertake activities that are regulated in one or more of the jurisdictions in which we conduct business and could subject us to fines and other sanctions. In addition, changes in the laws or regulations to which our insurance and reinsurance subsidiaries are subject could have an adverse effect on our business.

Potential government intervention in our industry as a result of recent events and instability in the marketplace for insurance products could hinder our flexibility and negatively affect the business opportunities that may be available to us in the market.

Government intervention and the possibility of future government intervention have created uncertainty in the insurance and reinsurance markets. Government regulators are generally concerned with the protection of policyholders to the exclusion of other constituencies, including shareholders of insurers and reinsurers. An example of such intervention was the expansion of the Florida Hurricane Catastrophe Fund in 2007, which increased the capacity of the Fund to compete against commercial providers of catastrophe reinsurance. In addition, in recent years certain U.S. and non-U.S. regulatory authorities have commenced investigations into other business practices in the insurance industry. While we cannot predict the exact nature, timing or scope of possible governmental initiatives, such proposals could adversely affect our business by, among other things:

- Providing reinsurance capacity in markets and to consumers that we target;

Requiring our further participation in industry pools and guaranty associations;

Expanding the scope of coverage under existing policies; e.g., following large disasters;

Further regulating the terms of insurance and reinsurance policies; or

Disproportionately benefiting the companies of one country over those of another.

Our ability to pay dividends and to make payments on indebtedness may be constrained by our holding company structure.

AXIS Capital is a holding company and has no direct operations of its own. AXIS Capital has no significant operations or assets other than its ownership of the shares of its operating insurance and reinsurance subsidiaries, AXIS Specialty Bermuda, AXIS Re Ltd., AXIS Specialty Europe, AXIS Re U.S., AXIS Specialty U.S., AXIS Surplus and AXIS Insurance Co. (collectively, our Insurance Subsidiaries). Dividends and other permitted distributions from our Insurance Subsidiaries (in some cases through our subsidiary holding companies), are our primary source of funds to meet ongoing cash requirements, including debt service payments and other expenses, and to pay dividends to our shareholders. Our Insurance Subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends and make distributions. The inability of our Insurance Subsidiaries to pay dividends in an amount sufficient to enable us to meet our cash requirements at the holding company level could have a material adverse effect on our business and our ability to pay dividends and make payments on our indebtedness.

AXIS Capital is a Bermuda company and it may be difficult for you to enforce judgments against it or its directors and executive officers.

AXIS Capital is incorporated pursuant to the laws of Bermuda and our business is based in Bermuda. In addition, some of our directors and officers reside outside the United States, and all or a substantial portion of our assets and the assets of such persons are located in jurisdictions outside the United States. As a result, it may be difficult or impossible to effect service of process within the United States upon those persons or to recover against us or them on judgments of U.S. courts, including judgments predicated upon civil liability provisions of the U.S. federal securities laws. Further, it may not be possible to bring a claim in Bermuda against us or our directors and officers for violation of U.S. federal securities laws because these laws may have no extraterritorial application under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability, including the possibility of monetary damages, on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

There are provisions in our charter documents that may reduce or increase the voting rights of our shares.

Our bye-laws generally provide that shareholders have one vote for each common share held by them and are entitled to vote, on a non-cumulative basis, at all meetings of shareholders. However, the voting rights exercisable by a shareholder may be limited so that certain persons or groups are not deemed to hold 9.5% or more of the voting power conferred by our shares. Under these provisions, some shareholders may have the right to exercise their voting rights limited to less than one vote per share. Moreover, these provisions could have the effect of reducing the voting power of some shareholders who would not otherwise be subject to the limitation by virtue of their direct share ownership. In addition, our board of directors may limit a shareholder s exercise of voting rights where it deems it necessary to do so to avoid adverse tax, legal or regulatory consequences.

We also have the authority under our bye-laws to request information from any shareholder for the purpose of determining whether a shareholder s voting rights are to be limited pursuant to the bye-laws. If a shareholder fails to respond to our request for information or submits incomplete or inaccurate information in response to a request by us, we may, in our sole discretion, eliminate the shareholder s voting rights.

There are provisions in our bye-laws that may restrict the ability to transfer common shares and which may require shareholders to sell their common shares.

Our board of directors may decline to register a transfer of any common shares under some circumstances, including if they have reason to believe that any non-de minimis adverse tax, regulatory or legal consequences to us, any of our

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subsidiaries or any of our shareholders may occur as a result of such transfer. Our bye-laws also provide that if our board of directors determines that share ownership by a person may result in non-de minimis adverse tax, legal or regulatory consequences to us, any of our subsidiaries or any of our shareholders, then we have the option, but not the obligation, to require that shareholder to sell to us or to third parties to whom we assign the repurchase right for fair value the minimum number of common shares held by such person which is necessary to eliminate the non-de minimis adverse tax, legal or regulatory consequences.

Applicable insurance laws may make it difficult to effect a change of control of our company.

Before a person can acquire control of a U.S. insurance company, prior written approval must be obtained from the insurance commissioner of the state where the domestic insurer is domiciled. Prior to granting approval of an application to acquire control of a domestic insurer, the state insurance commissioner will consider such factors as the financial strength of the acquiror, the integrity and management of the acquiror s board of directors and executive officers, the acquiror s plans for the future operations of the domestic insurer and any anti-competitive results that may arise from the consummation of the acquisition of control. Generally, state statutes provide that control over a domestic insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, 10% or more of the voting securities of the domestic insurer. Because a person acquiring 10% or more of our common shares would indirectly control the same percentage of the stock of the AXIS U.S. Subsidiaries, the insurance change of control laws of Connecticut, Illinois and New York would likely apply to such a transaction.

In addition, the Insurance Acts and Regulations in Ireland require that anyone acquiring or disposing of a direct or indirect holding in an Irish authorized insurance company (such as AXIS Specialty Europe) that represents 10% or more of the capital or of the voting rights of such company or that makes it possible to exercise a significant influence over the management of such company, or anyone who proposes to decrease or increase that holding to specified levels, must first notify the Irish Regulatory Authority of their intention to do so. They also require any Irish authorized insurance company that becomes aware of any acquisitions or disposals of its capital involving the specified levels to notify the Irish Regulatory Authority. The specified levels are 20%, 33% and 50% or such other level of ownership that results in the company becoming the acquiror s subsidiary within the meaning of article 20 of the European Communities (non-Life Insurance) Framework Regulations 1994.

The Irish Regulatory Authority has three months from the date of submission of a notification within which to oppose the proposed transaction if the Irish Regulatory Authority is not satisfied as to the suitability of the acquiror in view of the necessity to ensure prudent and sound management of the insurance undertaking concerned. Any person owning 10% or more of the capital or voting rights or an amount that makes it possible to exercise a significant influence over the management of AXIS Capital would be considered to have a qualifying holding in AXIS Specialty Europe.

While our bye-laws limit the voting power of any shareholder to less than 9.5%, there can be no assurance that the applicable regulatory body would agree that a shareholder who owned 10% or more of our shares did not, because of the limitation on the voting power of such shares, control the applicable Insurance Subsidiary. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of the Company, including transactions that some or all of our shareholders might consider to be desirable.

Anti-takeover provisions in our bye-laws could impede an attempt to replace our directors or to effect a change in control, which could diminish the value of our common shares.

Our bye-laws contain provisions that may make it more difficult for shareholders to replace directors and could delay or prevent a change of control that a shareholder might consider favorable. These provisions include a staggered board of directors, limitations on the ability of shareholders to remove directors other than for cause, limitations on voting rights and restrictions on transfer of our common shares. These provisions may prevent a shareholder from receiving the benefit from any premium over the market price of our shares offered by a bidder in a potential takeover. Even in the absence of an attempt to effect a change in management or a takeover attempt, these provisions may adversely affect the prevailing market price of our shares if they are viewed as discouraging takeover attempts in the future.

We may become subject to taxes in Bermuda after March 28, 2016, which may have a material adverse effect on our results of operations.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, has given each of AXIS Capital and AXIS Specialty Bermuda an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to AXIS Capital, AXIS Specialty Bermuda or any of their respective operations, shares, debentures or other obligations until March 28, 2016. Given the limited duration of the Minister of Finance s assurance, we cannot be certain that we will not be subject to any Bermuda tax after March 28, 2016.

Our non-U.S. companies may be subject to U.S. tax that may have a material adverse effect on our results of operations.

AXIS Capital and AXIS Specialty Bermuda are Bermuda companies, AXIS Specialty Holdings Ireland Limited (AXIS Ireland Holdings), AXIS Re Ltd., AXIS Specialty Europe, and AXIS Specialty Global Holdings Limited are Irish companies and AXIS Specialty U.K. Holdings Limited (AXIS U.K. Holdings) is a U.K. company. We intend to manage our business so that each of these companies will operate in such a manner that none of these companies should be subject to U.S. tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on some types of U.S. source investment income), because none of these companies should be treated as engaged in a trade or business within the United States. However, because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the United States, we cannot be certain that the U.S. Internal Revenue Service (IRS) will not contend successfully that any of AXIS Capital or its non-U.S. subsidiaries is/are engaged in a trade or business in the United States. If AXIS Capital or any of its non-U.S. subsidiaries were considered to be engaged in a trade or business in the United States, it could be subject to U.S. corporate income and additional branch profits taxes on the portion of its earnings effectively connected to such U.S. business. If this were to be the case, our results of operations could be materially adversely affected.

Our non-U.K. companies may be subject to U.K. tax that may have a material adverse effect on our results of operations.

We intend to operate in such a manner so that none of our companies, other than AXIS U.K. Holdings, should be resident in the United Kingdom for tax purposes and that none of our companies, other than AXIS Ireland Holdings and AXIS Specialty Europe, should have a permanent establishment in the United Kingdom. Accordingly, we expect that none of our companies other than, AXIS U.K. Holdings, AXIS Ireland Holdings and AXIS Specialty Europe should be subject to U.K. tax. Nevertheless, because neither case law nor U.K. statutes conclusively define the activities that constitute trading in the United Kingdom through a permanent establishment, the U.K. Inland Revenue might contend successfully that any of our companies, in addition to AXIS U.K. Holdings, AXIS Ireland Holdings and AXIS Specialty Europe, is/are trading in the United Kingdom through a permanent establishment in the United Kingdom and therefore subject to U.K. tax. If this were the case, our results of operations could be materially adversely affected.

Our non-Irish companies may be subject to Irish tax that may have a material adverse effect on our results of operations.

We intend to operate in such a manner so that none of our companies, other than AXIS Ireland Holdings, AXIS Re Ltd., AXIS Specialty Europe, and AXIS Specialty Global Holdings Limited should be resident in Ireland for tax purposes and that none of our companies, other than AXIS Ireland Holdings, AXIS Re Ltd., AXIS Specialty Europe, and AXIS Specialty Global Holdings Limited should be treated as carrying on a trade through a branch or agency in Ireland.

Accordingly, we expect that none of our companies other than AXIS Ireland Holdings, AXIS Re Ltd, AXIS Specialty Europe and AXIS Specialty Global Holdings Limited should be subject to Irish corporation tax. Nevertheless, since the determination as to whether a company is resident in Ireland is a question of fact to be determined based on a number of different factors and since neither case law nor Irish legislation conclusively defines the activities that constitute trading in

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Ireland through a branch or agency, the Irish Revenue Commissioners might contend successfully that any of our companies, in addition to AXIS Ireland Holdings, AXIS Re Ltd., AXIS Specialty Europe and AXIS Specialty Global Holdings Limited, is resident in or otherwise trading through a branch or agency in Ireland and therefore subject to Irish corporation tax. If this were the case, our results of operations could be materially adversely affected.

If corporate tax rates in Ireland increase, our results of operations could be materially adversely affected.

Trading income derived from the insurance and reinsurance businesses carried on in Ireland by AXIS Specialty Europe and AXIS Re Ltd. is generally taxed in Ireland at a rate of 12.5%. Over the past number of years, various EU member states have, from time to time, called for harmonization of corporate tax rates within the EU. Ireland, along with other member states, has consistently resisted any movement towards standardized corporate tax rates in the EU. The Government of Ireland has also made clear its commitment to retain the 12.5% rate of corporation tax until at least the year 2025. If, however, tax laws in Ireland change so as to increase the general corporation tax rate in Ireland, our results of operations could be materially adversely affected.

If investments held by AXIS Specialty Europe or AXIS Re Ltd. are determined not to be integral to the insurance and reinsurance businesses carried on by those companies, additional Irish tax could be imposed and our business and financial results could be materially adversely affected.

Based on administrative practice, taxable income derived from investments made by AXIS Specialty Europe and AXIS Re Ltd. is generally taxed in Ireland at the rate of 12.5% on the grounds that such investments either form part of the permanent capital required by regulatory authorities, or are otherwise integral to the insurance and reinsurance businesses carried on by those companies. AXIS Specialty Europe and AXIS Re Ltd. intend to operate in such a manner so that the level of investments held by such companies does not exceed the amount that is integral to the insurance and reinsurance businesses carried on by AXIS Specialty Europe and AXIS Re Ltd. If, however, investment income earned by AXIS Specialty Europe or AXIS Re Ltd. exceeds these thresholds, or if the administrative practice of the Irish Revenue Commissioners changes, Irish corporation tax could apply to such investment income at a higher rate (currently 25%) instead of the general 12.5% rate, and our results of operations could be materially adversely affected.

The impact of Bermuda s letter of commitment to the Organization for Economic Cooperation and Development to eliminate harmful tax practices is uncertain and could adversely affect our tax status in Bermuda.

The Organization for Economic Cooperation and Development (the OECD) has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. In the OECD s report dated April 18, 2002 and periodically updated, Bermuda was not listed as an uncooperative tax haven jurisdiction because it had previously committed to eliminate harmful tax practices and to embrace international tax standards for transparency, exchange of information and the elimination of any aspects of the regimes for financial and other services that attract business with no substantial domestic activity. We are not able to predict what changes will arise from the commitment or whether such changes will subject us to additional taxes.

Changes in U.S. federal income tax law could materially adversely affect us.

Legislation has been introduced in the U.S. Congress intended to eliminate some perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the United States but have certain U.S. connections. For example, legislation has been introduced in Congress to limit the deductibility of reinsurance premiums paid by U.S. companies to non-U.S. affiliates. It is possible that this or similar legislation could be introduced in and enacted by the current Congress or future Congresses and could have an adverse impact on us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no outstanding, unresolved comments from the SEC staff at December 31, 2008.

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ITEM 2. PROPERTIES

We maintain office facilities in the United States, Bermuda, Europe, Canada, Australia and Singapore. We own the property in which our offices are located in Dublin, Ireland, and we lease office space in the other countries. We renew and enter into new leases in the ordinary course of business as required. Our worldwide headquarters office is located at 92 Pitts Bay Road, Pembroke, Bermuda. We believe that our office space is sufficient for us to conduct our operations for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

Except as set forth 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 our insurance or reinsurance 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, and a hearing is scheduled for April 2009. We believe that the lawsuit is completely without merit and we continue to vigorously defend the filed action.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common shares, $0.0125 par value, are listed on the New York Stock Exchange under the symbol AXS . The following table sets forth the high and low sales prices per share of our common shares for each of the fiscal quarters in the last two fiscal years as reported on the New York Stock Exchange Composite Tape:

	2008			2007		
	High	Low	Dividends Declared	High	Low	Dividends Declared
1st Quarter	$ 41.81	$ 32.77	$ 0.185	$ 35.25	$ 31.86	$ 0.165
2nd Quarter	$ 36.65	$ 29.65	$ 0.185	$ 41.17	$ 33.28	$ 0.165
3rd Quarter	$ 36.00	$ 27.74	$ 0.185	$ 41.44	$ 34.18	$ 0.165
4th Quarter	$ 31.47	$ 17.27	$ 0.200	$ 43.35	$ 36.10	$ 0.185

On February 19, 2009, the number of holders of record of our common shares was 53. This figure does not represent the actual number of beneficial owners of our common shares because shares are frequently held in street name by securities dealers and others for the benefit of beneficial owners who may vote the shares.

For the years ended December 31, 2007 and 2008, we paid dividends quarterly on our common shares. The declaration and payment of future dividends will be at the discretion of our Board of Directors and will depend upon many factors, including our earnings, financial condition, business needs, capital and surplus requirements of our operating subsidiaries and regulatory and contractual restrictions, including those set forth in our credit facility.

As a holding company, our principal source of income is dividends or other statutorily permissible payments from our subsidiaries. The ability of our subsidiaries to pay dividends is limited by the applicable laws and regulations of the various countries in which we operate, including Bermuda, the United States and Ireland. See Item 8, Note 18 to the Consolidated Financial Statements included in this report.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth information regarding the number of shares we repurchased in the quarter ended December 31, 2008:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number Of Shares Purchased as Part Of Publicly Announced Plans or Programs[(a)]	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Announced Plans or Programs[(b)]

October 1-31	1,791,121	$ 27.91	1,791,121	$211.6 million
November 1-30	-	-	-	$211.6 million
December 1-31	710	$ 24.10	-	$211.6 million
Total	**1,791,831**		**1,791,121**	**$211.6 million**

(a) Share repurchases relating to withhold to cover tax liabilities upon vesting of restricted stock awards are excluded from our share repurchase plan.

(b) On December 7, 2006, our Board of Directors authorized a renewal of our share repurchase plan with the authorization to repurchase up to $400 million of our common shares to be effected from time to time in the open market or privately negotiated transactions. This repurchase plan expired on December 31, 2008. On December 6, 2007, our Board of Directors approved a new share repurchase plan with the authorization to repurchase up to an additional $400 million of our common shares. This repurchase plan is authorized to continue until December 31, 2009.

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ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth our selected historical consolidated financial information for the last five years. This data should also be read in conjunction with the Consolidated Financial Statements and the accompanying notes presented under Item 8 and with the Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 7.

	As of and for Year ended December 31				
(in thousands, except per share amounts)	**2008**	**2007**	**2006**	**2005**	**2004**
Selected Statement of Operations Data:					
Gross premiums written	**$ 3,390,388**	$ 3,590,090	$ 3,609,036	$ 3,393,885	$ 3,012,311
Net premiums earned	**2,687,181**	2,734,410	2,694,270	2,553,683	2,028,397
Net investment income	**247,237**	482,873	407,100	256,712	152,072
Net realized investment (losses) gains	**(85,267)**	5,230	(25,702)	(16,912)	13,634
Net losses and loss expenses	**1,712,766**	1,370,260	1,425,855	2,051,129	1,246,244
Acquisition costs	**366,509**	384,497	386,959	337,383	280,568
General and administrative expenses	**335,758**	303,831	268,396	212,842	187,305
Interest expense and financing costs	**31,673**	51,153	32,954	32,447	5,285
Preferred share dividends	**36,875**	36,775	37,295	4,379	-
Net income available to common shareholders	**$ 350,501**	$ 1,055,243	$ 925,765	$ 90,061	$ 494,998
Per Common Share Data:					
Basic earnings per common share	**$ 2.50**	$ 7.15	$ 6.18	$ 0.63	$ 3.24
Diluted earnings per common share	**2.26**	6.41	5.63	0.57	2.98
Cash dividends per common share	**0.755**	0.68	0.615	0.60	0.50
Basic weighted average common shares outstanding	**140,322**	147,524	149,745	143,226	152,554
Diluted weighted average common shares outstanding	**155,320**	164,515	164,394	157,524	165,876
Operating Ratios:[1]					
Net loss and loss expense ratio	**63.7%**	50.1%	52.9%	80.3%	61.4%
Acquisition cost ratio	**13.6%**	14.1%	14.4%	13.2%	13.8%
General and administrative expense ratio	**12.5%**	11.1%	10.0%	8.3%	9.2%
Combined ratio	**89.8%**	75.3%	77.3%	101.8%	84.4%
Selected Balance Sheet Data:					
Investments	**$ 8,611,898**	$ 8,977,653	$ 7,663,387	$ 6,421,929	$ 5,399,689
Cash and cash equivalents	**1,820,673**	1,332,921	1,989,287	1,280,990	632,329
Reinsurance recoverable balances	**1,378,630**	1,356,893	1,359,154	1,518,110	596,299
Total assets	**14,282,834**	14,675,309	13,665,287	11,925,976	9,038,285
Reserve for losses and loss expenses	**6,244,783**	5,587,311	5,015,113	4,743,338	2,404,560
Unearned premium	**2,162,401**	2,146,087	2,015,556	1,760,467	1,644,771
Senior notes	**499,368**	499,261	499,144	499,046	498,938
Total shareholders equity	**4,461,041**	5,158,622	4,412,647	3,512,351	3,238,064
Common shares outstanding	**136,212**	142,520	149,982	148,831	152,737
Book value per common share[2]	**$ 29.08**	$ 32.69	$ 26.09	$ 20.23	$ 21.20

(1) Operating ratios are calculated by dividing the respective operating expenses by net premiums earned.
(2) Book value per common share is based on total common shareholders equity divided by common shares outstanding.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of our results of operations for the years ended December 31, 2008, 2007 and 2006 and our financial condition at December 31, 2008 and 2007. This should be read in conjunction with the Consolidated Financial Statements and related notes included in Item 8 of this report. Tabular dollars are in thousands, except per share amounts. Amounts in tables may not reconcile due to rounding differences.

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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. Although we recognize that the underwriting cycle is such that short-term excess profitability may be difficult to achieve, our current objective is to achieve an average ROACE of 15% or greater over the underwriting cycles.

ROACE was 8.1% for 2008 compared to 24.6% and 26.7% for 2007 and 2006, respectively. Our ROACE in 2008 was negatively impacted by Hurricanes Ike and Gustav as well as investment losses relating to the financial market crisis. In comparison, our ROACE in 2007 and 2006 benefited from an absence of major catastrophe losses and stable financial market conditions.

Diluted book value per common share (DBV per common share): DBV 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 DBV 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. DBV per common share was $25.79, $28.79 and $23.45 at December 31, 2008, 2007 and 2006, respectively.

The reduction in DBV per common share in the current year was primarily due to an increase in net unrealized losses on our investment portfolio of $735 million, share repurchases of $291 million, and dividends to common and preferred shareholders of $158 million. This was partially offset by net income of $387 million. The increase in DBV per common share in 2007 as compared with 2006 was primarily due to net income in the year of $1.0 billion.

Cash dividends per common share: Our dividend policy is an integral part of the value we create for our shareholders. Our cash dividends declared in 2008 were $0.755 per common share compared to $0.68 and $0.615 per common share in 2007 and 2006, respectively. Our Board of Directors reviews our dividend policy on a regular basis and in December 2008, they authorized an 8% increase in our quarterly dividend.

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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. Our investment portfolio is managed on a total return basis and we have therefore 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.

Year ended December 31,	2008	Percentage Change	2007	Percentage Change	2006
Underwriting income:					
Insurance	**$ 187,257**	(50%)	$ 373,803	3%	$ 362,916
Reinsurance	**119,411**	(67%)	364,230	17%	311,859
Investment income and net realized gains/losses	**161,970**	(67%)	488,103	28%	381,398
Other revenues and expenses	**(81,262)**	(39%)	(134,118)	44%	(93,113)
Net income	**387,376**	(65%)	1,092,018	13%	963,060
Preferred share dividends	**(36,875)**	-	(36,775)	(1%)	(37,295)
Net income available to common shareholders	**$ 350,501**	(67%)	$ 1,055,243	14%	$ 925,765

Underwriting Results

2008 versus 2007: Total underwriting income in 2008 decreased $431 million, or 58%, compared to 2007. The reduction was driven by net losses of $384 million, net of related earned reinstatement premiums, incurred from Hurricanes Ike and Gustav. Almost three-quarters of these hurricane losses were incurred within our reinsurance segment.

2007 versus 2006: Total underwriting income in 2007 increased $63 million compared to 2006. There was an absence of major loss activity in both years and the increase in income was primarily due to additional prior period reserve development within both segments.

Refer to *Underwriting Results Group*, below, for further discussion.

Investment Results

2008 versus 2007: Net investment income and net realized investment gains/losses in 2008 decreased $326 million compared to 2007. This reduction was driven by a combination of lower investment income from our other investment portfolio ($255 million) coupled with higher realized investment losses ($90 million). Our other investments were impacted by significant valuation declines in credit funds and hedge funds, resulting from the unprecedented disruption to the global markets. Our fixed maturities produced $432 million of net investment income in 2008, an increase of 17% over the prior year, reflecting higher average investment balances.

2007 versus 2006: Total net investment income and net realized investment gains/losses in 2007 increased $107 million compared to 2006. This increase was primarily due to a $78 million increase in investment income from our fixed maturities, reflecting higher average investment balances. In addition, we experienced an increase of $31 million in net realized investment gains.

Refer to *Net Investment Income and Net Realized Gains/Losses*, below, for further discussion.

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Other Revenues and Expenses

The following table provides a breakdown of our other revenues and expenses:

Year ended December 31,	2008	Percentage Change	2007	Percentage Change	2006
Corporate expenses	**$ 73,187**	26%	$ 58,300	(1%)	$ 58,822
Foreign exchange gains	**(43,707)**	160%	(16,826)	(48%)	(32,505)
Interest expense	**31,673**	(38%)	51,153	55%	32,954
Income tax expense	**20,109**	(52%)	41,491	23%	33,842
Total	**$ 81,262**	(39%)	$ 134,118	44%	$ 93,113

Corporate expenses: Our corporate expenses include holding company costs necessary to support our worldwide insurance and reinsurance operations and costs associated with operating as a publicly-traded company. As a percentage of net premiums earned, corporate expenses were 2.7%, 2.1% and 2.2% for 2008, 2007, and 2006 respectively. The increase in our corporate expense ratio in 2008 was primarily due to higher share-based compensation costs, principally associated with the renewed employment contract for our CEO and a higher grant date fair value on issued awards year over year (refer to Item 8, Note 15 Stock Compensation Plans to the Consolidated Financial Statements).

Foreign exchange gains: Some of our business is written in currencies other than U.S. dollars. The foreign exchange gain in 2008 was primarily due to the remeasurement of net liability balances denominated in Euro, following its depreciation against the U.S. dollar during the year. The foreign exchange gains in 2007 and 2006 were driven by the revaluation of net asset balances denominated in several foreign currencies, following their appreciation against the U.S. dollar over this period.

Interest expense: Interest expense primarily includes interest due on the senior notes we issued in 2004. In 2007, it also included interest costs of $19 million incurred on a $400 million repurchase agreement we entered into in December 2006 to finance a life settlement investment. We terminated this agreement in September, 2007.

Income tax expense: Income tax is generated primarily through our foreign operations in the United States and Europe. Our effective tax rate may vary between periods depending on the distribution of net income or losses among our various taxable jurisdictions. Our effective tax rate, which we calculate as income tax expense or recovery divided by income or loss before income tax, was 4.9% for 2008 compared with 3.7% in 2007 and 3.4% in 2006. The increase in our effective tax rate in 2008 was associated with the establishment of a full valuation allowance ($30 million) against net deferred tax assets arising from U.S. realized capital losses and investment impairments arising during the year, due to insufficient positive evidence currently for recognition. Excluding this item, we otherwise recorded a tax benefit in 2008, primarily as a result of taxable losses in our U.S. subsidiaries.

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UNDERWRITING RESULTS - GROUP

The following table provides our group underwriting results for the periods indicated:

Year ended December 31,	2008	Percentage Change	2007	Percentage Change	2006
Revenues:					
Gross premiums written	**$ 3,390,388**	(6%)	$ 3,590,090	(1%)	$ 3,609,036
Net premiums written	**2,666,880**	(7%)	2,863,757	(4%)	2,989,179
Net premiums earned	**2,687,181**	(2%)	2,734,410	1%	2,694,270
Other insurance related (loss) income	**(38,667)**		3,911		2,893
Expenses:					
Current year net losses and loss expenses	**(2,089,053)**		(1,707,237)		(1,642,391)
Prior period reserve development	**376,287**		336,977		216,536
Acquisition costs	**(366,509)**		(384,497)		(386,959)
General and administrative expenses	**(262,571)**		(245,531)		(209,574)
Underwriting income(1)	**$ 306,668**	(58%)	$ 738,033	9%	$ 674,775

(1) Refer to Item 8, Note 3 to the Consolidated Financial Statements, for a reconciliation of underwriting income to net income available to common shareholders for the periods indicated above.
nm not meaningful

UNDERWRITING REVENUES

Premiums Written: Gross and net premiums written, by segment, were as follows:

	Gross Premiums Written				
Year ended December 31,	**2008**	**Change**	**2007**	**Change**	**2006**
Insurance	**$ 1,841,934**	(10%)	$ 2,039,214	(2%)	$ 2,070,467
Reinsurance	**1,548,454**	-	1,550,876	1%	1,538,569
Total	**$ 3,390,388**	(6%)	$ 3,590,090	(1%)	$ 3,609,036

% ceded					
Insurance	**38.4%**	3.5%	34.9%	5.4%	29.5%
Reinsurance	**1.0%**	0.1%	0.9%	0.3%	0.6%
Total	**21.3%**	1.1%	20.2%	3.0%	17.2%

	Net Premiums Written				
	2008	**Change**	**2007**	**Change**	**2006**
Insurance	**$ 1,133,843**	(15%)	$ 1,326,647	(9%)	$ 1,460,399
Reinsurance	**1,533,037**	-	1,537,110	1%	1,528,780
Total	**$ 2,666,880**	(7%)	$ 2,863,757	(4%)	$ 2,989,179

2008 versus 2007: The 6% reduction in consolidated gross premiums emanates from our insurance segment, reflecting the reduction of business due to deteriorating market conditions across most of our property and casualty insurance lines of business. In addition, our credit and political risk insurance line was negatively impacted by a reduction in available transactions associated with a slow down in the capital flows amidst the ongoing global financial crisis. Gross premiums

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written in our reinsurance segment in 2008 were largely unchanged from 2007. Although market conditions deteriorated moderately during the year, the impact of this was largely offset by some growth opportunities.

The increase in premiums ceded in 2008 primarily reflects the purchase of additional quota share coverage within our casualty and professional lines business this year. This additional reinsurance protection has allowed us to reduce our overall risk exposures cost-effectively.

2007 versus 2006**:** Gross premiums written in 2007 were largely flat relative to 2006. In our insurance segment, increases in credit and political risk, professional lines and U.S. exposed catastrophe property premium were offset by the impact of competitive market conditions and rate pressures in our other lines. In our reinsurance segment, although we increased our market penetration in the U.S. and European reinsurance markets during the January 1 renewal season, this was largely offset by the impact of increased client retention in our professional lines business and the change in renewal date of a large property pro rata contract.

The increase in our ceded premiums ratios was partially due to a change in business mix towards lines with higher levels of ceded premium. We also purchased additional quota share reinsurance on our professional lines business and expanded our worldwide property program in 2007.

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

							Percentage Change	
Year ended December 31,	**2008**		**2007**		**2006**		**07 to 08**	**06 to 07**
Insurance	**$ 1,183,143**	**44%**	$ 1,208,440	44%	$ 1,305,760	48%	(2%)	(7%)
Reinsurance	**1,504,038**	**56%**	1,525,970	56%	1,388,510	52%	(1%)	10%
Total	**$ 2,687,181**	**100%**	$ 2,734,410	100%	$ 2,694,270	100%	(2%)	1%

2008 versus 2007**:** The reduction in net premiums earned in 2008 as compared with 2007 primarily emanates from our insurance segment, reflecting lower net premiums written this year, partially offset by the impact of growth in certain lines of business in prior years. Refer to the insurance segment results below for further information.

2007 versus 2006**:** Although net premiums earned in 2007 were largely flat with 2006, we experienced a shift in mix from insurance to reinsurance business. Our reinsurance segment benefited from growth of its underwriting operations in recent years, while changes in business mix and an expansion of our reinsurance coverage had the effect of reducing net premiums earned in our insurance segment.

Other Insurance Related Income / Loss: In 2008, we recorded an increase of $41 million, relating to the change in fair value of our insurance derivative contract liability primarily attributable to adverse longevity experience to date. For further information refer to our *Critical Accounting Estimate Fair Value Measurements*.

UNDERWRITING EXPENSES

The following table provides a breakdown of our combined ratio:

Year ended December 31,	**2008**	**Point Change**	**2007**	**Point Change**	**2006**
Current year loss ratio	**77.7%**	15.3%	62.4%	1.5%	60.9%
Prior period reserve development	**(14.0%)**	(1.7%)	(12.3%)	(4.3%)	(8.0%)
Acquisition cost ratio	**13.6%**	(0.5%)	14.1%	(0.3%)	14.4%
General and administrative expense ratio[1]	**12.5%**	1.4%	11.1%	1.1%	10.0%

Combined ratio	**89.8%**	14.5%	75.3%	(2.0%)	77.3%

(1) Our general and administration expense ratio includes corporate expenses not allocated to our underwriting segments of 2.7%, 2.1% and 2.2%, for 2008, 2007 and 2006, respectively. These costs are discussed further in Other Revenue and Expenses , above.

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Loss ratio:

Current Year Loss Ratio:

2008 versus 2007

The 15.3 ratio point increase in our current year loss ratio this year was driven by higher catastrophe losses, primarily emanating from net losses incurred on Hurricanes Ike and Gustav of $408 million, or 15.2 ratio points.

On September 1, Hurricane Gustav made landfall on the Louisiana Gulf coast as a category 2 hurricane. The hurricane and tropical storm force winds of Hurricane Gustav as well as spin-off tornadoes caused damage in our coverage areas of Louisiana, Mississippi and Alabama. The industry losses estimated by Risk Management Solutions, a risk modeling agency, currently stand at $4 billion to $10 billion, and include wind-related damages, flood-related damages and business interruption. Our estimate of net losses from Hurricane Gustav is $31 million, of which $28 million emanates from our insurance segment and $3 million from our reinsurance segment. Our estimate at December 31, 2008 was primarily based on reported loss information from our clients, brokers and loss adjusters, supplemented by our review of in-force contracts, the output of industry models and a market share analysis.

On September 12, Hurricane Ike made landfall on Galveston Island in the State of Texas as a category 2 hurricane causing widespread flooding and wind damage throughout the Galveston and Houston areas. Prior to making landfall, Hurricane Ike moved through offshore energy production areas in the Gulf of Mexico. The industry losses estimated by Risk Management Solutions, a risk modeling agency, currently stand at $13 billion to $21 billion, and include wind-related damages, flood-related damages and business interruption. Our estimate of net losses from Hurricane Ike is $377 million, of which $98 million emanates from our insurance segment and $278 million from our reinsurance segment.

The balance of our loss estimates for Hurricane Ike were primarily based on reported loss information from our clients, brokers and loss adjusters, supplemented by our review of in-force contracts, the output of industry models and a market share analysis.

Industry-wide insured losses and our own loss estimates for Hurricanes Gustav and Ike are subject to change as claims continue to be reported and adjusted. Actual losses may ultimately differ materially from current loss estimates.

Our current year loss ratio in 2008 was also negatively impacted by, among other things, a higher frequency and severity of property losses in our insurance segment as well as increased accident year initial loss ratios within many of our lines of business as a result of pricing deterioration. Offsetting these factors, our 2008 current year loss ratio benefited from the incorporation of more of our own loss experience within a number of our short-tail lines of business, relative to the prior year. In addition, we had a relatively higher level of loss recoveries in 2008 within our Insurance segment, as a result of our expanded reinsurance coverage.

On December 11, 2008, Bernard Madoff, Chairman of Bernard L. Madoff Investment Securities LLC, was charged with perpetrating a substantial investor fraud within the asset management division of the firm. Based on our assessment of the precautionary notifications received to date in our financial institutions insurance lines, together with our preliminary review of other potential exposure within our insurance and reinsurance professional lines business, we currently estimate losses relating to this event will be contained within our loss ratios.

2007 versus 2006

Our current year loss ratio in 2007 increased slightly over the prior year, largely reflecting a shift in business mix towards longer-tail lines. Because our long tail lines typically have a higher initial expected loss ratio relative to our short tail lines, this resulted in a slight increase in our overall current year loss ratio. We experienced below average catastrophe and attritional loss activity in both 2007 and 2006.

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Prior period reserve development:

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

Year ended December 31,	**2008**	**2007**	**2006**
Insurance	**$ 202,339**	$ 214,018	$ 167,533
Reinsurance	**173,948**	122,959	49,003
Total	**$ 376,287**	$ 336,977	$ 216,536

Net favorable prior period reserve development in each of the last three years was primarily generated from the property, marine, terrorism and aviation lines of our insurance segment and the property and catastrophe lines of our reinsurance segment. The favorable development reflects the recognition of better than expected loss emergence rather than explicit changes to our actuarial assumptions.

We generally use the Bornhuetter-Ferguson (B-F) actuarial method on our short-tail lines of business which gives progressively more weighting to our actual loss experience as each accident year matures. In each of the last three years, the application of the B-F method has resulted in a reduction to our ultimate loss estimates, due to the fact that our actual experience has included less than expected late reporting and reduced deterioration on previously reported claims, relative to our previous expectations. This partly stems from the fact that historically we had relied heavily upon industry based profiles. Due to the inherent limitations of this, our loss reserves in prior years have also included a provision for reporting delays and other uncertainties specific to our business. These include the inherent delays we expect to arise from obtaining loss information on excess layers of business across our diverse worldwide exposures. As it has transpired, our actual claims experience in the last three years has been better than we projected, with late reporting being less prevalent than we anticipated. Refer to our *Critical Accounting Estimate on Loss Reserves* for further discussion.

In addition to this broader claims experience, favorable prior period reserve development has also occurred as a result of our take down of provisions relating to specific catastrophe events. On contracts that respond to highly visible, major events, we establish IBNR where potential exposure has been identified. However, in a number of instances, mainly within our excess of loss catastrophe reinsurance business, it transpired that claims did not develop to a sufficient level to reach our attachment points.

We have also experienced some adverse development on our short-tail lines in the periods indicated above, the most significant of which was in 2006, when we strengthened our KRW reserves from accident year 2005 by $105 million. The size and complexity of KRW resulted in claims that increased over previously reported damage estimates.

As we continue to incorporate more of our own historical loss experience into our current year loss ratios (see above), we expect that the level of favorable prior period reserve development on our short-tail lines will be less than recorded in prior years. However, we caution that conditions and trends that impacted the development of our liabilities in the past may not necessarily occur in the future.

In 2008, we also recorded prior period reserve development from certain medium and long-tail lines of business. First, we experienced $65 million of net favorable development on the credit and political risk lines in our insurance segment. This was generated from our credit related classes, partially in recognition of lower than expected loss activity and also due to adopting a more accelerated loss development profile on these lines. We also recognized favorable prior period reserve development from our traditional political risk book from accident years 2004 and prior.

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Second, we experienced net adverse development of $10 million on our professional lines and liability business. This was the result of several favorable and adverse reserve developments, the most significant of which were as follows:

Adverse development of $48 million on our accident year 2007 professional lines reserves. During the year, a number of large financial institutions incurred significant financial losses and, in some cases, bankruptcy precipitated by the continued deterioration in the U.S. sub-prime residential mortgage market and the ensuing dislocation in the credit markets. These market driven events triggered claims against directors and officers of impacted institutions as well as providers of professional services of these institutions. As part of our reserving process, we considered the potential impact of market events on our financial institutions insurance portfolio. This included a review for exposure to known notifications of potential loss, as well as a review of accounts that may have exposure in this area, but have not yet provided notice of a claim. We also performed a similar review in our reinsurance segment, where potential exposure primarily exists within financial institution classes underwritten by our cedants. As a result, we strengthened our accident year 2007 reserves by $37 million in our insurance segment and by $11 million in our reinsurance segment. Although our reserves provide for potential future deterioration in our exposure to the credit crisis, while the crisis prevails and as new information is reported, actual losses may ultimately differ materially from our current estimates.

Favorable prior period reserve development of $57 million on our accident year 2003 and 2004 professional lines business, of which $32 million was generated from our insurance segment and $25 million from our reinsurance segment. The favorable development was due to the fact that we began to incorporate more of our own claims experience into our loss ratios, with less weighting on our initial expected loss ratios derived from industry benchmarks. We believe that for these more mature accident years, for this claims-made line of business, our loss experience is sufficiently developed, and therefore more statistically reliable.

Net adverse development of $8 million on the liability lines of our insurance segment. This was largely due to higher than expected loss emergence on a specific program across several accident years.

Net adverse development of $7 million on our accident year 2003 liability reserves in our reinsurance segment. This was driven by adverse claims experience on a specific stop loss contract.

For further discussion on our current and prior year loss ratios, refer to the insurance and reinsurance segment discussions below.

General and Administrative ratio:

2008 versus 2007: Our general and administrative ratio in 2008 of 12.5% increased 1.4 ratio points over 2007. The increase was due to a combination of lower net premiums earned, additional headcount and higher share-based compensation costs. This was partially offset by a reduction in accrued incentive-based compensation as compared to the prior year, which is based on our operating results.

2007 versus 2006: Our general and administrative ratio in 2007 of 11.1%, increased by 1.1 ratio points over 2006, primarily reflecting the costs associated with growing the infrastructure of our business. In particular, we incurred higher staffing costs in 2007 relating to the expansion of our insurance operations in the U.S., including those related to our acquisition of the Media Pro business in the second quarter.

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RESULTS BY SEGMENT

INSURANCE SEGMENT

Results from our insurance segment were as follows:

Year ended December 31,	2008	Percentage Change	2007	Percentage Change	2006
Revenues:					
Gross premiums written	**$ 1,841,934**	(10%)	$ 2,039,214	(2%)	$ 2,070,467
Net premiums written	**1,133,843**	(15%)	1,326,647	(9%)	1,460,399
Net premiums earned	**1,183,143**	(2%)	1,208,440	(7%)	1,305,760
Other insurance related (loss) income	**(39,862)**		1,860		1,758
Expenses:					
Current year net losses and loss expenses	**(862,007)**		(748,282)		(804,217)
Prior period reserve development	**202,339**		214,018		167,533
Acquisition costs	**(102,475)**		(126,423)		(152,002)
General and administrative expenses	**(193,881)**		(175,810)		(155,916)
Underwriting income	**$ 187,257**	(50%)	$ 373,803	3%	$ 362,916

Ratios:		Point Change		Point Change	
Current year loss ratio	**72.9%**	11.0%	61.9%	0.3%	61.6%
Prior period reserve development	**(17.1%)**	0.6%	(17.7%)	(4.9%)	(12.8%)
Acquisition cost ratio	**8.6%**	(1.9%)	10.5%	(1.1%)	11.6%
General and administrative ratio	**16.4%**	1.9%	14.5%	2.6%	11.9%
Combined ratio	**80.8%**	11.6%	69.2%	(3.1%)	72.3%

nm not meaningful

2008 versus 2007: In 2008, underwriting income in our insurance segment decreased $187 million, or 50%, over the prior year, primarily due to losses incurred of $127 million from Hurricanes Ike and Gustav. These losses contributed 10.7 points to our 2008 combined ratio. Underwriting income in our insurance segment was also impacted by a $41 million increase in the estimated fair value of an insurance derivative contract liability, which is included in other insurance related income.

2007 versus 2006: In 2007, underwriting income in our insurance segment increased 3% over the prior year, primarily due to higher levels of prior period favorable reserve development. Our current year loss ratio was largely comparable with limited large loss activity in both years. Net premiums earned in 2007 were down 7% versus 2006, primarily reflecting changes in business mix along with an expansion of our reinsurance coverage.

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Gross premiums written: The following table provides gross premiums written by line of business:

Year ended December 31,	2008		2007		2006		Percentage Change 07 to 08	Percentage Change 06 to 07
Property	**$ 539,138**	**29%**	$ 659,595	32%	$ 641,245	31%	(18%)	3%
Marine	**193,234**	**10%**	218,030	11%	242,759	12%	(11%)	(10%)
Terrorism	**36,288**	**2%**	51,757	3%	81,838	4%	(30%)	(37%)
Aviation	**67,761**	**4%**	70,387	3%	113,392	5%	(4%)	(38%)
Credit and political risk	**183,041**	**10%**	232,549	11%	209,629	10%	(21%)	11%
Professional lines	**601,874**	**33%**	528,616	26%	493,754	24%	14%	7%
Liability	**216,629**	**12%**	248,562	12%	253,973	12%	(13%)	(2%)
Other	**3,969**	**-**	29,718	2%	33,877	2%	(87%)	(12%)
Total	**$ 1,841,934**	**100%**	$ 2,039,214	100%	$ 2,070,467	100%	(10%)	(2%)

2008 versus 2007: The global property and casualty insurance markets continued to be highly competitive during 2008 with surplus capacity and price deterioration remaining prevalent. Gross premiums written declined in most of our lines of business reflecting declining rates for new and renewal business and the non-renewal of business that did not meet our underwriting requirements. The reduction in property premiums also reflects our decision to reduce our overall risk exposure to this business while unfavorable market conditions persist. Our credit and political risk premium also decreased reflecting the reduction in available transactions associated with a slow down in capital flows amidst the global financial crisis.

Partially offsetting these decreases, we experienced growth in our professional lines business this year. In 2008, this line benefited from renewal rights we acquired in conjunction with our purchase of the Media Pro business in the second quarter of 2007. In addition, in the later part of the year, the growth was driven by new business arising from disruptions in the financial institutions sector together with some rate increases on renewal business.

2007 versus 2006: In general, market conditions globally were increasingly competitive during 2007 and, as a result, we experienced increased pricing pressure across many of our insurance lines. The overall stability of gross premiums written in 2007 versus 2006 reflects our breadth of products and markets worldwide, which gave us the flexibility to allocate capacity within other lines of business. Credit and political risk premium can vary considerably between periods depending on the timing of transactions. However, additional underwriters in this line allowed us to increase the number of contracts written in 2007, the majority of which were related to emerging market sovereign and corporate credit insurance. The other notable increase in 2007 was on our professional lines book. This was largely associated with renewal rights acquired in the May 2007 purchase of the Media Pro business. Other than U.S. exposed catastrophe property business, which continued to present good opportunities, market conditions in our other lines of business continued to be less favorable during 2007. This largely limited our ability to expand these lines, although we continued to seek out the better priced and structured opportunities.

Premiums ceded:

2008 versus 2007: Premiums ceded in 2008 were $708 million, or 38.4% of gross premiums written, compared with $713 million, or 34.9%, in 2007. The increase in our ceded premium ratio primarily reflects the purchase of additional quota share coverage within our casualty and professional lines business this year. The increase also partially reflects the impact of business mix, in particular the growth of our professional lines business this year together with the reduction in credit and political risk premiums, a line for which we do not purchase reinsurance cover.

2007 versus 2006: Premiums ceded in 2007 were $713 million, or 34.9% of gross premiums written, compared with $610 million, or 29.5% of gross premiums written in 2006. The increase in premiums ceded was largely related to the impact of changes in business mix and additional reinsurance cover purchased during 2007. While we significantly reduced gross

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premiums written on our aviation and terrorism lines during 2007, we offset these reductions with growth of our credit and political risk, property and professional lines business. Because we have historically purchased more reinsurance cover on our property and professional lines business relative to our aviation and terrorism lines, this change in business mix had the effect of increasing our ceded premium ratio. Furthermore, we also purchased additional coverage in 2007, both on our professional lines quota share reinsurance and also on our worldwide property program. These factors were partially offset by lower reinsurance costs within our property line of business this year, reflecting both rate reductions and increased retentions within certain parts of our book.

Net premiums earned: The following table provides net premiums earned by line of business:

Year ended December 31,	2008		2007		2006		Percentage Change 07 to 08	Percentage Change 06 to 07
Property	**$ 328,709**	**28%**	$ 317,497	26%	$ 335,759	26%	4%	(5%)
Marine	**151,809**	**13%**	156,981	13%	178,128	14%	(3%)	(12%)
Terrorism	**42,629**	**4%**	59,674	5%	84,441	6%	(29%)	(29%)
Aviation	**65,259**	**5%**	88,280	7%	160,561	12%	(26%)	(45%)
Credit and political risk	**144,481**	**12%**	112,837	9%	88,100	7%	28%	28%
Professional lines	**340,929**	**29%**	330,646	28%	312,898	24%	3%	6%
Liability	**97,898**	**8%**	109,005	9%	117,242	9%	(10%)	(7%)
Other	**11,429**	**1%**	33,520	3%	28,631	2%	(66%)	17%
Total	**$ 1,183,143**	**100%**	$ 1,208,440	100%	$ 1,305,760	100%	(2%)	(7%)

2008 versus 2007: The 2% decrease in net premiums earned in 2008 primarily reflects the decrease in net premiums written this year, although the rate of reduction has been less accelerated. This was partially due to growth of our credit and political risk line of business in prior years, which typically provides multi-year coverage, and therefore earns over a greater number of periods. The average duration of the unearned premium on our credit and political risk line of business at December 31, 2008 was 5.4 years. Net premiums earned in 2008 also benefited from growth in property premiums in prior years as well as lower ceded premium amortized costs on this business in 2008, as discussed above.

2007 versus 2006: The 7% decrease in net premiums earned in 2007 largely reflects a 9% reduction in net premiums written in 2007, associated with the increase in premiums ceded.

Insurance Losses

Loss ratio: The table below shows the components of our loss ratio:

Year ended December 31,	2008	Point Change	2007	Point Change	2006
Current year	**72.9%**	11.0%	61.9%	0.3%	61.6%
Prior period reserve development	**(17.1%)**	0.6%	(17.7%)	(4.9%)	(12.8%)
Loss ratio	**55.8%**	11.6%	44.2%	(4.6%)	48.8%

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Current Year Loss Ratio:

2008 versus 2007

The 11.0 ratio point increase in our current year loss ratio was the net result of several factors, the most significant of which were as follows:

- Higher catastrophe losses in 2008, driven by net losses incurred of $127 million, or 10.7 points, on Hurricanes Ike and Gustav.

- A higher frequency and severity of property losses in 2008, including mining losses in Australia and several other worldwide property risk losses.

- An increase in the loss ratios of our professional lines business, primarily reflecting the impact of the sub-prime crisis on our portfolio.

- An increase in most of our initial expected loss ratio (ILER) method selections, reflecting the impact of pricing deterioration across most of our portfolio, partially offset by more favorable pricing on our ceded reinsurance.

- A reduction in our credit and political risk loss ratio relative to 2007. This was primarily due to accelerating the loss development profile of our credit related classes based on our historical loss experience. Although we experienced an increase in loss activity from these classes during the second half of 2008, stemming from the economic downturn, these losses remained within our initial loss ratios.

- The incorporation of more of our own historical loss experience within our short-tail lines of business. Because this experience has generally been better than we expected (see below) this had the impact of reducing our net IBNR reserves on several lines of business, relative to 2007. Refer to our *Critical Accounting Estimate Reserves for Losses and Loss Expenses* for further information.

2007 versus 2006

Our current year loss ratio in 2007 was relatively flat compared with 2006. Although changes in business mix increased our current year ratio in 2007, this was largely offset by lower attritional losses in the year, most notably on our energy onshore account. During 2007, we experienced a shift in business mix from aviation and terrorism lines to our professional lines account. Our professional lines business typically has a higher initial expected loss ratio than our aviation and terrorism lines.

Prior Period Reserve Development:

2008 Net Loss Development

We experienced net favorable prior period reserve development in 2008 of $202 million, or 17.1 ratio points, the principal movements of which were as follows:

- $147 million of net favorable prior period reserve development on our property ($90 million), aviation ($30 million) and marine ($27 million) lines of business, the majority of which have short to medium tail exposures. This development was largely generated from accident years 2007 ($67 million), 2006 ($40 million) and 2005 ($18 million).

Net favorable prior period reserve development of $65 million from our credit and political risk line of business, the majority of which was generated from accident years 2004 to 2006.

Net adverse development of $6 million from our professional lines business. This was driven by adverse development of $37 million from accident year 2007 stemming from the credit crisis, partially offset by favorable development of $32 million on accident years 2003 and 2004.

Net adverse development of $8 million on our liability business, predominately from accident years 2004 and prior.

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2007 Net Loss Development

We experienced net favorable prior period reserve development in 2007 of $214 million, or 17.7 ratio points, the principal movements of which were as follows:

- $202 million of net favorable prior period reserve development on our property ($112 million), marine ($44 million), aviation lines ($37 million) and terrorism ($9 million) lines of business. This development was primarily generated from accident year 2006 ($127 million), 2004 ($44 million) and 2003 ($26 million). Our accident year 2005 reserves were adversely impacted by the strengthening of our KRW loss estimates by approximately $34 million.

- $15 million of favorable development on our accident year 2003 professional lines business. This related to a specific claim, which we had previously made provision for, but removed following a favorable court ruling.

- Adverse development of $8 million on our 2006 accident and health business due to a higher than expected emergence of claims.

- $7 million of adverse development on our accident year 2004 and 2005 liability reserves, due to a higher than expected emergence of claims on a specific program.

2006 Net Loss Development

We experienced net favorable prior period reserve development in 2006 of $168 million, or 12.8 ratio points, the principal movements of which were as follows:

- $181 million of net favorable prior period reserve development on our property ($106 million), aviation ($65 million) and terrorism ($10 million) lines of business. This development was primarily generated from accident year 2005 ($80 million), 2004 ($73 million) and 2003 ($27 million).

- Adverse development of $16 million on our marine lines of business. This was driven by adverse development of $68 million on our accident year 2005 reserves, reflecting deteriorating KRW claims experience on our energy offshore business. This was partially offset by favorable development from older accident years.

Refer to Prior Period Reserve Development within our Group Underwriting Results, above, for discussion on the underlying reasons for these movements

2009 Insurance Outlook

The insurance markets generally remain highly competitive, with surplus capacity and consequent pricing pressure continuing to prevail in most lines. Although market conditions continue to soften, the rate at which this is occurring has slowed considerably. Terms and conditions as well as breadth of coverage generally remain stable with terms of trade holding firm. We are observing more positive change in catastrophe-exposed property lines. We started to observe the quantum of rate reductions in these property lines reduce and then stabilize towards the end of 2008 and through January 2009. We expect to see this momentum increase as we head into the key March 1st and April 1st property renewals. A number of our key competitors appear to be reducing critical catastrophe exposure which will have further positive impact on the market. We are particularly well-positioned in this market to capitalize on the upturn. Offshore energy is also hardening due to the impact of Hurricane Ike. We are observing price increases on non-Gulf of Mexico exposure in the range of 15 to 20%. Although there have not yet been any Gulf of Mexico renewals of note, we are expecting significant pricing improvements going forward.

Although the professional lines market remains competitive, we are observing new opportunities arising from the dislocation of business formerly placed with certain distressed insurers. Our continued financial strength has significantly improved our competitive position in the professional lines market. In the financial institutions class, rates in the fourth quarter of 2008 continued to increase and we expect this to continue throughout 2009. In the casualty lines, after brief stabilization in the marketplace towards the end of 2008, we have seen aggressive competition return driven by distressed insurers. We believe our areas of focus still contain good profit potential, but risk selection and overall execution strategy are critical. We expect competition in the liability market to abate gradually as the impact of rising reinsurance costs take affect and as clients move more business to insurers with stronger financial strength.

REINSURANCE SEGMENT

Results from our reinsurance segment were as follows:

Year ended December 31,	2008	Percentage Change	2007	Percentage Change	2006
Revenues:					
Gross premiums written	**$ 1,548,454**	-	$ 1,550,876	1%	$ 1,538,569
Net premiums written	**1,533,037**	-	1,537,110	1%	1,528,780
Net premiums earned	**1,504,038**	(1%)	1,525,970	10%	1,388,510
Other insurance related income	**1,195**		2,051		1,135
Expenses:					
Current year net losses and loss expenses	**(1,227,046)**		(958,955)		(838,174)
Prior period reserve development	**173,948**		122,959		49,003
Acquisition costs	**(264,034)**		(258,074)		(234,957)
General and administrative expenses	**(68,690)**		(69,721)		(53,658)
Underwriting income	**$ 119,411**	(67%)	$ 364,230	17%	$ 311,859

		Point Change		Point Change	
Ratios:					
Current year loss ratio	**81.6%**	18.7%	62.9%	2.6%	60.3%
Prior period reserve development	**(11.6%)**	(3.5%)	(8.1%)	(4.6%)	(3.5%)
Acquisition cost ratio	**17.5%**	0.6%	16.9%	-	16.9%
General and administrative ratio	**4.6%**	-	4.6%	0.7%	3.9%
Combined ratio	**92.1%**	15.8%	76.3%	(1.3%)	77.6%

2008 versus 2007: Total underwriting income in 2008 decreased $245 million, or 67%, versus 2007. The reduction was driven by net losses of $257 million, net of related earned reinstatement premiums, incurred from Hurricanes Ike and Gustav. Partially offsetting this, 2008 benefited from a higher level of prior year favorable reserve development.

2007 versus 2006: Total underwriting income in 2007 increased $52 million, or 17%, versus 2006. The increase was driven by $74 million of additional prior period net favorable reserve development. This was partially offset by a higher current accident year loss ratio in 2007, which was in large part due to changes in our business mix. Net premiums earned increased by 10% in 2007, reflecting the impact of expanding of our reinsurance operations in prior years.

Gross Premiums Written: The following table provides gross premiums written by line of business:

Year ended December 31,	2008		2007		2006		Percent Change 07 to 08	Percent Change 06 to 07
Catastrophe	**$ 454,768**	**29%**	$ 471,514	30%	$ 464,096	30%	(4%)	2%

Property	**296,106**	**19%**	281,363	18%	338,562	22%	5%	(17%)
Professional lines	**226,768**	**15%**	230,040	15%	274,435	18%	(1%)	(16%)
Credit and bond	**154,497**	**10%**	124,976	8%	97,664	6%	24%	28%
Motor	**101,492**	**7%**	96,999	6%	84,171	6%	5%	15%
Liability	**189,223**	**12%**	244,612	16%	204,619	13%	(23%)	20%
Engineering	**83,356**	**5%**	71,969	5%	42,453	3%	16%	70%
Other	**42,244**	**3%**	29,403	2%	32,569	2%	44%	(10%)
Total	**$ 1,548,454**	**100%**	$ 1,550,876	100%	$ 1,538,569	100%	-	1%

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2008 versus 2007: Gross premiums written in 2008 benefited from a weakened U.S. dollar relative to 2007. In particular, the U.S. dollar was weaker against the Euro at our major renewal of January 1. This primarily impacted our property, credit and bond and motor lines of business. Gross premiums written otherwise decreased 3% in 2008, which was partially due to the impact of premium adjustments on prior year proportional and excess of loss professional lines and liability contracts. In 2008, we recorded negative premium adjustments of $18 million and $13 million on our professional lines business and liability business, respectively, compared to positive adjustments of $8 million and $6 million, respectively in the prior year.

The opportunity for growth within our reinsurance portfolio was generally limited this year, reflecting a modest deterioration in global market conditions. In addition, we experienced an ongoing trend of higher risk retention by our clients, particularly on our liability lines. These factors were partially offset by growth opportunities within our engineering and crop line of business this year. We also recorded $28 million of reinstatement premiums in connection with Hurricanes Ike and Gustav on our catastrophe line of business. Our property premiums in 2008 benefited from the renewal of a significant 16-month pro-rata contract, which previously renewed in 2006.

2007 versus 2006: Gross premiums written in 2007 benefited from a weakened U.S. dollar relative to 2006. In particular, the U.S. dollar was weaker against the Euro and Sterling at our major renewal date of January 1. Gross premiums written otherwise decreased 3% in 2007, reflecting reductions in our property and professional lines business. The decrease in property premiums was primarily due to a large 16-month pro rata contract, written in the fourth quarter of 2006, not renewed until 2008. Our professional lines book was impacted by the non-renewal of several large contracts, driven by cedants opting to increase their retention of business. Our other lines of business mostly reported an increase in gross premiums written in 2007. These increases were largely generated from our increased participation in the U.S. and European reinsurance markets.

Net premiums earned: The following table provides net premiums earned by line of business:

							Percent Change	
Year ended December 31,	**2008**		2007		2006		**07 to 08**	**06 to 07**
Catastrophe	**$ 453,114**	**30%**	$ 463,091	30%	$ 441,311	32%	(2%)	5%
Property	**305,479**	**20%**	333,064	22%	335,462	24%	(8%)	(1%)
Professional lines	**221,531**	**15%**	245,672	16%	225,902	16%	(10%)	9%
Credit and bond	**139,861**	**9%**	107,618	7%	94,487	7%	30%	14%
Motor	**98,302**	**7%**	98,997	7%	86,193	6%	(1%)	15%
Liability	**187,835**	**12%**	217,645	14%	165,391	12%	(14%)	32%
Engineering	**53,502**	**4%**	30,800	2%	9,112	1%	74%	238%
Other	**44,414**	**3%**	29,083	2%	30,652	2%	53%	(5%)
Total	**$ 1,504,038**	**100%**	$ 1,525,970	100%	$ 1,388,510	100%	(1%)	10%

Net premiums earned in our reinsurance segment in 2008 were largely unchanged with 2007, generally reflecting stability in our gross premiums written over the last three years, as discussed above. The 10% increase in net premiums earned in 2007 versus 2006 primarily reflects the impact of significantly expanding our U.S. and European reinsurance operations in 2004 and 2005.

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Reinsurance Losses

Loss ratio: The table below shows the components of our loss ratio:

Year ended December 31,	2008	Point Change	2007	Point Change	2006
Current year	**81.6%**	18.7%	62.9%	2.6%	60.3%
Prior period reserve development	**(11.6%)**	(3.5%)	(8.1%)	(4.6%)	(3.5%)
Loss ratio	**70.0%**	15.2%	54.8%	(2.0%)	56.8%

Current Year Loss Ratio:

2008 versus 2007

The 18.7 ratio point increase in our current year loss ratio was driven by net losses incurred on Hurricanes Ike and Gustav of $281 million. Other catastrophe losses in 2008, which included flood, hail and tornado losses in the U.S., an earthquake in China and storms in Australia, were broadly in line with our annual expectations for such losses. This was similar to 2007, which included a number of mid-sized catastrophes, including Windstorm Kyrill and flooding and storm damage in Australia and U.K.

Our initial expected loss ratios in 2008 were mostly higher than in 2007, reflecting the impact of pricing deterioration across many of our lines of business. The impact of this was partially offset by the incorporation of more of our own historical loss experience in our loss picks, which has generally been better than the industry benchmarks that we also incorporate. During 2008, we increased the expected loss ratios on our credit and bond lines of business, relative to 2007, to reflect increased loss activity within the deteriorating economic environment.

2007 versus 2006

The 2.6 ratio point in our current year loss ratio in 2007 mostly reflected changes in business mix. We experienced a shift towards liability business, which typically has a higher initial expected loss ratio compared to our other lines. Although there was a higher incidence of mid-sized catastrophes in 2007, as noted above, our exposure to these events did not have a substantial impact on our total estimated current year losses relative to 2006.

Prior period reserve development:

2008 Net Loss Development

We experienced net favorable prior period reserve development in 2008 of $174 million, or 11.6 ratio points, the principal movements of which were as follows:

$162 million of net favorable prior period reserve development on our property ($84 million) and catastrophe lines of business ($78 million). This development was generated from accident years 2007 ($62 million), 2006 ($46 million), 2005 ($28 million) and 2004 and prior ($26 million).

$10 million of favorable prior period reserve development on our accident year 2007 and 2006 crop reserves.

Net favorable development of $11 million from our professional lines business. This was driven by favorable development of $25 million on accident years 2003 and 2004, partially offset by adverse development on accident year 2007.

$7 million adverse development on our accident year 2003 liability reserves related to higher than expected loss emergence on a stop loss contract.

Net adverse development of $4 million on our credit and bond lines of business, largely from accident year 2007, and reflecting the increased potential for loss in the deteriorating economic environment.

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2007 Net Loss Development

We experienced net favorable prior period reserve development in 2007 of $123 million, or 8.1 ratio points, the principal movements of which were as follows:

- $104 million of net favorable prior period reserve development on our catastrophe ($78 million) and property lines of business ($26 million). This development was primarily generated from accident years 2006 ($94 million).

- $14 million of favorable prior period reserve development on our accident year 2005 and 2006 crop reserves.

2006 Net Loss Development

We experienced net favorable prior period reserve development in 2006 of $49 million, or 3.5 points, the principal movements of which were as follows:

- $62 million of net favorable prior period reserve development on our catastrophe line of business, the majority of which was generated from accident year 2004.

- $6 million of net adverse development on our property lines of business, represented by $40 million of adverse development on accident year 2005, partially offset by favorable development on accident years 2004 and prior. The adverse development on accident year 2005 was related to KRW reserve strengthening in connection with claim deterioration on our pro-rata line.

- $6 million favorable development on our accident year 2004 crop reserves.

- Adverse development of $9 million on our accident year 2004 and 2005 motor liability lines of business due to higher than expected loss emergence.

Refer to *Prior Period Reserve Development* within our Group Underwriting Results, above, for discussion on the underlying reasons for these movements.

2009 Reinsurance Segment Outlook

Our 2009 treaty reinsurance renewals are progressing well and we are satisfied with the quality, diversity and balance of the portfolio we reassembled at January 1, 2009. Typically, approximately 50% of our reinsurance gross premiums written within any calendar year renews on this date. Although we have not yet finalized all the business we expect to bind, we anticipate that our first quarter treaty reinsurance renewals in 2009 will represent over 11% growth in premium relative to the same period in 2008.

Driving the growth was our credit and bond reinsurance business in Continental Europe and our U.S. professional liability and general casualty reinsurance business. We were able to gain strategic share on attractive treaties due to concerns over the financial strength of distressed reinsurers, particularly for U.S. casualty reinsurance business. The credit and bond reinsurance market in Continental Europe experienced significant dislocation at renewal and we were able to consolidate our position at our required pricing and terms.

Outside of the U.S., European and Caribbean property catastrophe placement were up approximately 5% but all other non-U.S. geographies were down. In the U.S. property catastrophe market, small regional covers with no loss experience renewed flat to up modestly. Larger regional and super regional placements saw rate increases closer to 10% and more if loss-affected. Nationwide placements or placements with heavier southeast exposures were up 15% to 20% and even more in some cases. We believe several of these major placements did not get fully placed. The number of shortfall covers and private deals that seemed to abound in the market was a very good indication of relative market discipline and a lack of new capacity. We believe that rates will continue to strengthen in peak zones. We have also observed some upward movement in U.S. earthquake driven property catastrophe treaties in January 2009. Continued dislocations in the Florida market are likely to add more upward pressure on pricing for Florida exposed risk. Overall, our property catastrophe reinsurance premium was relatively stable at the January 1, 2009 versus the prior year. However, we reduced our exposure to European windstorm due to the less attractive risk-reward profile relative to other peak zones. More broadly, we are also attaching higher in a number of programs.

NET INVESTMENT INCOME AND NET REALIZED INVESTMENT GAINS/LOSSES

Overview of the Financial Crisis

During the latter part of 2007 and into 2008, there has been a slowdown in the global economy precipitated primarily by increased defaults on sub-prime mortgages in the U.S. and elsewhere, falling house prices and contracting consumer spending. The significant increase in default rates negatively impacted the value of mortgage backed securities held by foreign and domestic institutions. The defaults have led to a corresponding increase in foreclosures, which have driven down house values, resulting in additional losses in mortgage-backed and asset-backed securities. During the current year, the credit markets deteriorated dramatically, as evidenced by widening credit spreads and reduced availability of credit. Many financial institutions experienced liquidity crises due to immediate demands for deposit withdrawals or collateral, combined with falling asset values and their inability to sell assets or meet the increased demands. As a result, several financial institutions have failed or been acquired at distressed prices, while others have received financial assistance from the U.S. government to continue operations. The liquidity crisis significantly increased the spreads on certain fixed maturities and, at the same time, had a dramatic negative impact on the global stock markets. As described in more detail below, these events had a material negative impact on our net investment income and net realized gains/losses in 2008.

In recent months, we have witnessed unprecedented global government interventions to stabilize the financial markets and restore credit availability, liquidity and confidence. We have also witnessed a coordinated global action to significantly reduce short-term interest rates. Although these actions are intended to stimulate inter-bank lending and the commercial paper markets in order to bring an end to the current credit crisis, there is no assurance that these actions will be effective. Accordingly, our investment results and investment portfolio could continue to be materially and adversely impacted in the near term. For further analysis of these market risks, refer to Item 7A *Quantitative and Qualitative Disclosures About Market Risk.*

Investment results

The following table provides a breakdown of net investment income, net realized investment losses and average investment balances:

Year ended December 31,	**2008**	**Percentage Change**	**2007**	**Percentage Change**	**2006**
Fixed maturities	**$ 431,995**	17%	$ 369,825	27%	$ 291,996
Cash and cash equivalents	**41,576**	(54%)	90,700	18%	76,735
Other investments	**(220,981)**	nm	34,351	(26%)	46,252
Equities	**7,862**	nm	-	nm	-
Gross investment income	**260,452**	(47%)	494,876	19%	414,983
Investment expense	**(13,215)**	10%	(12,003)	52%	(7,883)
Net investment income	**247,237**	(49%)	482,873	19%	407,100
Net realized investment (losses) gains	**(85,267)**	nm	5,230	120%	(25,702)
Net investment income and net realized investment gains	**$ 161,970**	(67%)	$ 488,103	28%	$ 381,398
Average investment balances(1)					
Fixed maturities	**8,376,449**	13%	7,418,578	21%	6,150,384

Cash and cash equivalents[2]	**1,477,935**	(21%)	1,865,443	11%	1,684,677
Other investments	**628,899**	(32%)	924,786	46%	634,890
Equities	**139,776**	1504%	8,713	nm	-
Total cash and investments	**10,623,059**	4%	10,217,520	21%	8,469,951

(1) The average investment balances are calculated by taking the average of the month-end balances during the year.

(2) Includes restricted cash and cash equivalents.
nm not meaningful

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Net Investment Income

Fixed Maturities:

The increase in investment income from fixed maturities in each of the last two years primarily reflects the impact of positive operating cash flows on our average investment balances. Our effective yield on fixed maturities was 4.8%, 4.9% and 4.6% for 2008, 2007 and 2006, respectively.

Cash and Cash Equivalents:

The reduction in investment income from cash and cash equivalents in 2008 reflects a decline in global short-term interest rates, coupled with lower average cash balances this year. The average interest rate on our operating cash in 2008 was 3.0% compared to 4.9% and 4.4% in 2007 and 2006, respectively. The reduction in our average cash balances is largely associated with the funding of our share repurchases and investment portfolio during the first half of the year. During the second half of the year, we began to increase our allocation to cash and cash equivalents in response to the deteriorating financial market conditions. The increase in investment income from cash and cash equivalents in 2007 as compared to 2006 was primarily due to an increase in average cash balances during the year.

Other Investments:

The following table provides a breakdown of net investment (loss) income from other investments:

Year ended December 31,	**2008**	**2007**	**2006**
Hedge funds	**$ (72,614)**	$ 21,260	$ 14,301
Credit funds	**(149,787)**	936	13,906
CLO- equity tranches	**5,528**	8,102	11,931
Short duration high yield fund	**(4,108)**	3,087	6,018
Life settlement contracts	**-**	966	96
Total	**$ (220,981)**	$ 34,351	$ 46,252
Return on other investments(1)	**(35.1%)**	3.7%	7.3%

(1) Return on other investments is calculated by dividing other net investment (loss) income by the average other investment balances for the period.

The reduction in net investment income from our other investments during 2008 primarily reflects reported valuation declines in credit funds and hedge funds, stemming from the financial market crisis.

The deteriorating performance of credit funds resulted from the significant declines in the valuations of the bank loans that form the collateral of these funds. Loan valuations began falling at the end of 2007 after default expectations increased as a result of the collapse of the sub-prime mortgage industry that effectively shut down credit markets worldwide. This led to a significant widening in credit spreads. Although there was a brief recovery in prices in mid-2008, prices continued to fall dramatically in the months following the failure of Lehman Brothers and other global financial firms that forced de-leveraging by investors within the financial markets. Loan valuations at the end of 2008 were near historical lows.

Our investment in hedge funds has significant exposure to net long equity positions that have been impacted by the negative returns in this sector during the year. The average return of hedge funds during 2008 was (19.8%), versus 9.1% and 8.6% in 2007 and 2006, respectively. Hedge funds were down in line with our hedge fund benchmarks, but, as expected, performed better than broader equity indices during 2008.

Equities:

During 2008, we began funding an allocation to global equities. In addition, we purchased non-redeemable preferred stocks. The income for the quarter and year-to-date represents dividends received, net of applicable withholding taxes.

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Net realized investment gains/ losses

Our fixed maturities and equities are considered available for sale and reported at fair value. The effect of market movements on our available for sale investment portfolio impacts net income (through net realized gains/losses) when securities are sold or when other than temporary impairments (OTTI) are recorded on these assets. Additionally, net income is impacted (through net realized gains/losses) by changes in the fair value of investment derivatives, mainly forward contracts. The following table provides a breakdown of our net realized investment gains/losses:

	2008	2007	2006
OTTI charges	**$ (77,753)**	$ (8,562)	$ (4,596)
On sale of equities	**(69,523)**	-	-
On sale of fixed maturities	**56,219**	13,874	(20,050)
Change in fair value of investment derivatives	**13,898**	(82)	(1,056)
Fair value hedge adjustment	**(8,108)**	-	-
Net realized investment (losses) gains	**$ (85,267)**	$ 5,230	$ (25,702)

OTTI charges:

The following table summarizes our OTTI charge by asset-class:

	2008	2007	2006
Fixed maturities:			
Corporate debt	**$ 56,809**	$ 3,683	$ 4,404
Asset-backed securities (ABS)	**8,615**	3,346	192
Mortgage-backed securities (MBS)	**5,279**	1,533	-
Municipals	**394**	-	-
	71,097	8,562	4,596
Equities	**6,656**	-	-
Total OTTI charge	**$ 77,753**	$ 8,562	$ 4,596

Our OTTI charge was significantly higher in 2008 as compared to the prior two years reflecting the impact of the financial crisis. Our OTTI charge on corporate debt this year included $40 million of write-downs on a number of financial institutions, including $32 million related to Lehman Brothers, following its bankruptcy and sale in September 2008. The balance of the OTTI charges on corporate debt was spread across the portfolio on securities that are unlikely to recover in the current economic conditions. The OTTI charges on our ABS and MBS portfolio in 2008 were primarily the result of the credit crisis and the higher risk of defaults on certain identified securities. The OTTI charge on our equity portfolio in 2008 was primarily due to the severe decline in value of one security for more than 12 consecutive months for which we do not anticipate full recovery. The OTTI charges in 2007 and 2006 were spread across our portfolio, with no concentration to any particular type of investment or sector.

For further information on our OTTI policy, refer to our *Critical Accounting Estimate OTTI.*

Sale of Equities:

Net realized losses on the sale of equities include losses of $60 million in connection with the sale of our Fannie Mae and Freddie Mac non-redeemable preferred equities in early September 2008, recognizing their deteriorating financial condition. These publicly traded government sponsored enterprises, which were leading participants in the U.S. secondary

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mortgage market, were negatively impacted by the housing market downturn and credit crunch. Later that month, both Fannie Mae and Freddie Mac were placed into conservatorship by the U.S. Treasury.

Sale of fixed maturities:

The realized gains on fixed maturities in 2008 primarily reflect gains on the sale of certain agency mortgaged-backed securities, the price of which were positively impacted by conservatorship of Fannie Mae and Freddie Mac. In addition, we also realized gains on the repositioning of our high grade fixed income portfolio, taking advantage of dislocations in certain sectors of the fixed income markets.

In 2007, our non U.S. dollar portfolios were positively impacted by strengthening exchange rates, coupled with a rally in the U.S. fixed income market in the second half of the year. In 2006, the effect of increasing yields throughout the year negatively impacted the price of fixed maturities, resulting in realized losses.

Total Return

Our investment strategy is to take a long-term view by actively managing our investment portfolio to maximize total return within certain guidelines and constraints, designed to minimize risk and to hold securities in unrealized loss position until recovery to amortized cost or cost. In assessing returns under this approach, we include net investment income, net realized investment gains and losses and the change in unrealized gains and losses generated by our investment portfolio. The following table provides a breakdown of the total return on our cash and investments:

Year ended December 31,	**2008**	**2007**	**2006**
Net investment income	**$ 247,237**	$ 482,873	$ 407,100
Net realized investments (losses) gains	**(85,267)**	5,230	(25,702)
(Increase) decrease in net unrealized losses	**(735,074)**	67,238	38,326
Total	**$ (573,104)**	$ 555,341	$ 419,724
Average cash and investments	**$ 10,623,059**	$ 10,217,520	$ 8,469,951
Total return on average cash and investments	**(5.4%)**	5.4%	5.0%

For further information on the movements in unrealized losses in each of the last three years, refer to the *Cash and Investments section below.*

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CASH AND INVESTMENTS

At December 31, 2008 and 2007, total cash and investments, including accrued interest receivable and net receivable/payable for investments sold/purchased were $10.4 billion and $10.5 billion, respectively, as summarized below:

At December 31,	2008		2007	
U.S. government and agency	**$ 1,353,511**	**13%**	$ 1,058,926	10%
Non U.S. government	**320,102**	**3%**	280,577	3%
Corporate debt	**2,116,141**	**20%**	2,149,666	21%
MBS	**3,475,096**	**33%**	3,482,215	33%
ABS	**381,006**	**4%**	532,780	5%
Municipals	**366,677**	**4%**	827,502	8%
Total Fixed Maturities	**8,012,533**	**77%**	8,331,666	80%
Total Equities	**107,283**	**1%**	7,746	-
Cash at investment managers, net of unsettled trades	**663,192**	**6%**	572,897	5%
Total Invested Assets	**8,783,008**	**84%**	8,912,309	85%
Other cash and cash equivalents	**1,092,664**	**10%**	846,380	8%
Total Cash, Fixed Maturities and Equities	**$ 9,875,672**	**94%**	$ 9,758,689	93%
Other investments	**492,082**	**5%**	638,241	6%
Accrued interest receivable	**79,232**	**1%**	87,338	1%
Total Cash and Investments	**$ 10,446,986**	**100%**	$ 10,484,268	100%

During the second half of 2008, in response to the financial market crisis, we took steps to reduce the overall risk profile of our cash and investment portfolio. These changes included increasing our asset allocation to cash and cash equivalents and U.S. government and agency securities and reducing our exposure to municipal bonds and the corporate debt of financial issuers. In 2009, we will proactively manage our asset allocations in response to market conditions and opportunities, and in line with our investment strategy and risk tolerances.

Fixed Maturity Investments

Our investment strategy is to invest primarily in fixed maturities of high credit quality issuers and to limit the amount of credit exposure to particular ratings categories and to any one issuer. We attempt to limit our credit exposure by purchasing securities rated BBB or higher. In addition, we limit our exposure to any single issuer to 5% or less of our portfolio for securities rated A- or above and 3% or less of our portfolio for securities rated between BBB and BBB+. At December 31, 2008 and 2007, we did not have an aggregate exposure to any single issuer of 3% or more of our shareholders equity, other than with respect to U.S. government and agency securities. At December 31, 2008 and 2007, all of the fixed maturities were investment grade with 80.0% and 78.6% rated AA- or better, respectively, with an overall weighted average rating of AA+, based on ratings assigned by S&P. Our fixed maturities are broadly diversified by industry and issuer concentration.

The duration target range for our fixed maturities is two to four years. The duration of a security is based on its maturity and also reflects the payment of interest and the possibility of early principal payment of such security. We seek to use investment performance benchmarks that reflect this duration target. We manage asset durations to both maximize return

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given market conditions and provide sufficient liquidity to cover future loss payments. In a low interest rate environment, the overall duration of our fixed maturities tends to be shorter and in a high interest rate environment, such durations tend to be longer. At December 31, 2008 and 2007, our fixed maturities had an approximate average duration of 2.5 and 2.7 years, respectively. When incorporating our cash and cash equivalents into this calculation, the average duration at December 31, 2008 and 2007 is reduced to 2.1 and 2.5 years, respectively.

The amortized cost or cost and fair values of our fixed maturities and equities were as follows:

At December 31, 2008	**Amortized Cost or Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Fixed maturities:				
U.S. government and agency	**$ 1,314,944**	**$ 39,475**	**$ (908)**	**$ 1,353,511**
Non-U.S. government	**314,275**	**19,731**	**(13,904)**	**320,102**
Corporate debt	**2,575,253**	**20,251**	**(479,363)**	**2,116,141**
MBS	**3,670,126**	**71,613**	**(266,643)**	**3,475,096**
ABS	**433,266**	**390**	**(52,650)**	**381,006**
Municipals	**363,770**	**6,479**	**(3,572)**	**366,677**
Total fixed maturities	**8,671,634**	**157,939**	**(817,040)**	**8,012,533**
Equities:				
Common stock	**132,935**	**1,522**	**(48,620)**	**85,837**
Preferred stock	**31,395**	**-**	**(9,949)**	**21,446**
Total equities	**164,330**	**1,522**	**(58,569)**	**107,283**
Total fixed maturities and equities	**$ 8,835,964**	**$ 159,461**	**$ (875,609)**	**$ 8,119,816**

At December 31, 2007	**Amortized Cost or Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Fixed maturities:				
U.S. government and agency	$ 1,032,441	$ 26,672	$ (187)	$ 1,058,926
Non-U.S. government	264,109	20,712	(4,244)	280,577
Corporate debt	2,174,333	36,020	(60,687)	2,149,666
MBS	3,467,573	29,946	(15,304)	3,482,215
ABS	539,125	1,800	(8,145)	532,780
Municipals	823,947	3,792	(237)	827,502
Total fixed maturities	8,301,528	118,942	(88,804)	8,331,666
Equities:				
Common stock	10,850	-	(3,104)	7,746
Total equities	10,850	-	(3,104)	7,746

Total fixed maturities and equities	$ 8,312,378	$ 118,942	$ (91,908)	$ 8,339,412

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The net unrealized losses on our fixed maturities and equities increased $743 million during 2008, comprising the following movements:

	Net unrealized Gain (Loss) at December 31, 2008	Net unrealized Gain (Loss) at December 31, 2007	Change
Fixed maturities:			
U.S. government and agency	$ 38,567	$ 26,485	$ 12,082
Non-U.S. government	5,827	16,468	(10,641)
Corporate debt	(459,112)	(24,667)	(434,445)
MBS	(195,030)	14,642	(209,672)
ABS	(52,260)	(6,345)	(45,915)
Municipals	2,907	3,555	(648)
Total fixed maturities	**(659,101)**	**30,138**	**(689,239)**
Equities:			
Common stock	(47,098)	(3,104)	(43,994)
Preferred stock	(9,949)	-	(9,949)
Total equities	**(57,047)**	**(3,104)**	**(53,943)**
Total fixed maturities and equities	**$ (716,148)**	**$ 27,034**	**$ (743,182)**

Approximately $116 million, or 16%, of the unrealized loss movement in the year was due to a strengthening U.S. dollar in the second half of 2008, in particular against the Euro and Sterling. This primarily impacted the corporate debt sector. The balance of the unrealized loss movement in 2008 was driven by the unprecedented widening of credit spreads during the year in the U.S. and European credit markets. In our corporate debt sector, the largest component of the unrealized loss increase related to medium-term notes, which provide access to European credit issuances. This asset class primarily comprises floating rate notes which we invest in to reduce the negative impact that raising interest rates have on other fixed maturities. During 2008, floating rate notes were negatively impacted by the widening of credit spreads but did not benefit from falling interest rates like corporate bonds. The increase in unrealized losses on our MBS and ABS portfolios were largely related to the non-agency home equity and CLO debt tranche sub-sectors.

Corporate debt:

At December 31, 2008, our corporate debt portfolio had an average credit rating of A, a duration of 3.1 years and a weighted average life of 4.5 years. The sector composition of our corporate debt securities at December 31, 2008 was as follows:

Sector Exposures	Fair Value	Net Unrealized Gain (Loss) at December 31, 2008	% of Fair Value of Total Fixed Maturities
Direct Financials	$ 1,075,084	$ (100,515)	13.4%
Non Financials	754,321	(27,668)	9.4%
Medium-term notes	286,736	(330,929)	3.6%

Total	**$ 2,116,141**	**$ (459,112)**	**26.4%**

Our direct financials sector exposures are primarily related to U.S. banks (34%), foreign banks (22%) and corporate finance (19%), with the remainder diversified across several other sub-sectors. Included in our financials sector is $98 million of FDIC guaranteed bonds. The weighted average credit rating of our financials at December 31, 2008 was A.

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Our non-financial sector exposures are primarily related to communications (22%), consumer non-cyclicals (20%), consumer cyclicals (13%), electric (15%) and energy (14%), with the remainder diversified across several other sub- sectors. The weighted average credit rating of our financials at December 31, 2008 was A-.

Our medium-term notes are a highly diversified pool of fixed maturity securities with an average rating of A/A2. The medium-term notes use leverage and are broadly diversified by country and asset sector with the majority of the exposure consisting of corporate and sovereign debt. The medium-term notes provide exposure to floating rate securities which allows us to diversify away from the fixed rate exposure of other fixed maturity securities.

Mortgage-backed securities:

Our MBS portfolio is supported by loans that are diversified across economic sectors and geographical areas. Non-agency residential mortgage backed securities (RMBS) represent 13.2% of our total RMBS portfolio. The average duration and weighted average life of our non-agency RMBS at December 31, 2008 was 0.3 years and 3.1 years respectively. Our non-agency RMBS portfolio primarily originates from years 2003 to 2007, from which 2005 is the largest component (32%). The average duration and weighted average life of our commercial mortgage backed securities (CMBS) at December 31, 2008 was 3.6 years and 4.5 years, respectively. Our non-agency CMBS portfolio primarily originates from years 2005 (26%), 2006 (22%) and 2007 (20%).

	Mortgage-backed securities			
	Agency[(a)]	**AAA**	**AA and below**	**Total**
Residential	$ 2,353,490	$ 347,273	$ 11,234	$ 2,711,997
Commercial	12,261	738,678	12,160	763,099
Total	**$ 2,365,751**	**$ 1,085,951**	**$ 23,394**	**$ 3,475,096**
% of total	**68%**	**31%**	**1%**	**100%**

(a) These represent securities backed by U.S. government-sponsored agencies.

Asset-backed securities:

The average duration and weighted average life of our ABS portfolio at December 31, 2008 was 0.6 years and 3.5 years, respectively. Our ABS securities primarily originate from years 2008 (27%), 2007 (26%) and 2006 (24%).

	Asset-backed securities				
	AAA	**AA**	**A**	**BBB and lower**	**Total**
Auto	$ 107,719	$ 8,365	$ 546	$ 322	$ 116,952
Credit card	109,797	-	-	-	109,797
CLO[(a)]	1,298	-	22,889	11,036	35,223
Home equity	23,208	77	182	5,636	29,103
CDO[(b)]	4,540	277	1,181	4,714	10,712
Equipment	3,537	-	125	-	3,662
Other	75,557	-	-	-	75,557

Total	**$ 325,656**	**$ 8,719**	**$ 24,923**	**$ 21,708**	**$ 381,006**
% of total	**85%**	**2%**	**7%**	**6%**	**100%**

(a) Collateralized loan obligation debt tranche securities

(b) Collateralized debt obligation

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Sub-prime and Alternative-A securities:

Beginning in 2007, delinquencies and losses with respect to U.S. residential mortgage loans increased, particularly in the sub-prime sector. We define sub-prime related risk as any security that is backed by or contains sub-prime collateral even if that sub-prime component is incidental. We do not invest directly in sub-prime loans nor do we have any direct sub-prime investment commitments. Our exposure to the sub-prime sector within our fixed maturities relates to the collateral in our MBS and ABS securities (see above).

The following tables summarize our exposure to these investments within our direct investment portfolio at December 31, 2008, including net realized investment losses and impairments recorded in years ended December 31, 2008:

At December 31, 2008	Holdings at Fair Value	% of Total Shareholders Equity	Net Unrealized Loss	Realized Losses and Impairments
Sub-prime Agency MBS	$ 1,331	0.03%	$ (13)	$ -
Sub-prime Non-Agency MBS	817	0.02%	(120)	(4,078)
Sub-prime ABS	27,627	0.62%	(8,388)	(7,674)
Total Sub-prime	29,775	0.67%	(8,521)	(11,752)
Alternative-A Agency MBS	-	0.00%	-	-
Alternative-A Non-Agency MBS	96,457	2.16%	(32,135)	-
Alternative-A ABS	5,294	0.12%	(1,847)	-
Total Alternative-A	101,751	2.28%	(33,982)	-
Total Sub-prime and Alternative-A	$ 131,526	2.95%	$ (42,503)	$ (11,752)

At December 31, 2008, 92.7% of our investment in this sector was Agency rated or AAA. The duration and weighted average life of our sub-prime investments at December 31, 2008 were 0.1 years and 1.9 years, respectively, while the duration and weighted average life of our alternative-A investments at December 31, 2008 were 0.1 years and 2.8 years, respectively. At December 31, 2008, 58% of our sub-prime securities and 11% of our alternative-A securities, originated in 2006 and 2007.

Equity Securities

During 2008 we began funding an allocation to global equities. At December 31, 2008 we held $86 million and $21 million of common and non redeemable preferred stocks, respectively. Net unrealized losses of $57 million on our equity portfolio at December 31, 2008 were largely consistent with the decline in global markets in that period.

Other Investments

The composition of our other investment portfolio is summarized as follows:

At December 31,	2008		2007	
Hedge funds	$ 251,787	51%	$ 277,757	44%
Credit funds	101,094	21%	194,241	30%
CLO - equity tranches	97,661	20%	120,596	19%

Short duration high yield fund	**41,540**	**8%**	45,647	7%
Total other investments	**$ 492,082**	**100%**	$ 638,241	100%

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The movement in hedge funds and credit funds in the year reflect net subscriptions of $47 million and $57 million respectively, offset by the negative performance of these funds during 2008. Refer to *Net Investment Income and Net Realized Investment Gains/Losses*, above.

Securities Lending

As of December 31, 2008, we had outstanding securities lending agreements approximating $406 million (2007: $848 million). The proceeds from these agreements are primarily invested in cash equivalents rated A-1/P-1 and AAA rated short-term securities. As a response to current market conditions, we are currently winding down this lending program to reduce our risk profile.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

Liquidity is a measure of a company s ability to generate cash flows sufficient to meet the short-term and long-term cash requirements of its business operations. We manage liquidity at both a holding company and subsidiary level. Although global market and economic conditions have been severely disrupted this year, we have maintained our strong financial and liquidity position.

Holding Company

We actively monitor the ability of AXIS Capital to finance dividend payments to ordinary and preferred shareholders, as well as service its long-term debt. AXIS Capital has no substantial assets of its own and its assets consist primarily of investments in its subsidiaries. The cash flows of AXIS Capital therefore depend primarily on dividends or other statutorily permissible payments from its subsidiaries. We believe the current dividend capacity of its subsidiaries provides AXIS Capital with sufficient liquidity into the foreseeable future. Refer to Item 8, Note 18, to the Consolidated Financial Statements for further information.

Operating Subsidiaries

Our subsidiaries consolidated sources of funds consist primarily of net premiums written, reinsurance recoverable, net investment income and proceeds from sales and maturities of investments. Funds are primarily used to pay claims, brokerage and commissions, operating expenses and taxes. After satisfying our cash requirements, excess cash flows are generally invested. Our insurance and reinsurance operations provide liquidity in that premiums are received in advance, sometimes substantially so, of the time claims are paid. The following table summarizes our cash flows from operating, investing and financing activities in the last three years:

Total cash provided by (used in)	**2008**	**2007**	**2006**
Operating activities	**$ 1,525,725**	$ 1,573,016	$ 1,613,305
Investing activities	**(633,313)**	(1,370,748)	(1,271,923)
Financing activities	**(408,129)**	(847,213)	289,525
Effect of exchange rate changes on cash	**(59,819)**	34,475	(28,310)
Increase (decrease) in cash and cash equivalents	**$ 424,464**	$ (610,470)	$ 602,597

Note: See Consolidated Statements of Cash Flows included in Item 8, *Financial Statements and Supplementary Data*, of this report, for additional information.

Net cash flows from operating activities reflect net income for each year, adjusted for non-cash items and changes in working capital. Net income in 2008 of $387 million compared with $1,092 million in the prior year.

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In 2008, significant adjustments included an increase in net loss reserves of $657 million (2007: $572 million) and changes in the fair value of other investments of $227 million (2006: ($23 million)). Net loss payments in 2008 of $944 million compared to $824 million in the prior year.

Net cash flows used in investing activities in 2008 included the net purchase of equities of $231 million. We began funding our global equity portfolio in the current year. The balance of our cash outflows from investing in 2008, and 2007, were principally used in the net purchase of fixed maturities. During the latter part of 2008, in response to deteriorating financial market conditions, we increased our asset-allocation to cash and cash equivalents, while reducing our net purchasing of fixed maturities. Refer to the *Cash and Investments* section above.

Net cash flows used in financing activities in 2008 primarily comprise share repurchases of $291 million (2007: $308 million), dividends paid on common shares of $106 million (2007: $111 million) and dividends paid on preferred shares of $37 million (2007: $37 million). Net cash outflows in 2007 also included the repayment of $400 million on a repurchase agreement used to fund a life settlements investment. A corresponding amount for the sale of the investment is included in our investing activities for 2007.

Our cash flows are affected by claim payments that, due to the nature of our operations, may comprise large loss payments on a limited number of claims, which can fluctuate significantly from period to period. Our diversified underwriting portfolio has demonstrated our ability to withstand catastrophic losses, and we have generated over $1.5 billion in operating cash flows in each of the last five years, despite the occurrence of multiple large hurricanes during this period. We anticipate that cash flows from operations will continue to be sufficient to cover cash outflows under most loss scenarios as well as our other contractual commitments through the foreseeable future. We expect our operating cash flows in 2009 will also benefit from a gradual improvement in re/insurance market conditions which we anticipate will benefit a number of our lines of business.

In the unlikely event that paid losses accelerated beyond our ability to fund such payments from operating cash flows, we would utilize our cash and cash equivalent balances or liquidate a portion of our investment portfolio. Our cash and cash equivalent balance at December 31, 2008 was over $1.8 billion. The asset-mix of our investment portfolio is heavily weighted towards conservative high quality and highly liquid securities. This includes $3.6 billion in U.S. government and agency backed securities, which we would expect to be able to liquidate within 1-5 days. At December 31, 2008, these securities were in a net unrealized gain position of $101 million. To provide some context to the information above, our modeled single occurrence 1-in-250 year period U.S hurricane probable maximum loss, net of reinsurance, is approximately $1.2 billion. Refer to the *Enterprise Risk Management* section of Item 1 for further information.

We regularly evaluate, through stress and scenario testing, our expected liquidity adequacy in extreme market and business conditions. We maintain contingent capital resources, which we evaluate on an ongoing basis. We currently maintain a $1.5 billion credit facility, the terms of which provide for direct borrowing of up to $500 million. At December 31, 2008, no borrowings were outstanding under the facility, although we had $567 million (2007: $306 million) of outstanding unsecured letters of credit. This facility expires in August 2010. Refer to Item 8, Note 10 (b) of our Consolidated Financial Statements, for additional information on our credit facility.

At December 31, 2008 and 2007, $173 million and $89 million, respectively, of cash and cash equivalents and investments were on deposit with various regulatory authorities to support our insurance and reinsurance operations. The assets on deposit are available to settle insurance and reinsurance liabilities. We also utilize trust accounts to collateralize business with our insurance and reinsurance counterparties. These trust accounts, which generally take the place of letter of credit requirements, were $149 million and $143 million at December 31, 2008 and 2007, respectively. In addition, at December 31, 2008 and 2007, we held trust accounts of $1,455 million and $781 million, respectively, to meet regulatory requirements for our inter-company agreements. We do not anticipate that the restrictions from assets committed in trust accounts or on deposit will have an impact on our liquidity or our ability to carry out our normal business activities.

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CAPITAL RESOURCES

In addition to common equity, we depend upon other external sources of finance such as debt, preferred shares and our credit facility to support our operating activities. Having sufficient capital allows us to take advantage of profitable opportunities, maintain our financial strength ratings and also comply with various local statutory regulations. We monitor our capital adequacy on a regular basis and will seek to adjust our capital base (up or down) according to the needs of our business. The following table summarizes our consolidated capitalization position for the periods indicated:

As at December 31,	**2008**	**2007**
Long-term debt	**$ 499,368**	$ 499,261
Preferred shares	**500,000**	500,000
Common equity	**3,961,041**	4,658,622
Shareholders equity	**4,461,041**	5,158,622
Total capitalization	**$ 4,960,409**	$ 5,657,883
Ratio of debt to total capitalization	**10.1%**	8.8%
Ratio of debt and preferred equity to total capital	**20.1%**	17.7%

Long-term debt: Long-term debt represents senior notes we issued during 2004. For further information refer to Item 8, Note 10 (a) of the Consolidated Financial Statements.

Preferred Shares: During 2005, we issued $250 million of series A and $250 million of series B Preferred shares. For further information refer to Item 8, Note 13 (b) of the Consolidated Financial Statements.

Common equity: Our common equity decreased by $698 million during 2008. The following table reconciles our opening and closing common equity positions:

Common equity - December 31, 2007	**$ 4,658,622**
Net income	387,376
Share repurchases	(291,003)
Change in accumulated other comprehensive income	(729,167)
Common share dividends	(120,909)
Preferred share dividends	(36,875)
Share-based compensation and other	92,997
Common equity - December 31, 2008	**$ 3,961,041**

The change in accumulated other comprehensive income largely relates to the movement in unrealized losses associated with our fixed maturities and equity securities, as discussed further in the *Cash and Investments* section.

Share repurchases

On December 7, 2006, our Board of Directors authorized a new share repurchase plan with the authorization to repurchase up to $400 million of our common shares to be effected from time to time in the open market or privately negotiated transactions. This repurchase plan expired on December 31, 2008. On December 6, 2007, our Board of Directors approved a new share repurchase plan with the authorization to repurchase up to an additional $400 million of our common shares. This repurchase plan is authorized to continue until December 31, 2009.

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During 2008, we repurchased $291 million of our common shares, of which $283 million was made under our share repurchase plan, with the remaining $8 million repurchase to satisfy employees tax liabilities upon the vesting of restricted stock.

At December 31, 2008, approximately $212 million of repurchases were available under our share repurchase program. The timing and amount of the repurchase transactions under this program will depend on a variety of factors, including market conditions and corporate and regulatory considerations. In light of current re/insurance market conditions, we do not anticipate significant share repurchases in 2009, although our plans may change depending on market conditions, our share price performance or other factors.

Shelf registrations

On March 11, 2008, we filed an unallocated universal shelf registration statement with the SEC, which became effective upon filing. Pursuant to the shelf registration, we may issue an unlimited amount of equity, debt, trust preferred securities, warrants, purchase contracts or a combination of those securities. Our ability and willingness to issue securities pursuant to this registration statement will depend on market conditions at the time of any proposed offering.

Financial strength ratings:

AXIS Capital and our insurance subsidiaries are assigned debt and financial strength (insurance) ratings from internationally recognized rating agencies, including S&P, A.M. Best and Moody s Investors Service. The ratings issued on our companies by these agencies are announced publicly and are available directly from the agencies as well as on our website.

Financial strength ratings represent the opinions of the rating agencies on the financial strength of a company and its capacity to meet the obligations of insurance policies. Independent ratings are one of the important factors that establish our competitive position in the insurance markets. The rating agencies consider many factors in determining the financial strength rating of an insurance company, including the relative level of statutory surplus necessary to support the business operations of the company.

These ratings are based upon factors relevant to policyholders, agents and intermediaries and are not directed toward the protection of investors. Such ratings are not recommendations to buy, sell or hold securities. Debt ratings apply to short-term and long-term debt as well as preferred stock. These ratings are assessments of the likelihood that we will make timely payments of principal, interest and preferred share dividends.

On February 9, 2009, S&P raised the counterparty credit and financial strength rating of our operating subsidiaries to A+ from A . At the same time, S&P raised the senior unsecured debt rating of AXIS Capital to A- from BBB+ .

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The following are the most recent financial strength and claims paying ratings from internationally recognized agencies in relation to our principal insurance and reinsurance subsidiaries:

Rating agency	**Agency s description of rating**	**Rating**	**Agency s rating definition**	**Ranking of Rating**
Standard & Poor s	A Standard & Poor s issuer credit rating is a current opinion of an obligor s overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor s capacity and willingness to meet its financial commitments as they come due.	A + (Stable Outlook)	An obligor rated A+ has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.	The A grouping is the third highest out of nine main ratings. Main ratings from AA to CCC are subdivided into three subcategories: + indicating the high end of the main rating; no modifier, indicating the mid range of the main rating; and - indicating the lower end of the main rating.
A.M. Best	Best s Financial Strength Ratings provide an opinion of an insurer s financial strength and ability to meet ongoing obligations to policyholders.	A (Stable Outlook)	Assigned to companies that have, in A.M. Best s opinion, an excellent ability to meet their ongoing obligations to policyholders.	The A rating is the third highest out of fifteen rating levels.
Moody s	Moody s Insurance Financial Strength Ratings are opinions of the ability of insurance companies to repay punctually senior policyholder claims and obligations.	A2 (Stable Outlook)	Insurance companies rated A offer good financial security. However, elements may be present which suggest a susceptibility to impairment sometime in the future.	The A2 rating is the sixth highest out of twenty-one ratings.

In addition, our $500 million of senior notes are assigned a senior unsecured debt rating of Baa1 (stable) by Moody s Investors Service and A- (stable) by S&P. Our Series A and B preferred shares are rated Baa3 (stable) by Moody s Investors Service and BBB by S&P.

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COMMITMENTS AND CONTINGENCIES

The following table provides a breakdown of our contractual obligations by period due:

	At December 31, 2008				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating activities					
Estimated gross loss payments[1]	$ 6,244,783	$ 1,809,023	$ 2,011,984	$ 931,906	$ 1,491,870
Operating lease obligations[2]	88,465	14,854	28,602	22,792	22,217
Reinsurance purchase commitments[3]	46,244	46,244	-	-	
Insurance-related derivative payment[4]	138,614	-	-	-	138,614
Financing activities					
Senior notes (including interest payments)[5]	670,104	28,750	57,500	57,500	526,354
Total	$ 7,188,210	$ 1,898,871	$ 2,098,086	$ 1,012,198	$ 2,179,055

1. *Estimated gross loss payments.* Given the limited loss payout pattern information specific to our experience, we have used industry data, on a line by line basis, to estimate our expected payments. The amount and timing of actual loss payments may differ materially from the estimated payouts in the table above. For further discussion refer to our *Critical Accounting Estimates* below.

2. *Operating lease obligations:* We lease office space in the countries in which we operate under operating leases which expire at various dates. We renew and enter into new leases in the ordinary course of business as required.

3. *Reinsurance purchase commitments:* During 2008, we purchased reinsurance coverage for our insurance lines of business. The minimum reinsurance premiums are contractually due on a quarterly basis in advance.

4. *Insurance-related derivative payment*: based on an estimated undiscounted indemnity payment due in September 2017 (refer to *Critical Accounting Estimate Fair Value Measurements*); actual indemnity payment may differ materially.

5. *Senior notes (including interest payments):* For further information on the repayment terms of amounts due on our senior unsecured debt refer to Item 8, Note 10 (a) Debt and Financing Arrangements , to the Consolidated Financial Statements.

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CRITICAL ACCOUNTING ESTIMATES

There are certain accounting policies that we consider to be critical due to the amount of judgment and uncertainty inherent in the application of those policies. In calculating financial statement estimates, the use of different assumptions could produce materially different estimates. We believe the following critical accounting policies affect significant estimates used in the preparation of our consolidated financial statements.

RESERVE FOR LOSSES AND LOSS EXPENSES

General

We believe the most significant judgment made by management is the estimation of our reserve for losses and loss expenses, which we also refer to as loss reserves. We are required by U.S. GAAP to establish loss reserves for the estimated unpaid portion of the ultimate liability for losses and loss expenses (ultimate losses) under the terms of our policies and agreements with our insured and reinsured customers. Our loss reserves comprise the following components:

Case reserves - cost of claims that were reported to us but not yet paid, and

Reserves for incurred but not reported (IBNR) - anticipated cost of claims incurred but not reported.

Loss reserves also include an estimate of the expense associated with settling claims, including legal and other fees and the general expenses of administering the claims adjustment process. The following tables show our net loss reserves segregated between case reserves and IBNR and by segment at December 31, 2008 and 2007:

		2008			2007	
At December 31,	**Gross**	**Ceded**	**Net**	**Gross**	**Ceded**	**Net**
Case Reserves	**$ 2,055,027**	**$ 472,833**	**$ 1,582,194**	$ 1,697,385	$ 480,354	$ 1,217,031
IBNR	**4,189,756**	**905,797**	**3,283,959**	3,889,926	876,539	3,013,387
Total	**$ 6,244,783**	**$ 1,378,630**	**$ 4,866,153**	$ 5,587,311	$ 1,356,893	$ 4,230,418

			INSURANCE			
		2008			2007	
At December 31,	**Gross**	**Ceded**	**Net**	**Gross**	**Ceded**	**Net**
Property and all other[(1)]						
Case reserves	**$ 813,552**	**$ 288,526**	**$ 525,026**	$ 755,492	$ 356,977	$ 398,515
IBNR	**574,221**	**112,745**	**461,476**	715,562	143,330	572,232

	1,387,773	**401,271**	**986,502**	1,471,054	500,307	970,747
Liability						
Case reserves	**139,950**	**83,767**	**56,183**	102,132	53,778	48,354
IBNR	**649,223**	**347,642**	**301,581**	613,770	323,939	289,831
	789,173	**431,409**	**357,764**	715,902	377,717	338,185
Professional Lines						
Case reserves	**225,878**	**100,540**	**125,338**	134,677	69,599	65,078
IBNR	**1,144,247**	**417,199**	**727,048**	1,012,110	384,785	627,325
	1,370,125	**517,739**	**852,386**	1,146,787	454,384	692,403
Insurance Total						
Case reserves	**1,179,380**	**472,833**	**706,547**	992,301	480,354	511,947
IBNR	**2,367,691**	**877,586**	**1,490,105**	2,341,442	852,054	1,489,388
Total	**$ 3,547,071**	**$ 1,350,419**	**$ 2,196,652**	$ 3,333,743	$ 1,332,408	$ 2,001,335

(1) All other includes marine, terrorism, aviation, and credit and political risk lines of business.

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	REINSURANCE					
		2008			2007	
At December 31,	**Gross**	**Ceded**	**Net**	**Gross**	**Ceded**	**Net**
Catastrophe, property and other						
Case reserves	**$ 437,889**	**$ -**	**$ 437,889**	$ 360,986	$ -	$ 360,986
IBNR	**471,501**	**-**	**471,501**	428,858	-	428,858
	909,390	**-**	**909,390**	789,844	-	789,844
Credit and bond, motor and liability						
Case reserves	**313,027**	**-**	**313,027**	259,878	-	259,878
IBNR	**697,545**	**24,898**	**672,647**	555,332	18,520	536,812
	1,010,572	**24,898**	**985,674**	815,210	18,520	796,690
Professional Lines						
Case reserves	**124,731**	**-**	**124,731**	84,220	-	84,220
IBNR	**653,019**	**3,313**	**649,706**	564,294	5,965	558,329
	777,750	**3,313**	**774,437**	648,514	5,965	642,549
Reinsurance Total						
Case reserves	**875,647**	**-**	**875,647**	705,084	-	705,084
IBNR	**1,822,065**	**28,211**	**1,793,854**	1,548,484	24,485	1,523,999
Total	**$ 2,697,712**	**$ 28,211**	**$ 2,669,501**	$ 2,253,568	$ 24,485	$ 2,229,083

Case Reserves

For reported losses, management primarily establishes case reserves based on the amounts reported from insureds or ceding companies. Case reserves are established on a case by case basis within the parameters of coverage provided in the insurance and reinsurance contracts. The method of establishing case reserves for reported losses differs among our segments.

With respect to our insurance operations, we are notified of insured losses by brokers and insureds and record a case reserve for the estimated amount of the ultimate expected liability arising from the claim. The estimate reflects the judgment of our claims personnel based on general reserving practices, the experience and knowledge of such personnel regarding the nature of the specific claim and, where appropriate, advice of counsel, loss adjusters and other relevant consultants.

The reserving process for our reinsurance operations is more complicated than for our insurance operations. For reported losses, we generally establish case reserves based on reports received primarily from brokers and also from ceding companies. With respect to contracts written on an excess of loss basis, we typically are notified of insured losses on specific contracts and record a case reserve for the estimated amount of the ultimate expected liability arising from the claim. With respect to contracts written on a pro rata basis, we typically receive aggregated claims information and record a case reserve based on this information. However, our pro-rata reinsurance contracts typically require that pre-defined large losses must be separately notified so that these losses can be adequately evaluated.

In deciding whether to provide treaty reinsurance, we carefully review and analyze the cedant s underwriting and risk management practices to ensure appropriate underwriting, data capture and reporting procedures. We undertake an extensive program of cedant audits, utilizing outsourced legal and industry expertise when necessary. This allows us to review a cedant s claims administration to ensure that its claim reserves are consistent with reinsured exposures, are adequately established and are properly reported in a timely manner, and to verify that claims are being handled appropriately. For those losses where we receive contract-specific loss notifications, our claims department evaluates each notification and, as discussed above, may record additional case reserves if claims are not considered to be adequately

reserved by the ceding company. This requires considerable judgment. At December 31, 2008, additional case reserves were $106 million, or 5% of our total case reserves compared to $70 million, or 4%, respectively at December 31, 2007.

IBNR

IBNR reserves are necessary due to time lags between when a loss occurs and when it is actually reported and settled. This is often referred to as the claim-tail . Reporting lags arise from the use of intermediaries to provide loss reports, complexities in the claims adjusting process and other related factors. IBNR reserves are calculated by projecting our ultimate losses on each class of business and subtracting paid losses and case reserves.

Unlike case reserves, IBNR is generally calculated at an aggregate level and cannot usually be directly identified as reserves for a particular loss or contract. Our loss and premium data is aggregated by exposure class and by accident year (i.e. the year in which losses were incurred).

The evaluation process to determine our ultimate losses involves the collaboration of our underwriting, claims, internal actuarial, legal and finance departments, and includes various segmental committee meetings, culminating with the approval of a single point best estimate by senior management in our Group Reserving Committee. The evaluation process also includes consultation with an independent actuarial firm. The work performed by the actuarial firm is an important part of the process and we compare our recorded claims and claim expense reserves to those estimated by the actuarial firm to determine whether our estimates are reasonable.

On an annual basis, our independent actuarial firm performs work for the purpose of issuing an actuarial opinion on the reasonableness of our loss reserves for each of our operating subsidiaries. The actuarial opinions are required to meet various insurance regulatory requirements. The actuarial firm discusses its conclusions with management and presents its findings to our Board of Directors.

Reserving Methodology:

We primarily use the following actuarial methods in our reserving process:

- Initial expected loss ratio method (IELR): This method calculates an estimate of ultimate losses by applying an estimated loss ratio to an estimate of ultimate earned premium for each underwriting year. The estimated loss ratio is based on pricing information and industry data and is independent of the current claim experience to date. This method is appropriate for classes of business where the actual paid or reported loss experience is not yet mature enough to override our initial expectations of the ultimate loss ratios.

- Bornhuetter-Ferguson (BF): The BF method uses as a starting point an assumed IELR and blends in the loss ratio implied by the claims experience to date by using benchmark loss development patterns. This method is generally appropriate where there are few reported claims and a relatively less stable pattern of reported losses.

- Loss development (Chain Ladder): This method uses actual loss data and the historical development profiles on older accident years to project more recent, less developed years to their ultimate position. This method is appropriate when there is a relatively stable pattern of loss emergence and a relatively large number of reported claims.

The basis of our selected single point best estimate on a particular line of business is often a blend of the results from two or more methods (e.g. weighted averages). Our estimate is highly dependant on actuarial and management judgment as to which method(s) is most appropriate for a particular accident year and class of business. Our methodology changes over time as new information emerges regarding underlying loss activity and other factors.

Our Key Reserving Assumptions:

Implicit in the actuarial methodologies utilized above are two critical reserving assumptions; the selected IELR for each accident year and the expected loss development profiles. We regularly monitor these assumptions and, at each quarter end, undertake a full actuarial review. Any adjustments that result from this review are recorded in the quarter in which they are identified. The historic loss information we use is also assumed to be indicative of future loss development and trends.

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The IELR selections in our insurance segment are primarily developed using industry benchmarks with varying degrees of weight given to our own historical loss experience within our short-tail lines of business (see below). We also give consideration to a number of other factors, including exposure trends, rate adequacy on new and renewal business, ceded reinsurance costs and our underwriters view of terms and conditions in the market environment. In our reinsurance segment, our IELR selections are based on a contract by contract review which incorporates information provided by clients together with estimates provided by our underwriters and actuaries concerning the impact of changes in pricing, terms and conditions and coverage. Our estimate of the impact of these changes includes assumptions which consider, among other things, the market experience of our independent actuarial firm.

Our loss development profiles are primarily developed using industry benchmarks with varying degrees of weight given to our own historical loss experience within certain lines of our short and medium-tail business. Having begun operations in late 2001 and having grown our business substantially since, the credibility of our own loss development profiles have generally been limited. Our development profiles are only adjusted when the weight of our own actual experience becomes sufficiently credible to identify deviations from the market based assumptions. As this happens, we will begin to incorporate the experience from these accident years in our actuarial analysis to determine future accident year expected loss ratios, adjusted for the occurrence or lack of large losses, changes in pricing, loss trends, terms and conditions and reinsurance structure. The most significant change made to our loss development profiles prior to this year was on our terrorism and aviation lines. In 2005, having observed a lack of claims development on these lines, we adjusted our loss development profiles to incorporate reporting that was more prompt than expected. The following section includes details of the various modifications to our development profiles during 2008.

Reserving by class of business:

The weight given to a particular actuarial method is dependent upon the characteristics specific to each class of business, including the types of coverage and the expected claim-tail.

Short-tail business:

Short-tail exposures describe classes of business for which losses are usually known and paid within a relatively short period after a loss event has occurred. Our short-tail lines include the majority of the property, terrorism and aviation lines of business within our insurance segment, together with the property and catastrophe lines of business within our reinsurance segment.

Due to the relatively short reporting development pattern for our short-tail lines, our estimate of ultimate losses responds quickly to the latest loss data. We therefore typically assign higher credibility to methods that incorporate actual loss emergence, sooner than would be the case for long-tail lines at a similar stage of development. The reserving process for losses arising from catastrophic events typically involves the determination by our claims department, in conjunction with our underwriters and actuaries, of our exposure and likely losses immediately following an event with subsequent refinement of those losses as our clients provide updated actual loss information. When a catastrophe event occurs, we review our contracts to determine those that could be potentially exposed to the event. We contact brokers and clients to determine their estimate of involvement and the extent to which their programs are affected. We may also use commercial vendor models to estimate loss exposures under the actual event scenario. As part of the underwriting process, we obtain exposure data from our clients, so that when an event occurs we can run the models to produce an estimate of the losses incurred by clients on programs that we insure or reinsure. Typically, we derive our estimate for the losses from a catastrophic event by blending all of the sources of loss information available to us. This estimate is derived by the claims team and, where there are no reported case reserves, we establish a separate provision for IBNR. Because much of our excess insurance and excess of loss reinsurance business has high attachment points, there is significant judgment required in estimating whether claims will exceed those attachment points. The inherent uncertainties relating to coverage and damage assessment on catastrophe events, together with our typically large line sizes, add to the complexity of estimating our potential exposure.

During 2008, we incurred net losses of $408 million on Hurricanes Ike and Gustav. Our current estimates for these hurricanes is based primarily on reported loss information from our clients, brokers and loss adjusters, supplemented by our review of in-force contracts, the output of industry models and a market share analysis. Industry-wide insured losses and our own loss estimates for Hurricanes Gustav and Ike are subject to change as claims continue to be reported and adjusted. Actual losses may ultimately differ materially from current loss estimates.

For accident year 2008, our short-tail lines were predominately established using the BF method which is apt to the low frequency, high severity nature of much of our business (which limits the usefulness of the Loss Development method). For our short-tail lines of business taken as whole, our overall loss trend assumptions have not differed significantly relative to prior years. Within our limited operating history, as well as experiencing significant business growth, our loss activity has generally been volatile, which has reduced the degree to which we can rely upon our own development trends from older accident years. Following actuarial reviews, we did however change the development profile on certain short-tail lines in 2008. Specifically, we updated the loss development profile of our aviation war and property lines managed by general agents to reflect a more accelerated profile, based on our review of historical data. The impact of favorable loss development in recent years did have some positive impact on our expected loss ratios for accident year 2008, although the impact of deteriorating rates within competitive markets generally offset this favorable effect.

For prior accident years, changes to ultimate loss estimates in 2008 were primarily the result of better than expected reported loss data rather than changes in underlying actuarial assumptions. For a detailed analysis of changes in our prior accident year reserves in 2008, refer to *Underwriting Results - Group - Prior Period Reserve Development* .

Medium-tail business:

Our medium-tail exposures include the majority of our aviation hull, energy offshore and credit and political risk lines of our insurance segment together with most of the credit and bond and engineering lines of our reinsurance segment. We generally use the IELR method on more recent accident years for these classes and the BF method on older accident years. The most significant change in loss assumptions on our medium-tail lines of business was on our credit and political risk line of business. In 2008, we refined the methodology used on the sovereign and corporate credit portion of our credit and political risk book. We updated the loss development profile on these lines to reflect a more accelerated loss development profile based on our historical experience. This change in reserving assumption also had a favorable impact on our prior year loss reserves. Refer to *Underwriting Results - Group - Prior Period Development* for further information.

Long-tail business:

Long-tail lines of business describe lines of business for which specific losses may not be known for some period. Our long tail exposures include most of our professional lines and liability lines of business as well as our motor reinsurance business. There are many factors contributing to the uncertainty and volatility of long-tail business, including the following:

- Our historical loss data and experience is generally too immature and lacking in actuarial credibility to place reliance upon for reserving purposes. Instead, we place reliance on industry loss ratios and industry benchmark development profiles that we anticipate reflect the nature and coverage of our business and its future development. Actual loss experience is apt to differ from industry loss statistics that are based on averages as well as loss experience of previous underwriting years;

- The inherent uncertainty around loss trends, claims inflation (e.g., medical and judicial) and underlying general economic conditions; and

- The possibility of future litigation, legislative or judicial change that might impact future loss experience relative to prior loss experience relied upon in loss reserve analyses.

For our liability lines of business, we predominately use the IELR method across all accident years. Due to the long-term reporting and settlement period for liability business, additional facts regarding coverages written in prior years, as well as actual claims and trends may become known and, as a result, we may be required to adjust our reserves accordingly. During 2008, we strengthened our prior year liability reserves within both our insurance and reinsurance segment as a result of increased claims trends on certain contracts. Refer to *Underwriting Results Group Prior Period Reserve Development* for further information.

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For our professional lines business, during 2008, we began to give weight to our own loss experience, in particular business written on a claims-made basis from accident years 2004 and prior, which has developed a reasonable level of credible data. As these older accident years mature further, we expect to move from a blend of the BF and IELR methods to using the BF only. For more recent accident years, we continue to use the IELR method, although our ultimate loss estimates for accident year 2007 and 2008 are weighted more heavily towards our expected loss exposure to the sub-prime lending credit crisis. Our reserves for sub-prime incorporate analyses by our claims personnel, actuaries and underwriters following a review of known notifications of potential loss, as well as a review of accounts that may have exposure to this area, but have not yet provided notice of a claim. Although our reserves provide for future deterioration in our exposure to the sub-prime crisis, while the crisis continues and as new information is reported, actual losses may ultimately differ materially from our current estimates. Refer to *Underwriting Results Group* for further information.

Potential Volatility in Our Estimates

While we believe that our loss reserves at December 31, 2008 are adequate, new information, events or circumstances, unknown at the original valuation date, may lead to future developments in our ultimate losses significantly greater or less than the reserves currently provided. The actual final cost of settling both claims outstanding at December 31, 2008 and claims expected to arise from unexpired period of risk is uncertain. As noted above there are many factors that may cause our reserves to increase or decrease, particularly those related to catastrophe losses and long-tail lines of business.

The uncertainty in our reserve estimate is generally greater for a company like ours that has a somewhat limited operating history and therefore places some reliance upon industry benchmarks when establishing our loss reserve estimates. To reduce some of the uncertainty, management performs an analysis of additional factors to be considered when establishing our IBNR, intended to enhance our best estimate beyond quantitative techniques. At December 31, 2008, we recorded additional IBNR for uncertainties relating to the timing of the emergence of claims. Although time lags are incorporated within the actuarial methods discussed above, these rely on industry experience which may not be indicative of our business. For example, the low frequency, high severity nature of much of our business, together with the vast and diverse expanse of our worldwide exposures, may limit the usefulness of claims experience of other insurers and reinsurers for similar types of business.

The tables below quantify the impact on our gross loss reserves of reasonably likely scenarios to the key actuarial assumptions used to estimate our gross reserves at December 31, 2008. The changes to IELR selections represent percentage increases or decreases to our current IELR selections. The change to reporting patterns represents claims reporting that is both faster and slower than our current reporting patterns. The results show the cumulative increase (decrease) in our gross reserves across all accident years.

Insurance - Property and all other

	Initial Expected Loss Ratio		
Reporting Pattern	**5% lower**	**Unchanged**	**5% higher**
3 months faster	$ (85,383)	$ (59,486)	$ (33,722)
Unchanged	(28,043)	-	28,043
3 months slower	82,275	114,297	146,318

Insurance - Liability

	Initial Expected Loss Ratio		
Reporting Pattern	**10% lower**	**Unchanged**	**10% higher**
6 months faster	$ (88,676)	$ (7,410)	$ 73,857
Unchanged	(82,314)	-	82,313
6 months slower	(75,130)	8,321	91,772

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Insurance - Professional Lines

Reporting Pattern	Initial Expected Loss Ratio 10% lower	Unchanged	10% higher
6 months faster	$ (175,552)	$ (39,378)	$ 96,796
Unchanged	(142,379)	-	142,379
6 months slower	(72,350)	29,906	177,894

Reinsurance - Catastrophe, Property and Other

Reporting Pattern	Initial Expected Loss Ratio 5% lower	Unchanged	5% higher
3 months faster	$ (56,270)	$ (40,133)	$ (23,914)
Unchanged	(17,711)	-	17,828
3 months slower	26,214	45,812	65,505

Resinsurance - Credit and Bond, Motor and Liability

Reporting Pattern	Initial Expected Loss Ratio 10% lower	Unchanged	10% higher
6 months faster	$ (118,277)	$ (40,081)	$ 40,351
Unchanged	(79,206)	-	78,062
6 months slower	(41,711)	43,427	128,921

Reinsurance - Professional Lines

Reporting Pattern	Initial Expected Loss Ratio 10% lower	Unchanged	10% higher
6 months faster	$ (85,418)	$ (17,136)	$ 51,490
Unchanged	(71,379)	-	71,683
6 months slower	(59,638)	15,132	90,390

It is not appropriate to add together the total impact for a specific factor or the total impact for a specific reserving line as the lines of business are not perfectly correlated. It is important to note that the variations set forth in the tables above are not meant to be a best-case or worst-case series of scenarios, and therefore, it is possible that future variations may be more or less than the amounts set forth above. While we believe these are reasonably likely scenarios, we do not believe the reader should consider the above sensitivity analysis an actual reserve range.

REINSURANCE RECOVERABLE BALANCES

Reinsurance recoverable balances include amounts owed to us in respect of paid and unpaid ceded losses and loss expenses and are presented net of a reserve for non-recoverability. At December 31, 2008 and 2007, reinsurance recoverable balances were $1,379 million and $1,357 million, respectively. In establishing our reinsurance recoverable balances, significant judgment is exercised by management in determining the amount of unpaid losses and loss expenses to be ceded as well as our ability to cede losses and loss expenses under our reinsurance contracts.

Our ceded unpaid losses and loss expenses consist of two elements, those for our gross case reserves and those for our gross IBNR. Recoveries on our gross case estimates are determined on a case-by-case basis by applying the terms of any applicable reinsurance recoveries to the individual case estimates. As the gross case estimates are adjusted over time in accordance with the settlement of the claim, the corresponding ceded case estimates will be adjusted. Recoveries on gross

IBNR are developed as part of our loss reserving process. Consequently, the estimation of ceded unpaid losses and loss expenses is subject to similar risks and uncertainties as the estimation of gross IBNR (see Reserve for Losses and Loss Expenses). In our reinsurance segment, our reinsurance coverage is principally limited to industry loss warranty contracts. Under these types of contracts a recovery will only be made following a predefined industry loss of a particular size and frequency.

As the majority of the reinsurance recoverable balances will not be due for collection until some point in the future, the recoverability of such amounts may ultimately differ materially from the recorded amounts due to the ability and willingness of reinsurers to pay our claims, for reasons including insolvency, contractual dispute over contract language or coverage and for other reasons. Additionally, over this period of time, the economic conditions and operational performance of a particular reinsurer may change and consequently these changes may affect the reinsurer s willingness and ability to meet their contractual obligations to us. Accordingly, we review our reinsurance recoverable balances on a quarterly basis to estimate and record a valuation provision for potential uncollectible amounts, with changes in the provision flowing through earnings.

To estimate this valuation provision, we begin by applying case-specific valuation allowances against any reinsurance recoverable balances that we deem unlikely to collect in full. We also incorporate a default analysis based on the financial strength rating of the reinsurer. These percentages are based on historical industry default statistics developed by rating agencies. Lastly, we evaluate the overall adequacy of the valuation allowance for the total reinsurance recoverable balances based on qualitative and judgmental factors. Based on this process, at December 31, 2008, we recorded a valuation provision against reinsurance recoverable balances of $20 million (2007: $34 million). The reduction in the provision was due to the settlement of certain disputes with reinsurers during the year. We have not written off any significant reinsurance recoverable balances in the last three years.

See Item 8, Note 8 to the Consolidated Financial Statements for an analysis of reinsurance recoverable and valuation provision by segment. For an analysis of credit risk with respect to our reinsurance recoverable balances at December 31, 2008, refer to Item 8, Note 11, to the Consolidated Financial Statements.

PREMIUMS

Our revenue is generated primarily by gross premiums written from our underwriting operations. The basis for the amount of gross premiums recognized varies by the type of contract we write.

For the majority of our insurance business, we receive a flat premium which is identified in the policy and recorded as unearned premium on the inception date of the contract. This premium will be adjusted if the underlying insured values adjust. We actively monitor underlying insured values and record adjustment premiums in the period in which amounts are reasonably determinable.

We also write business on a line slip basis, under which we assume a fixed percentage of the premiums and losses on a particular risk or group of risks along with numerous other unrelated insurers. Under Statement of Financial Accounting Standard No. 60 *Accounting and Reporting By Insurance Enterprises*, a company is permitted to book premium so long as it is reasonably estimable. We receive an initial estimate of the expected premium written from the client via the broker. This estimate has been derived by reference to one or more of the following: the historical premium volume experienced by the line slip; historical premium volume of similar line slips; and industry information on the underlying business. We may, if we believe appropriate, adjust the initial estimates provided by the broker to reflect management s best judgments and expectations. This is most likely where the underwriter believes that the estimate is not prudent. Under these circumstances, we will generally recognize as revenue a lower than advised premium written estimate. We actively monitor the development of actual reported premium to the original estimates.

Where actual reported premium deviates from the estimate, we carry out an analysis to determine the cause and may, if necessary, adjust the estimated premium in the period in which the determination was made. During 2008, 2007 and 2006, line slip premium accounted for 2%, 3% and 3%, respectively, of total gross premiums written. Our line slip contracts are predominately written in the property, marine, credit and political risk, and aviation lines of business of our insurance segment. Our historical experience has shown that estimated premiums from line slip contracts have varied and have been

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adjusted by up to approximately 10%, although larger variations, both positive and negative, are possible. A 10% variation in the our line slip premiums receivable balance at December 31, 2008, after considering the related expected losses and loss expenses and acquisition costs, would increase or decrease our pre tax net income by approximately $3 million.

In our credit and political risk line of business, we write certain policies on a multi-year basis for which premiums are generally payable in annual installments. We record premiums written at the inception of the policy based on our best estimate of total premiums to be received. We do not include premiums for later periods during which the client has the ability to unilaterally commute or cancel coverage. The average duration of the outstanding unearned premiums written at December 31, 2008 was 5.4 years.

For our reinsurance business, we write contracts on both an excess of loss basis and a proportional basis. For excess of loss contracts, the amount of premium is usually contractually documented at inception and no management judgment is necessary. For such contracts, a deposit premium is generally contractually specified and is payable during the contract period. After the contract has expired, a premium adjustment is calculated, which is based on the underlying exposure of the ceded business. We record the deposit premium at the inception of the contract and record adjustments in the periods in which they are reasonably determinable.

For business written under a proportional contract, similar to our line slip business, we are able to reasonably estimate the premium written by reference to an initial estimate of expected ceded premium received from our clients. In most cases, the treaties are not new and the client can use historical experience to estimate the amount of premium. We may adjust the initial estimate of premium, and any adjustment is usually a result of the underwriter s prior experience with a client. During 2008, 2007 and 2006, proportional premiums accounted for 16%, 13% and 14%, respectively, of total gross premiums written. Our proportional contracts are predominately written in our reinsurance segment and within our property, professional lines and casualty lines of business. Our historical experience has shown that estimated premiums from proportional contracts have varied and have been adjusted by up to approximately 10%, although larger variations, both positive and negative, are possible. A 10% variation in the our proportional premiums receivable balance at December 31, 2008, after considering the related expected losses and loss expenses and acquisition costs, would increase or decrease our pre tax net income by approximately $5 million.

Reinstatement premiums for our insurance and reinsurance operations are recognized at the time a loss event occurs, where coverage limits for the remaining life of the contract are reinstated under pre-defined contract terms. The accrual of reinstatement premiums is based on an estimate of losses and loss adjustment expenses, which reflects management s best judgment, as described above in *Reserves for Losses and Loss Expenses*.

Our premiums are earned over the period during which we are exposed to the insured or reinsured risk. Generally, this period equates to the contract period, except for contracts written on a line slip or proportional basis. For line slip and proportional business, the earning period is generally twice the contract period as some of the underlying exposures may attach towards the end of our contracts, and such underlying exposures generally have a one year coverage period.

FAIR VALUE MEASUREMENTS

On January 1, 2008, we adopted FAS 157, *Fair Value Measurements*, which defines fair value 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. Further, on October 10, 2008, the FASB issued Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, which provides further clarification on fair value measurement for financial assets in inactive markets. Refer to Note 1 of our Consolidated Financial Statements for a further discussion on these new accounting pronouncements.

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The following is a summary of valuation methodologies we used to measure our financial instruments.

Fixed Maturities

We use quoted market values and other relevant observable market data provided by independent pricing sources as inputs into our process for estimating fair values of our fixed maturities. The pricing sources are primarily nationally recognized pricing services and broker-dealers.

Pricing Services

At December 31, 2008, pricing for approximately 87% of our total fixed maturities was based on prices provided by nationally recognized independent pricing services (73% index providers and 14% pricing vendors). Generally, pricing services provide pricing for less-complex, liquid securities based on market quotations in active markets. For fixed maturities that do not trade in an active quoted market, these pricing services may use a matrix pricing consisting of observable market inputs to estimate the fair value of a security. These observable market inputs include: reported trades, benchmark yields, broker/dealer quotes, issuer spreads, two-side markets, benchmark securities, bids, offers, reference data, and industry and economic factors. Additionally, pricing services may use a valuation model such as an option adjusted spread model commonly used for estimating fair values of mortgage-backed and asset-backed securities. At December 31, 2008, we have not adjusted any pricing provided by independent pricing services (see *Management Pricing Validation* below).

U.S. Treasury securities are liquid and trade in an active market; accordingly, we have classified U.S. Treasuries as Level 1. We have classified all the remaining fixed maturities priced by pricing services as Level 2.

Broker-Dealers

Generally, we obtain quotes directly from broker-dealers who are active in the corresponding markets when prices are unavailable from independent pricing services. This may also be the case if the pricing from these pricing services is not reflective of current market levels, as detected by our pricing control tolerance procedures. At December 31, 2008, approximately 8% of our fixed maturities were priced by broker-dealers. Generally, broker-dealers value securities through their trading desks based on observable market inputs. Their pricing methodologies include mapping securities based on trade data, bids or offers, observed spreads and performance on newly issued securities. They may also establish pricing through observing secondary trading of similar securities. Quotes from broker-dealers are all non-binding.

Given the severe credit market dislocation experienced in 2008, it has been more challenging for broker-dealers to observe actual trades due to the lack of liquid and active secondary markets. The market illiquidity has been evidenced by a significant decrease in the volume of trades relative to historical levels and the significant widening of the bid-ask spread in the brokered markets, in particular for our sub-prime, Alt-A, and certain CMO securities. These securities accounted for less than 1% of our total fixed maturity portfolio. To price these securities, although thinly traded, the broker-dealers may consider both pricing from recent limited trades (market approach) and discounted cash flows (income approach) using significant observable market inputs. The evaluation of whether or not actual transactions in the current financial markets represent distressed sales requires significant management judgment. We do not believe quotes received from broker-dealers reflect distressed transactions that would warrant an adjustment to fair value based on obtaining sufficient relevant observable market data to corroborate these quotes (see *Management Pricing Validation* below).

At December 31, 2008, we have not adjusted any pricing provided by broker-dealers and have classified these securities as Level 2.

Other Pricing Sources

For certain securities within our corporate bond portfolio such as medium-term notes, we use prices provided by independent administrators which are marked to market daily. Pricing is based on the mid point of the bid-ask quotes, where available; otherwise it is obtained from a sample of non-binding quotes from broker-dealers in active markets. For medium-term notes, we have full transparency with respect to their underlying securities, and therefore we can corroborate the pricing received with relevant observable market data. Accordingly, these securities were also classified as Level 2.

Management Pricing Validation

As management is ultimately responsible for determining the fair value measurements for all securities, we validate prices received by comparing the fair value estimates to our knowledge of the current markets. We challenge any prices we believe may not be representative of fair value. Our review process includes, but is not limited to: (i) a review of the pricing methodologies and valuation models used by outside parties to measure fair value; (ii) quantitative analysis and attribution analysis; and (iii) selection of randomly purchased or sold securities and compare the executed prices to the fair value estimates provided by the independent pricing sources and broker-dealers.

Equity Securities

The fair values for equity securities are based on closing exchange prices provided by independent pricing sources and accordingly we have classified all our equity securities within Level 1.

Other Investments

We have one open-end short-duration high yield fund with daily liquidity that is measured using the net asset value as reported by Bloomberg. We have classified this fund as Level 2.

For hedge and credit funds, we measure fair value by obtaining the net asset value as advised by our external fund manager or third party administrator, which involves limited management judgment. For any funds that we did not receive a December 31, 2008 net asset value, we recorded an estimate of the change in fair value for the latest period based on return estimates obtained from the fund managers. Accordingly, we did not have a reporting lag in our fair value measurement for these funds at December 31, 2008. The financial statements of each fund in our portfolio are generally prepared using fair value measurement for the underlying investments and generally are audited annually. In addition to reviewing these audited financial statements, we regularly review fund performance directly with the fund managers and perform qualitative analysis to corroborate the reasonableness of the reported net asset values. Certain of these funds have lock-up and other redemption provisions which limit our ability to liquidate these funds in the short term. As these provisions are common in the investment industry, we do not believe a market participant would apply a significant discount, if any, to the reported net asset value; accordingly, we have not reflected such adjustment in the fair value of these funds. We have classified the hedge and credit funds as Level 3 within the fair value hierarchy as we do not have full access to the underlying investment holdings for most of the funds to enable us to corroborate the fair value measurement used by the fund managers. For the year ended December 31, 2008, we recorded a decrease in fair value on these funds of $222 million due to market conditions as previously noted. For the year ended December 31, 2007, we recorded an increase in fair value on these funds of $22 million. The changes in fair value were included in our net investment income.

We have also invested in equity tranche CLO securities (also known as cash flow CLOs in the industry). For these securities, we estimate fair value based on observable relevant trades in active secondary markets where available or the use of our internal valuation model where the market is inactive. In line with the illiquidity in the credit markets, equity tranche CLOs were thinly traded in the secondary markets at December 31, 2008. The limited number of cash flow CLO trades that we observed at or near December 31, 2008, was not similar to our CLOs, and therefore, these trades did not represent relevant observable secondary market data. As a result, we continue to rely on the use of our internal assumptions with respect to the expected future cash flows and the effective yield to discount these cash flows to estimate the fair value of our cash flow CLOs. The significant assumptions used in calculating the effective yield are default and recovery rates, collateral spreads, and prepayments. Of these assumptions, the default rate is the most sensitive and judgmental input. The current market default rate of approximately 4% (as reported by S&P for speculative-grade securities) is lower than the average default rates assumed in our models; however, we currently believe that a market participant would adjust the current default rates to our assumed average default rates over the life of our CLOs. Due to the use of significant unobservable inputs in our valuation models for our cash flow CLOs, we have classified these securities as Level 3.

As previously noted, the primary risk to our cash flow CLOs is an increase in defaults or credit rating downgrades which would most likely reduce the valuation of the underlying collateral of the CLO structure and may lead to failing the over-collateralization test (OC test) of the debt tranches. In the event of an OC test failure, all subsequent cash flows are diverted from the equity holder to the debt tranche holders until the earlier of a) the debt principal is repaid or b) the OC test is met. During 2008 we have observed that all of our cash flow CLOs have performed and continue to pay equity cash flows as anticipated except for one cash flow CLO. For the latter, the OC test failed during 2008 and accordingly the cash flows are currently diverted to the debt tranche; however, the underlying collateral continues to perform. We have incorporated this event in our estimated fair value calculation at December 31, 2008. As a sensitivity analysis of our estimated fair value, we believe it is reasonably likely that our estimated fair value of our cash flow CLOs could further deteriorate by $18 million based on using a market default rate of 9.6%. This default rate represents S&P s pessimistic 12-month forward forecast for U.S. speculative-grade default rate at December 31, 2008.

Derivative Instruments

Foreign currency forward contracts and options

The foreign currency forward contracts and options we use to economically hedge currency risk are characterized as over-the-counter (OTC) due to their customized nature, and the fact that they do not trade on a major exchange. These instruments are valued using market transactions and other market evidence whenever possible, including market-based inputs to models. Forward contracts trade in a very deep and liquid market, providing substantial price transparency, while our vanilla currency options are priced using a Black-Scholes option-pricing model. This model is a widely-accepted pricing source, and requires the use of transparent market inputs to calculate values, involving minimal management judgment. Accordingly, we have classified these derivatives as Level 2.

Insurance derivative contract

In September 2007 we issued a policy which indemnifies a third party in the event of a non-payment of a $400 million asset-backed note (Note). This Note has a 10 year term with the full principal amount due at maturity and is collateralized by a portfolio of life settlement contracts held by a special purpose entity (SPE). We concluded that this contract was a derivative instrument and accordingly we have recorded it at its fair value. As there is no observable market transaction for this insurance product, we developed an internal valuation model to estimate its fair value.

Our valuation model incorporates all significant expected cash flows in the underlying SPE to estimate the potential indemnity amount on the insured Note due in 2017. This estimated indemnity payment with an appropriate risk margin, net of our contractual premiums for providing the indemnity, are then discounted using the risk free yield curve, adjusted for counterparties credit risk.

The most significant and subjective inputs in our valuation model are:

- the timing of the receipt of death benefits as well as the amount of premiums to be paid to maintain the policies in force, both of which are directly correlated to life expectancy (LE) assumptions for a portfolio of 188 lives;

- the proceeds of selling the unmatured settlement contracts in 2017; and

- the risk margin that a market participant would require for providing this indemnity.

To select our LE assumptions at December 31, 2008, we analyzed the actual longevity experience of the above portfolio as well as emerging LE data for the life settlement industry. Because the life settlement industry is relatively in its infancy stage and the LE data sample is limited, there is significant judgment in selecting the LE assumptions for the 186 remaining lives.

These LE assumptions are also used to estimate the proceeds of selling the unmatured settlement contracts. The calculation of these proceeds is also inherently judgmental as the marketplace for the remaining life settlement contracts in 2017 (the year the Note matures) can be significantly different than at December 31, 2008.

The risk margin for this contract is also inherently subjective given the bespoke nature of this indemnity contract. The selection of our risk margin is influenced by indicative LE data and the actual longevity experience for the above

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portfolio. From the inception of our insurance policy to December 31, 2008, we observed that the actual experience for the above portfolio was lagging our expectations. This lag represented an increase in life expectancy of approximately seven months and contributed to the increase of $53 million to the derivative liability balance at December 31, 2008 from December 31, 2007, which was partially offset by $12 million of favorable movements in interest rates and credit spreads as well as other items. The actual indemnity payment in 2017, if any, may differ materially from the $63 million derivative liability that we have recorded at December 31, 2008.

Due to the size of the above portfolio, its actual longevity experience is likely to vary significantly, positively or negatively, from current observable life settlement industry trends. However, if our current lagging experience continues in 2009, we believe it is reasonably likely that we could experience an extension of between 3 months and 18 months to the current life expectancy for the remaining 186 lives in the near term. In this event, our estimated fair value of the insurance derivative contract liability could increase by between $23 million and $132 million from the current amount. Because we use significant unobservable inputs in estimating the fair value derivative liability, we have classified it as Level 3 in the fair value hierarchy.

Refer to Item 8, Note 6 of the Consolidated Financial Statements for summary of all of our financial assets and liabilities measured at fair value at December 31, 2008 by FAS 157 hierarchy.

OTHER-THAN-TEMPORARY IMPAIRMENTS (OTTI)

The significant disruptions in the global capital markets in 2008 have led to significant widening of credit spreads in the credit markets and volatile equity markets. Consequently we experienced significant declines in the fair value of many investment securities. In accordance with FAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, and Statement of Position 115-1/124-1, *The Meaning of Other-than-Temporary Impairment and its Application to Certain Investments*, we review quarterly whether a decline in the fair values of our available-for-sale (AFS) securities below their amortized costs is other-than-temporarily impaired. The OTTI assessment is inherently judgmental, especially where securities have experienced severe declines in fair value in a short period.

Our OTTI review process is a rigorous quantitative and qualitative approach. We identify securities for review based on credit quality, relative health of industry sector, yield analysis, security performance and topical issues. For identified securities, we prepare a fundamental analysis at the security level and consider the following qualitative factors:

- The length of time and extent to which the fair value has been less than amortized cost for fixed maturities or cost for equity securities.
- The financial condition, near-term and long-term prospects for the issuer of the security, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices.
- Our ability and intent to hold the security for a period of time sufficient to allow for an anticipated recovery in value.

The following provides further details regarding our OTTI process for fixed maturities and equity securities.

Fixed Maturities

In addition to the above, we have established parameters for identifying potential impaired securities for further qualitative analysis. One such trigger event is when a debt security s fair value is 20% less than its amortized cost for nine consecutive months. Our OTTI review process for credit risk excludes all fixed maturities guaranteed by the U.S. government and its agencies because we anticipate these securities will not be settled below amortized costs. We conclude that a fixed maturity security is other-than-temporarily impaired if it is probable that we will not be able to collect all amounts due under the security s contractual terms or where we do not have the intent to hold the security until its recovery, which could be at its maturity. We use this same OTTI model for our perpetual preferred securities that possess significant debt-like characteristics, consistent with the SEC s Office of the Chief Accountant views on the application of the OTTI guidance in FAS 115, *Accounting for Certain Investments in Debt and Equity Securities,* (FAS 115) as outlined in their letter to the FASB in October 2008.

In accordance with FASB Staff Position EITF 99-20-1, *Amendments to Impairment and Interest Income Measurement Guidance of EITF Issue No. 99-20*, effective December 31, 2008, the OTTI review for our securitized financial assets was based on using the same above OTTI model used for our debt securities under FAS 115.

Equities

In addition to the above, we have also established parameters for identifying potential impaired equity securities based on the severity of the decline in value and the duration of the loss. One parameter we use is when an equity security s fair value is 20% less than its cost for twelve consecutive months. As an equity security does not have a maturity date, the forecasted recovery is inherently more judgmental than for a fixed maturity. We recognize an OTTI charge for an equity security when we will not recover its cost over the forecasted recovery period or do not intend to hold the security until the forecasted recovery.

Sales of Temporarily Impaired Invested Assets

From time to time, we may sell AFS securities subsequent to the balance sheet that were considered temporarily impaired at the balance sheet date. This may occur due to events occurring subsequent to the balance sheet date that result in a change in our intent or ability to hold a security. Such subsequent events that may result in a sale include significant deterioration in the financial condition of the issuer, significant unforeseen changes in our liquidity needs, or changes in tax laws or the regulatory environment.

OTTI Charge

When we determine that an AFS security is other-than-temporarily impaired, the security is written down to fair value, and the amount of the impairment is included in net realized investment gains/losses in our Consolidated Statements of Operations. The fair value then becomes the new cost basis of the security as if the security has been purchased on the measurement date of the OTTI. Subsequent to the recognition of an OTTI charge for a debt security, the yield is reset based on the adjusted amortized cost, which generally results in a higher yield to maturity and higher net investment income in subsequent periods. For an impaired equity security, its subsequent recovery in fair value is recognized as realized gains only at disposition.

During 2008, 2007, and 2006 we recorded a total OTTI charge of $78 million, $9 million and $5 million, respectively. Refer to the *Net Investment Income and Net Realized Investment Gains/Losses* section of the MD&A for further details.

Sensitivity Analysis

The determination of an OTTI for a security is inherently judgmental, even more so during the current turmoil in the credit and financial markets. In the last quarter of 2008, we have witnessed unprecedented global government actions to stabilize the financial markets and restore credit availability, liquidity and confidence. Although these actions are promising to stimulate inter-bank lending and the commercial paper markets in order to bring an end to the current credit crisis, there is no assurance that the above actions will be effective. Accordingly, should the current credit crisis prevail for several more months, it is reasonably likely that some of the current unrealized loss position on our AFS investments will become an OTTI charge in future periods, which could be material to our future earnings. However, this will not have an impact on our book value as the unrealized losses are currently recorded as a reduction to our shareholders equity.

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The following table summarizes all of our AFS fixed maturities and equity securities for which fair value is less than 80% of amortized cost (cost for equities) at December 31, 2008, the gross unrealized investment loss by length of time of those securities have continuously been in an unrealized loss position (in millions):

	Periods For Which Fair Value Is Less Than 80% of Amortized Cost				
	Less than 3 months	3 months and less than 6 months	6 months and less than 9 months	Greater than 9 months	Total
Fixed maturities	$ (441)	$ (146)	$ (135)	$ (13)	$ (647)
Equities	(47)	(9)	(3)	(3)	(54)
Total	**$ (488)**	**$ (154)**	**$ (138)**	**$ (16)**	**$ (701)**

Generally, the above unrealized loss aging table provides an indication of potential future OTTI charges if there is no significant improvement in the financial markets and we no longer have the intent and ability to hold the temporary impaired securities until the anticipated recovery. See above *Sales of Temporarily Impaired Invested Assets* .

At December 31, 2008, our total gross unrealized loss on our AFS investments was $876 million. Given our current financial position (as noted in Liquidity and Capital Resources), we have the ability and intent to hold these securities until a recovery of fair value to amortized cost or cost.

RECENT ACCOUNTING PRONOUNCEMENTS

See Item 8, Note 2 (l) to the Consolidated Financial Statements for a discussion on recently issued accounting pronouncements not yet adopted.

OFF-BALANCE SHEET AND SPECIAL PURPOSE ENTITY ARRANGEMENTS

At December 31, 2008, we have not entered into any off-balance sheet arrangements, as defined by Item 303 (a) (4) of the SEC s Regulation S-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our Balance Sheets include a substantial amount of assets and, to a lesser extent, liabilities whose fair values are subject to market risks. Market risk represents the potential for an economic loss due to adverse changes in the fair value of a financial instrument. We are principally exposed to four types of market related risk: interest rate risk, credit spread risk, equity price risk and foreign currency risk.

The following provides a sensitivity analysis on the potential effects that market risk exposures could have on the future earnings, fair values or cash flows of our material financial instruments, resulting from one or more selected hypothetical changes in market rates or prices over a selected time. The hypothetical changes below reflect what we consider as being reasonably possible near-term changes in market rates and prices. Near-term means a period of time going forward up to one year from the date of the consolidated financial statements. The hypothetical changes do not reflect what could be deemed the best or worst case scenarios.

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INTEREST RATE RISK

Fluctuations in interest rates have a direct impact on the market valuation of our fixed maturities. As interest rates rise, the fair value of our fixed maturities falls, and the converse is also true. We have calculated the effect that an immediate parallel shift in the U.S. interest rate yield curve would have on our fixed maturities at December 31, 2008. The modeling of this effect was performed on each security individually using the security s effective duration and changes in prepayment expectations for MBS and ABS securities. Prepayment risk results from potential accelerated principal payments that shorten the average life, and therefore the expected yield of the security. The results of this analysis are summarized in the table below.

	Interest Rate Shift in Basis Points				
As at December 31, 2008	**-100**	**-50**	**0**	**+50**	**+100**
Total Fair Value	$ 8,263,301	$ 8,169,548	$ 8,012,533	$ 7,946,561	$ 7,825,040
Fair Value Change from Base	3.1%	2.0%	-	(0.8%)	(2.3%)
Change in Unrealized Value	$ 250,768	$ 157,015	$ -	$ (65,972)	$ (187,493)

	Interest Rate Shift in Basis Points				
As at December 31, 2007	**-100**	**-50**	**0**	**+50**	**+100**
Total Fair Value	$ 8,562,484	$ 8,450,445	$ 8,331,666	$ 8,214,377	$ 8,089,551
Fair Value Change from Base	2.77%	1.43%	-	(1.41%)	(2.91%)
Change in Unrealized Value	$ 230,818	$ 118,779	$ -	$ (117,289)	$ (242,115)

We manage interest rate risk by selecting fixed maturities with durations, yields, currency and liquidity tailored to the anticipated cash outflow characteristics of our insurance and reinsurance liabilities. Refer to *Cash and Investments* section above, for a discussion of target and actual durations on our investment portfolios and a discussion on risk management techniques, respectively.

EQUITY PRICE RISK

Our portfolio of equity securities, which we carry on our balance sheet at fair value, has exposure to price risk. This risk is defined as the potential loss in fair value resulting from adverse changes in stock prices. Our global equity portfolio is correlated with the MFCI World Free index and changes in that index would approximate the impact on our portfolio. The fair value of our equity securities at December 31, 2008 was $107 million. The impact of a 20% decline in the overall market prices of our equity exposures is $21 million, on a pre-tax basis.

Our hedge funds have significant exposure to equity strategies with net long positions that have been impacted by the negative returns in this sector during 2008. The impact of a 15% decline in the fair value of our hedge funds at December 31, 2008 is $38 million, on a pre-tax basis.

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CREDIT SPREAD RISK

Fluctuations in credit spreads have a direct impact on the market valuation of our fixed maturities. A credit spread is the difference between the yield on the fixed maturity security of a particular borrower (or a class of borrowers with a specified credit rating) and the yield of similar maturity U.S. Treasury fixed maturity. As credit spreads widen, the fair value of our fixed maturities falls, and the converse is also true. The following table summarizes the effect of an immediate, parallel shift in credit spreads in a static interest rate environment at December 31, 2008:

	Credit spread Shift in Basis Points				
As at December 31, 2008	**-200**	**-100**	**0**	**100**	**+200**
Total Fair Value	$ 8,424,377	$ 8,218,455	$ 8,012,533	$ 7,806,611	$ 7,600,689
Fair Value Change from Base	5.1%	2.6%	-	(2.6%)	(5.1%)
Change in Unrealized Value	$ 411,844	$ 205,922	$ -	$ (205,922)	$ (411,844)

	Credit spread Shift in Basis Points				
As at December 31, 2007	**-200**	**-100**	**0**	**100**	**+200**
Total Fair Value	$ 8,781,576	$ 8,556,621	$ 8,331,666	$ 8,106,711	$ 7,881,756
Fair Value Change from Base	5.4%	2.7%	-	(2.7%)	(5.4%)
Change in Unrealized Value	$ 449,910	$ 224,955	$ -	$ (224,955)	$ (449,910)

As the performance of our credit funds are driven by the valuation of the underlying bank loans, these funds are also exposed to credit spreads movement. The impact of a 15% decline in the fair value of our credit funds at December 31, 2008 is $15 million, on a pre-tax basis.

FOREIGN CURRENCY RISK

Foreign exchange risk represents the risk of loss due to movements in foreign currency exchange rates. Through our subsidiaries and branches located in various foreign countries, we conduct our insurance and reinsurance operations in a variety of non-U.S. currencies. As our reporting currency is the U.S. dollar, fluctuations in foreign currency exchange rates will have a direct impact on the valuation of our assets and liabilities denominated in local currencies.

We manage foreign currency risk by seeking to match our liabilities under insurance and reinsurance policies that are payable in foreign currencies with cash and investments that are denominated in such currencies. When necessary, we may also use derivatives to economically hedge un-matched foreign currency exposures, specifically forward contracts and currency options. Foreign currency forward contracts do not eliminate fluctuations in the value of our assets and liabilities denominated in foreign currencies but rather allow us to establish a rate of exchange for a future point in time. For further information on the accounting treatment of our foreign currency derivatives, refer to Item 8, Note 9, of the Consolidated Financial Statements.

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The table below provides a summary of our net foreign currency risk exposure at December 31, 2008 and December 31, 2007, as well as foreign currency derivatives in place to manage this exposure:

At December 31, 2008	Euro	Sterling	Other	Total
Net assets denominated in foreign currencies, excluding derivatives	**$ 460,945**	**$ 75,288**	**$ 76,020**	**$ 612,253**
Total currency derivative amount[1]	**(598,345)**	**(24,210)**	**(1)**	**(622,556)**
Net foreign currency exposure	**$ (137,400)**	**$ 51,078**	**$ 76,019**	**$ (10,303)**
As a percentage of total shareholders equity	**(3.1%)**	**1.1%**	**1.8%**	**(0.2%)**
Pre-tax impact on equity of hypothetical 10% movement of the U.S. dollar[2]	**$ (12,491)**	**$ 4,643**	**$ 6,911**	**$ (937)**

(1) Total currency derivative amount excludes short calls options (see Item 8, Note 9 Derivative Instruments) as a hypothetical 10% increase in the movement of the U.S. dollar would not have an impact on pre-tax income.

(2) Assumes 10% change in U.S. dollar relative to the other currencies.

At December 31, 2007	Euro	Sterling	Other	Total
Net assets denominated in foreign currencies, excluding derivatives	$ 587,603	$ 212,183	$ 62,878	$ 862,664
Total currency derivative amount	123,736	(89,889)	(11,330)	22,517
Net foreign currency exposure	$ 711,339	$ 122,294	$ 51,548	$ 885,181
As a percentage of total shareholders equity	13.8%	2.4%	1.0%	17.2%
Pre-tax impact on equity of hypothetical 10% movement of the U.S. dollar[1]	$ 64,667	$ 11,118	$ 4,686	$ 80,471

(1) Assumes 10% change in U.S. dollar relative to the other currencies.

In late 2007, based on our macro economic views on the directional of the U.S. currency for 2008 we maintained a long position exposure to the Euro and Sterling currencies. During 2008, we began to reduce these currencies exposures through a hedging program (see Item 8, Note 9 Derivative Instruments). At December 31, 2008, we had a short exposure to the Euro currency in anticipation of additional premiums written denominated in Euro during the January 2009 reinsurance renewal, which will eliminate this short exposure.

For an analysis of the Value at Risk of our cash and investment portfolio at December 31, 2008 and 2007, refer to the *Enterprise Risk Management* section in Item 1.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

AXIS Capital Holdings Limited

We have audited the accompanying consolidated balance sheets of AXIS Capital Holdings Limited and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, comprehensive income, changes in shareholders equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of AXIS Capital Holdings Limited and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2009 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ Deloitte & Touche

Hamilton, Bermuda

February 24, 2009

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AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

	2008	2007
	(in thousands)	
Assets		
Investments:		
Fixed maturities, available for sale, at fair value		
(Amortized cost 2008: $8,671,634; 2007: $8,301,528)	**$ 8,012,533**	$ 8,331,666
Equity securities, available for sale, at fair value		
(Cost 2008: $164,330; 2007: $10,850)	**107,283**	7,746
Other investments, at fair value	**492,082**	638,241
Total investments	**8,611,898**	8,977,653
Cash and cash equivalents	**1,697,581**	1,273,117
Restricted cash and cash equivalents	**123,092**	59,804
Accrued interest receivable	**79,232**	87,338
Insurance and reinsurance premium balances receivable	**1,185,785**	1,231,494
Reinsurance recoverable balances	**1,304,551**	1,280,295
Reinsurance recoverable balances on paid losses	**74,079**	76,598
Deferred acquisition costs	**273,096**	276,801
Prepaid reinsurance premiums	**279,553**	242,940
Securities lending collateral	**412,823**	865,256
Net receivable for investments sold	**-**	86,356
Goodwill and intangible assets	**60,417**	61,653
Other assets	**180,727**	156,004
Total assets	**$ 14,282,834**	$ 14,675,309
Liabilities		
Reserve for losses and loss expenses	**$ 6,244,783**	$ 5,587,311
Unearned premiums	**2,162,401**	2,146,087
Insurance and reinsurance balances payable	**202,145**	244,988
Securities lending payable	**415,197**	863,906
Senior notes	**499,368**	499,261
Other liabilities	**233,082**	175,134
Net payable for investments purchased	**64,817**	-
Total liabilities	**9,821,793**	9,516,687
Commitments and Contingencies		
Shareholders equity		
Preferred shares - Series A and B	**500,000**	500,000
Common shares *(2008: 136,212; 2007: 142,520 shares issued and outstanding)*	**1,878**	1,850
Additional paid-in capital	**1,962,779**	1,869,810
Accumulated other comprehensive (loss) income	**(706,499)**	22,668
Retained earnings		