

AXIS CAPITAL HOLDINGS LTD  
Form 10-Q  
April 29, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2011

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-31721

**AXIS CAPITAL HOLDINGS LIMITED**

(Exact name of registrant as specified in its charter)

**BERMUDA**

(State or other jurisdiction of incorporation or organization)

**98-0395986**

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

**92 Pitts Bay Road, Pembroke, Bermuda HM 08**

(Address of principal executive offices and zip code)

**(441) 496-2600**

(Registrant's telephone number, including area code)

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

As of April 20, 2011 there were 129,413,662 Common Shares, \$0.0125 par value per share, of the registrant outstanding.

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**PART I FINANCIAL INFORMATION**

**Cautionary Statement Regarding Forward-looking Statements**

This quarterly report contains forward-looking statements within the meaning of the U.S. federal securities laws. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the United States securities laws. In some cases, these statements can be identified by the use of forward-looking words such as may, should, could, anticipate, estimate, expect, plan, believe, predict, potential and intend. Forward-looking statements contained in this report may include information regarding our estimation of losses related to catastrophes and other large losses, 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 and magnitude 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 effects of emerging claims and coverage issues,

the failure of our cedants to adequately evaluate risks,

inability to obtain additional capital on favorable terms, or at all,

the loss of one or more key executives,

a decline in our ratings with rating agencies,

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loss of business provided to us by our major brokers,

changes in accounting policies or practices,

the use of industry catastrophe models and changes to those models,

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* and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in our Annual Report on Form 10-K for the year ended December 31, 2010.

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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**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

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**Table of Contents****AXIS CAPITAL HOLDINGS LIMITED****CONSOLIDATED BALANCE SHEETS****MARCH 31, 2011 (UNAUDITED) AND DECEMBER 31, 2010**

|   | 2011                 | 2010                 |
|---|----------------------|----------------------|
|   | (in thousands)       |                      |
| <b>Assets</b>   |                      |                      |
| Investments:  |                      |                      |
| Fixed maturities, available for sale, at fair value<br>(Amortized cost 2011: \$10,591,298; 2010: \$10,346,243)    | \$ 10,726,390        | \$ 10,482,897        |
| Equity securities, available for sale, at fair value<br>(Cost 2011: \$466,429; 2010: \$327,207)                   | 502,096              | 349,254              |
| Other investments, at fair value  | 554,113              | 519,296              |
| Short-term investments, at amortized cost   | 132,512              | 172,719              |
| <b>Total investments</b>  | <b>11,915,111</b>    | <b>11,524,166</b>    |
| Cash and cash equivalents   | 963,266              | 929,515              |
| Restricted cash and cash equivalents  | 122,923              | 115,840              |
| Accrued interest receivable   | 94,013               | 96,364               |
| Insurance and reinsurance premium balances receivable   | 1,880,305            | 1,343,665            |
| Reinsurance recoverable on unpaid and paid losses   | 1,688,778            | 1,577,547            |
| Deferred acquisition costs  | 498,598              | 359,300              |
| Prepaid reinsurance premiums  | 212,808              | 221,396              |
| Goodwill and intangible assets  | 102,847              | 103,231              |
| Other assets  | 195,275              | 174,707              |
| <b>Total assets</b>   | <b>\$ 17,673,924</b> | <b>\$ 16,445,731</b> |
| <b>Liabilities</b>  |                      |                      |
| Reserve for losses and loss expenses  | \$ 8,013,861         | \$ 7,032,375         |
| Unearned premiums   | 2,938,328            | 2,333,676            |
| Insurance and reinsurance balances payable  | 141,483              | 164,927              |
| Senior notes  | 994,246              | 994,110              |
| Other liabilities   | 231,523              | 275,422              |
| Net payable for investments purchased   | 164,903              | 20,251               |
| <b>Total liabilities</b>  | <b>12,484,344</b>    | <b>10,820,761</b>    |
| <b>Commitments and Contingencies</b>  |                      |                      |
| <b>Shareholders equity</b>  |                      |                      |
| Preferred shares - Series A and B   | 500,000              | 500,000              |
| Common shares (2011: 156,820; 2010: 154,912 shares issued<br>and 2011: 113,902; 2010: 112,393 shares outstanding) | 1,958                | 1,934                |
| Additional paid-in capital  | 2,074,982            | 2,059,708            |
| Accumulated other comprehensive income  | 155,192              | 176,821              |
| Retained earnings   | 3,853,076            | 4,267,608            |
| Treasury shares, at cost (2011: 42,918; 2010: 42,519 shares)  | (1,395,628)          | (1,381,101)          |

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|  |                      |               |
|--|----------------------|---------------|
| <b>Total shareholders equity</b>                 | <b>5,189,580</b>     | 5,624,970     |
| <b>Total liabilities and shareholders equity</b> | <b>\$ 17,673,924</b> | \$ 16,445,731 |

See accompanying notes to Consolidated Financial Statements.



**Table of Contents****AXIS CAPITAL HOLDINGS LIMITED****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010**

|   | 2011   | 2010              |
|---|--|-------------------|
|   | (in thousands, except for per share amounts) |                   |
| <b>Revenues</b>   |  |                   |
| Net premiums earned   | \$ 788,201                                   | \$ 696,192        |
| Net investment income   | 110,655                                      | 104,619           |
| Other insurance related income  | 763  | 626               |
| Net realized investment gains:  |  |                   |
| Other-than-temporary impairment losses  | (2,155)                                      | (6,957)           |
| Portion of impairment losses transferred to (from) other comprehensive income | 215  | 1,449             |
| Other realized investment gains   | 32,084                                       | 21,684            |
| <b>Total net realized investment gains</b>                                    | <b>30,144</b>                                | <b>16,176</b>     |
| <b>Total revenues</b>   | <b>929,763</b>                               | <b>817,613</b>    |
| <b>Expenses</b>   |  |                   |
| Net losses and loss expenses  | 1,019,801                                    | 468,262           |
| Acquisition costs   | 135,356                                      | 116,649           |
| General and administrative expenses   | 116,520                                      | 99,769            |
| Foreign exchange losses (gains)   | 15,058                                       | (8,147)           |
| Interest expense and financing costs  | 15,860                                       | 8,688             |
| <b>Total expenses</b>   | <b>1,302,595</b>                             | <b>685,221</b>    |
| <b>Income (loss) before income taxes</b>                                      | <b>(372,832)</b>                             | <b>132,392</b>    |
| Income tax expense  | 1,709  | 11,361            |
| <b>Net income (loss)</b>  | <b>(374,541)</b>                             | <b>121,031</b>    |
| Preferred share dividends   | 9,219  | 9,219             |
| <b>Net income (loss) available to common shareholders</b>                     | <b>\$ (383,760)</b>                          | <b>\$ 111,812</b> |
| <b>Per share data</b>   |  |                   |
| Net income (loss) per common share:   |  |                   |
| Basic net income (loss)   | \$ (3.39)                                    | \$ 0.87           |
| Diluted net income (loss)   | \$ (3.39)                                    | \$ 0.79           |
| Weighted average number of common shares outstanding - basic                  | 113,351                                      | 128,202           |
| Weighted average number of common shares outstanding - diluted                | 113,351                                      | 142,176           |
| Cash dividends declared per common share                                      | \$ 0.23                                      | \$ 0.21           |

See accompanying notes to Consolidated Financial Statements.

**Table of Contents****AXIS CAPITAL HOLDINGS LIMITED****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010**

|   | <b>2011</b>           | <b>2010</b>       |
|---|-----------------------|-------------------|
|   | <b>(in thousands)</b> |                   |
| Net income (loss)   | <b>\$ (374,541)</b>   | <b>\$ 121,031</b> |
| Other comprehensive income, net of tax:   |                       |                   |
| Available for sale investments:   |                       |                   |
| Unrealized gains arising during the period  | <b>12,782</b>         | 94,589            |
| Portion of other-than-temporary impairment losses recognized in other comprehensive income                                | <b>(215)</b>          | (1,449)           |
| Adjustment for re-classification of realized investment (gains) losses and net impairment losses recognized in net income | <b>(35,949)</b>       | (12,834)          |
| Foreign currency translation adjustment   | <b>1,753</b>          | (484)             |
| <b>Comprehensive income (loss)</b>  | <b>\$ (396,170)</b>   | <b>\$ 200,853</b> |

See accompanying notes to Consolidated Financial Statements.

**Table of Contents****AXIS CAPITAL HOLDINGS LIMITED****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010**

|   | 2011             | 2010             |
|---|------------------|------------------|
|   | (in thousands)   |                  |
| <b>Preferred shares - Series A and B</b>  |                  |                  |
| Balance at beginning and end of period  | \$ 500,000       | \$ 500,000       |
| <b>Common shares (par value)</b>  |                  |                  |
| Balance at beginning of period  | 1,934            | 1,903            |
| Shares issued   | 24               | 26               |
| <b>Balance at end of period</b>   | <b>1,958</b>     | <b>1,929</b>     |
| <b>Additional paid-in capital</b>   |                  |                  |
| Balance at beginning of period  | 2,059,708        | 2,014,815        |
| Shares issued   | 1,410            | 364              |
| Stock options exercised   | 3,417            | 2,414            |
| Share-based compensation expense  | 10,447           | 10,357           |
| <b>Balance at end of period</b>   | <b>2,074,982</b> | <b>2,027,950</b> |
| <b>Accumulated other comprehensive income (loss)</b>                                    |                  |                  |
| Balance at beginning of period  | 176,821          | 85,633           |
| Unrealized appreciation (depreciation) on available for sale investments, net of tax:   |                  |                  |
| Balance at beginning of period  | 161,802          | 87,438           |
| Unrealized gains (losses) arising during the period, net of reclassification adjustment | (23,167)         | 81,755           |
| Portion of other-than-temporary impairment losses                                       | (215)            | (1,449)          |
| <b>Balance at end of period</b>   | <b>138,420</b>   | <b>167,744</b>   |
| Cumulative foreign currency translation adjustments, net of tax:                        |                  |                  |
| Balance at beginning of period  | 16,829           | 803              |
| Foreign currency translation adjustment   | 1,753            | (484)            |
| <b>Balance at end of period</b>   | <b>18,582</b>    | <b>319</b>       |
| Supplemental Executive Retirement Plans (SERPs):  |                  |                  |
| Balance at beginning of period  | (1,810)          | (2,608)          |
| Net actuarial gain (loss)   | -                | -                |
| <b>Balance at end of period</b>   | <b>(1,810)</b>   | <b>(2,608)</b>   |
| <b>Balance at end of period</b>   | <b>155,192</b>   | <b>165,455</b>   |
| <b>Retained earnings</b>  |                  |                  |
| Balance at beginning of period  | 4,267,608        | 3,569,411        |

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|  |                     |                     |
|--|---------------------|---------------------|
| Net income (loss)                        | (374,541)           | 121,031             |
| Series A and B preferred share dividends | (9,219)             | (9,219)             |
| Common share dividends                   | (30,772)            | (31,453)            |
| <b>Balance at end of period</b>          | <b>3,853,076</b>    | <b>3,649,770</b>    |
| <b>Treasury shares, at cost</b>          |                     |                     |
| Balance at beginning of period           | (1,381,101)         | (671,518)           |
| Shares repurchased for treasury          | (14,527)            | (297,567)           |
| <b>Balance at end of period</b>          | <b>(1,395,628)</b>  | <b>(969,085)</b>    |
| <b>Total shareholders equity</b>         | <b>\$ 5,189,580</b> | <b>\$ 5,376,019</b> |

See accompanying notes to Consolidated Financial Statements.

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## AXIS CAPITAL HOLDINGS LIMITED

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

## FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010

|  | 2011             | 2010           |
|--|------------------|----------------|
|  | (in thousands)   |                |
| <b>Cash flows from operating activities:</b>   |                  |                |
| Net income (loss)  | \$ (374,541)     | \$ 121,031     |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                  |                |
| Net realized investment (gains) losses   | (30,144)         | (16,176)       |
| Net realized and unrealized gains of other investments                                   | (25,031)         | (16,265)       |
| Amortization of fixed maturities   | 20,134           | 8,879          |
| Other amortization and depreciation  | 3,435            | 2,153          |
| Share-based compensation expense   | 10,447           | 10,357         |
| <i>Changes in:</i>   |                  |                |
| Accrued interest receivable  | 2,351            | 5,152          |
| Reinsurance recoverable balances   | (111,231)        | (21,746)       |
| Deferred acquisition costs   | (139,298)        | (117,963)      |
| Prepaid reinsurance premiums   | 8,588            | 10,503         |
| Reserve for loss and loss expenses   | 981,486          | 195,389        |
| Unearned premiums  | 604,652          | 538,886        |
| Insurance and reinsurance balances, net  | (560,084)        | (444,000)      |
| Other items  | (113,075)        | 59,262         |
| <b>Net cash provided by operating activities</b>   | <b>277,689</b>   | <b>335,462</b> |
| <b>Cash flows from investing activities:</b>   |                  |                |
| Purchases of:  |                  |                |
| Fixed maturities   | (3,794,801)      | (2,761,817)    |
| Equity securities  | (167,697)        | (7,707)        |
| Other investments  | (45,000)         | -              |
| Short-term investments   | (163,980)        | (200,931)      |
| Proceeds from the sale of:   |                  |                |
| Fixed maturities   | 3,237,485        | 2,632,428      |
| Equity securities  | 32,903           | 8,526          |
| Other investments  | 34,222           | 44,187         |
| Short-term investments   | 125,041          | 134,102        |
| Proceeds from redemption of fixed maturities   | 469,745          | 272,128        |
| Proceeds from redemption of short-term investments                                       | 78,649           | 52,200         |
| Purchase of other assets   | (6,388)          | (1,761)        |
| Change in restricted cash and cash equivalents   | (7,083)          | (55,258)       |
| <b>Net cash (used in) provided by investing activities</b>                               | <b>(206,904)</b> | <b>116,097</b> |
| <b>Cash flows from financing activities:</b>   |                  |                |
| Net proceeds from issuance of senior notes   | -                | 494,870        |
| Repurchase of shares   | (14,527)         | (297,567)      |
| Dividends paid - common shares   | (29,320)         | (31,390)       |
| Dividends paid - preferred shares  | (9,219)          | (9,219)        |
| Proceeds from issuance of common shares  | 4,851            | 2,804          |

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|  |                   |              |
|--|-------------------|--------------|
| <b>Net cash (used in) provided by financing activities</b> | <b>(48,215)</b>   | 159,498      |
| Effect of exchange rate changes on foreign currency cash   | <b>11,181</b>     | (20,342)     |
| <b>Increase in cash and cash equivalents</b>               | <b>33,751</b>     | 590,715      |
| Cash and cash equivalents - beginning of period            | <b>929,515</b>    | 788,614      |
| <b>Cash and cash equivalents - end of period</b>           | <b>\$ 963,266</b> | \$ 1,379,329 |

See accompanying notes to Consolidated Financial Statements.

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**AXIS CAPITAL HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

**Basis of Presentation**

These interim consolidated financial statements include the accounts of AXIS Capital Holdings Limited ( AXIS Capital ) and its subsidiaries (herein referred to as we, us, our, or the Company ).

The consolidated balance sheet at March 31, 2011 and the consolidated statements of operations, comprehensive income (loss), shareholders equity and cash flows for the periods ended March 31, 2011 and 2010 have not been audited. The balance sheet at December 31, 2010 is derived from our audited financial statements.

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

The following information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010. Tabular dollar and share amounts are in thousands, except per share amounts.

**Significant Accounting Policies**

There have been no changes to our significant accounting policies as described in our Annual Report on Form 10-K for the year ended December 31, 2010.

**Adoption of New Accounting Standards**

**Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts**

Effective January 1, 2011, we prospectively adopted amended FASB guidance that modified the definition of the types of costs that can be capitalized in relation to the acquisition of new and renewal insurance contracts. The amended guidance requires costs to be incremental or directly related to the successful acquisition of new or renewal contracts in order to be capitalized as a deferred acquisition cost. Capitalized costs would include incremental direct costs, such as commissions paid to brokers. Additionally, the portion of employee salaries and benefits directly related to time spent for acquired contracts would be capitalized. Costs that fall outside the revised definition must be expensed when incurred. In accordance with the transitional provisions of this amended guidance, we elected not to capitalize acquisition costs that we did not previously capitalize, namely those costs related to employee salaries and benefits. The adoption of this guidance did not impact our results of operations, financial condition or liquidity.

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Our underwriting operations are organized around our two global underwriting platforms, AXIS Insurance and AXIS Re. 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.

The following tables summarize the underwriting results of our reportable segments for the periods indicated and the carrying values of goodwill and intangible assets at March 31, 2011 and 2010:

| Three months ended March 31,             | 2011               |                     |                     | 2010             |                   |                   |
|--|--------------------|---------------------|---------------------|------------------|-------------------|-------------------|
|  | Insurance          | Reinsurance         | Total               | Insurance        | Reinsurance       | Total             |
| Gross premiums written                   | \$ 424,991         | \$ 1,123,439        | \$ 1,548,430        | \$ 372,929       | \$ 1,052,272      | \$ 1,425,201      |
| Net premiums written                     | 289,316            | 1,111,463           | 1,400,779           | 206,812          | 1,036,823         | 1,243,635         |
| Net premiums earned                      | 327,648            | 460,553             | 788,201             | 256,281          | 439,911           | 696,192           |
| Other insurance related income           | 763                | -                   | 763                 | 626              | -                 | 626               |
| Net losses and loss expenses             | (266,633)          | (753,168)           | (1,019,801)         | (130,703)        | (337,559)         | (468,262)         |
| Acquisition costs                        | (42,079)           | (93,277)            | (135,356)           | (31,141)         | (85,508)          | (116,649)         |
| General and administrative expenses      | (67,726)           | (27,386)            | (95,112)            | (61,610)         | (21,851)          | (83,461)          |
| <b>Underwriting income (loss)</b>        | <b>\$ (48,027)</b> | <b>\$ (413,278)</b> | <b>(461,305)</b>    | <b>\$ 33,453</b> | <b>\$ (5,007)</b> | <b>28,446</b>     |
| Corporate expenses                       |                    |                     | (21,408)            |                  |                   | (16,308)          |
| Net investment income                    |                    |                     | 110,655             |                  |                   | 104,619           |
| Net realized investment gains            |                    |                     | 30,144              |                  |                   | 16,176            |
| Foreign exchange (losses) gains          |                    |                     | (15,058)            |                  |                   | 8,147             |
| Interest expense and financing costs     |                    |                     | (15,860)            |                  |                   | (8,688)           |
| <b>Income (loss) before income taxes</b> |                    |                     | <b>\$ (372,832)</b> |                  |                   | <b>\$ 132,392</b> |
| Net loss and loss expense ratio          | 81.4%              | 163.5%              | 129.4%              | 51.0%            | 76.7%             | 67.3%             |
| Acquisition cost ratio                   | 12.8%              | 20.3%               | 17.1%               | 12.2%            | 19.4%             | 16.7%             |
| General and administrative expense ratio | 20.7%              | 5.9%                | 14.8%               | 24.0%            | 5.0%              | 14.3%             |
| <b>Combined ratio</b>                    | <b>114.9%</b>      | <b>189.7%</b>       | <b>161.3%</b>       | <b>87.2%</b>     | <b>101.1%</b>     | <b>98.3%</b>      |
| <b>Goodwill and intangible assets</b>    | <b>\$ 102,847</b>  | <b>\$ -</b>         | <b>\$ 102,847</b>   | <b>\$ 91,271</b> | <b>\$ -</b>       | <b>\$ 91,271</b>  |



**Table of Contents****AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****3. INVESTMENTS****a) Fixed Maturities and Equities**

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

|                               | Amortized<br>Cost or<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value        | Non-credit<br>OTTI<br>in<br>AOCI <sup>(5)</sup> |
|-------------------------------|------------------------------|------------------------------|-------------------------------|----------------------|---|
| <b>At March 31, 2011</b>      |                              |                              |                               |                      |   |
| <b>Fixed maturities</b>       |                              |                              |                               |                      |   |
| U.S. government and agency    | \$ 1,068,362                 | \$ 2,764                     | \$ (2,176)                    | \$ 1,068,950         | \$ -  |
| Non-U.S. government           | 822,952                      | 18,497                       | (3,110)                       | 838,339              | -   |
| Corporate debt                | 3,963,915                    | 108,577                      | (19,808)                      | 4,052,684            | -   |
| Agency RMBS <sup>(1)</sup>    | 2,608,846                    | 38,574                       | (24,723)                      | 2,622,697            | -   |
| CMBS <sup>(2)</sup>           | 460,320                      | 23,460                       | (1,534)                       | 482,246              | -   |
| Non-Agency RMBS               | 231,382                      | 3,545                        | (7,290)                       | 227,637              | (6,855)   |
| ABS <sup>(3)</sup>            | 660,796                      | 11,837                       | (15,014)                      | 657,619              | (568)   |
| Municipals <sup>(4)</sup>     | 774,725                      | 10,006                       | (8,513)                       | 776,218              | (350)   |
| <b>Total fixed maturities</b> | <b>\$ 10,591,298</b>         | <b>\$ 217,260</b>            | <b>\$ (82,168)</b>            | <b>\$ 10,726,390</b> | <b>\$ (7,773)</b>                               |
| <b>Equity securities</b>      | <b>\$ 466,429</b>            | <b>\$ 41,524</b>             | <b>\$ (5,857)</b>             | <b>\$ 502,096</b>    |   |
| <b>At December 31, 2010</b>   |                              |                              |                               |                      |   |
| <b>Fixed maturities</b>       |                              |                              |                               |                      |   |
| U.S. government and agency    | \$ 856,711                   | \$ 7,101                     | \$ (3,692)                    | \$ 860,120           | \$ -  |
| Non-U.S. government           | 777,236                      | 9,321                        | (13,759)                      | 772,798              | -   |
| Corporate debt                | 4,054,048                    | 144,956                      | (36,096)                      | 4,162,908            | -   |
| Agency RMBS                   | 2,571,124                    | 43,160                       | (20,702)                      | 2,593,582            | -   |
| CMBS                          | 454,288                      | 21,998                       | (1,501)                       | 474,785              | -   |
| Non-Agency RMBS               | 252,460                      | 3,287                        | (11,545)                      | 244,202              | (7,443)   |
| ABS                           | 668,037                      | 8,856                        | (15,050)                      | 661,843              | (1,275)   |
| Municipals                    | 712,339                      | 11,870                       | (11,550)                      | 712,659              | (350)   |
| <b>Total fixed maturities</b> | <b>\$ 10,346,243</b>         | <b>\$ 250,549</b>            | <b>\$ (113,895)</b>           | <b>\$ 10,482,897</b> | <b>\$ (9,068)</b>                               |
| <b>Equity securities</b>      | <b>\$ 327,207</b>            | <b>\$ 26,761</b>             | <b>\$ (4,714)</b>             | <b>\$ 349,254</b>    |   |

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- (1) Residential mortgage-backed securities (RMBS) originated by U.S. agencies.
- (2) Commercial mortgage-backed securities (CMBS).
- (3) Asset-backed securities (ABS) include debt tranching securities collateralized primarily by auto loans, student loans, credit cards, and other asset types. This asset class also includes an insignificant position in collateralized loan obligations (CLOs) and collateralized debt obligations (CDOs).
- (4) Includes bonds issued by states, municipalities, and political subdivisions.
- (5) Represents the non-credit component of the other-than-temporary impairment (OTTI) losses, adjusted for subsequent sales of securities. It does not include the change in fair value subsequent to the impairment measurement date.

In the normal course of investing activities, we actively manage allocations to non-controlling tranches of structured securities (variable interests) issued by VIEs. These structured securities include RMBS, CMBS and ABS and are included in the above table. Additionally, within our other investments portfolio, we also invest in limited partnerships (hedge and credit funds) and CLO equity tranching securities, which are all variable interests issued by VIEs (see Note 3(b)). For these variable interests, we do not have the power to direct the activities that are most significant to the economic performance of the VIEs and accordingly we are not the primary beneficiary for any of these VIEs. Our maximum exposure to loss on these interests is limited to the amount of our investment. We have not provided financial or other support with respect to these structured securities other than our original investment.

**Table of Contents****AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****3. INVESTMENTS (CONTINUED)**Gross Unrealized Loss

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

|                               | 12 months or greater |                    | Less than 12 months |                    | Total               |                     |
|-------------------------------|----------------------|--------------------|---------------------|--------------------|---------------------|---------------------|
|                               | Fair Value           | Unrealized Losses  | Fair Value          | Unrealized Losses  | Fair Value          | Unrealized Losses   |
| <b>At March 31, 2011</b>      |                      |                    |                     |                    |                     |                     |
| <b>Fixed maturities</b>       |                      |                    |                     |                    |                     |                     |
| U.S. government and agency    | \$ -                 | \$ -               | \$ 556,922          | \$ (2,176)         | \$ 556,922          | \$ (2,176)          |
| Non-U.S. government           | 42,367               | (1,370)            | 123,240             | (1,740)            | 165,607             | (3,110)             |
| Corporate debt                | 116,387              | (3,802)            | 1,103,781           | (16,006)           | 1,220,168           | (19,808)            |
| Agency RMBS                   | 750                  | (11)               | 1,446,973           | (24,712)           | 1,447,723           | (24,723)            |
| CMBS                          | 590                  | (4)                | 77,332              | (1,530)            | 77,922              | (1,534)             |
| Non-Agency RMBS               | 79,201               | (7,041)            | 24,159              | (249)              | 103,360             | (7,290)             |
| ABS                           | 40,584               | (12,895)           | 159,157             | (2,119)            | 199,741             | (15,014)            |
| Municipals                    | 12,622               | (1,624)            | 289,946             | (6,889)            | 302,568             | (8,513)             |
| <b>Total fixed maturities</b> | <b>\$ 292,501</b>    | <b>\$ (26,747)</b> | <b>\$ 3,781,510</b> | <b>\$ (55,421)</b> | <b>\$ 4,074,011</b> | <b>\$ (82,168)</b>  |
| <b>Equity securities</b>      | <b>\$ 5,250</b>      | <b>\$ (609)</b>    | <b>\$ 50,968</b>    | <b>\$ (5,248)</b>  | <b>\$ 56,218</b>    | <b>\$ (5,857)</b>   |
| <b>At December 31, 2010</b>   |                      |                    |                     |                    |                     |                     |
| <b>Fixed maturities</b>       |                      |                    |                     |                    |                     |                     |
| U.S. government and agency    | \$ -                 | \$ -               | \$ 453,207          | \$ (3,692)         | \$ 453,207          | \$ (3,692)          |
| Non-U.S. government           | 83,572               | (6,062)            | 302,431             | (7,697)            | 386,003             | (13,759)            |
| Corporate debt                | 160,161              | (13,123)           | 1,087,683           | (22,973)           | 1,247,844           | (36,096)            |
| Agency RMBS                   | 735                  | (42)               | 1,308,690           | (20,660)           | 1,309,425           | (20,702)            |
| CMBS                          | 1,164                | (59)               | 48,701              | (1,442)            | 49,865              | (1,501)             |
| Non-Agency RMBS               | 100,074              | (10,030)           | 57,095              | (1,515)            | 157,169             | (11,545)            |
| ABS                           | 40,617               | (12,871)           | 155,491             | (2,179)            | 196,108             | (15,050)            |
| Municipals                    | 23,681               | (3,118)            | 288,130             | (8,432)            | 311,811             | (11,550)            |
| <b>Total fixed maturities</b> | <b>\$ 410,004</b>    | <b>\$ (45,305)</b> | <b>\$ 3,701,428</b> | <b>\$ (68,590)</b> | <b>\$ 4,111,432</b> | <b>\$ (113,895)</b> |
| <b>Equity securities</b>      | <b>\$ 4,347</b>      | <b>\$ (601)</b>    | <b>\$ 122,317</b>   | <b>\$ (4,113)</b>  | <b>\$ 126,664</b>   | <b>\$ (4,714)</b>   |

Fixed Maturities

At March 31, 2011, 1,098 fixed maturities (2010: 1,150) were in an unrealized loss position of \$82 million (2010: \$114 million) of which \$15 million (2010: \$15 million) of this balance was related to securities below investment grade or not rated.

At March 31, 2011, 167 (2010: 206) securities have been in continuous unrealized loss position for 12 months or greater and have a fair value of \$293 million (2010: \$410 million). These securities were primarily non-agency RMBS and ABS with a weighted average S&P credit rating of A- and BBB-, respectively while at December 31, 2010, the securities were primarily corporate debt, non-agency RMBS and ABS with a weighted average S&P credit rating of A+, A- and BBB-, respectively. We concluded that these securities as well as the remaining securities in an unrealized loss position are temporarily depressed and are expected to recover in value as the securities approach maturity. Further, at March 31, 2011, we did not intend to sell these securities in an unrealized loss position and it is more likely than not that we will not be required to sell these securities before the anticipated recovery of their amortized costs.

**Table of Contents****AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****3. INVESTMENTS (CONTINUED)****Equity Securities**

At March 31, 2011, 59 securities (2010: 71) were in an unrealized loss position and 12 of these securities (2010: 12) have been in a continuous unrealized loss position for 12 months or greater. Based on our OTTI quarterly review process and our ability and intent to hold these securities for a reasonable period of time sufficient for a full recovery, we concluded that the above equities in an unrealized loss position were temporarily impaired at March 31, 2011 and December 31, 2010.

**b) Other Investments**

The table below shows our portfolio of other investments reported at fair value:

|                                   | <b>March 31, 2011</b> |               | <b>December 31, 2010</b> |        |
|-----------------------------------|-----------------------|---------------|--------------------------|--------|
| Funds of hedge funds              | <b>\$ 238,519</b>     | <b>43.0%</b>  | \$ 235,240               | 45.3%  |
| Hedge funds                       | <b>151,125</b>        | <b>27.3%</b>  | 123,036                  | 23.7%  |
| Long/short credit                 | <b>80,809</b>         | <b>14.6%</b>  | 82,846                   | 16.0%  |
| Distressed securities             | <b>23,399</b>         | <b>4.2%</b>   | 21,911                   | 4.2%   |
| CLO - equity tranching securities | <b>60,261</b>         | <b>10.9%</b>  | 56,263                   | 10.8%  |
| <b>Total other investments</b>    | <b>\$ 554,113</b>     | <b>100.0%</b> | \$ 519,296               | 100.0% |

The major categories and related investment strategies for our investments in hedge and credit funds are as follows:

| <b>Types of funds</b> | <b>Investment Strategy</b>   |
|-----------------------|--|
| Funds of hedge funds  | Seek to achieve attractive risk-adjusted returns by investing in a large pool of hedge funds across a diversified range of hedge fund strategies.  |
| Hedge funds           | Seek to achieve attractive risk-adjusted returns primarily through multi-strategy and long/short equity approaches. Multi-strategy funds invest in a variety of asset classes on a long and short basis and may employ leverage. Long/short equity funds invest primarily in equity securities (or derivatives) on a long and short basis and may employ leverage. |
| Long/short credit     | Seek to achieve attractive risk-adjusted returns by executing a credit trading strategy involving selecting long and short positions in primarily below investment-grade credit.   |

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Distressed securities      Seek to achieve attractive risk-adjusted returns by executing a strategy which assesses the issuer's ability to improve its operations and often attempts to influence the process by which the issuer restructures its debt.

In aggregate, our hedge funds (including funds of hedge funds) are redeemable within one year, subject to prior written redemption notice varying from 45 to 95 days. This includes recognition of certain funds we hold which restrict new investor redemptions during a lock-up period. A lock-up period is the initial amount of time an investor is contractually required to hold the security before having the ability to redeem. Another common restriction is the suspension of redemptions (known as "gates") which may be implemented by the general partner or investment manager of the fund in order to defer, in whole or in part, the redemption request in the event the aggregate amount of redemption requests exceeds a predetermined percentage of the fund's net assets or to prevent certain adverse regulatory, or any other reasons that may render the manager unable to promptly and accurately calculate the fund's net asset value. During the three months ended March 31, 2011, no gates were imposed on our redemption requests. Additionally, certain hedge funds may be allowed to invest a portion of their assets in illiquid securities, such as private equity or convertible debt. In such cases, a common mechanism used is a side-pocket, whereby the illiquid security is assigned to a designated account. Generally, the investor loses its redemption rights in the designated account. Only when the illiquid security is sold, or otherwise deemed liquid by the fund,

**Table of Contents****AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****3. INVESTMENTS (CONTINUED)**

may investors redeem their interest. At March 31, 2011, the fair value of our hedge funds held in side-pockets was \$4 million (2010: \$4 million). At March 31, 2011 and December 31, 2010, redemptions receivable were insignificant.

At March 31, 2011, we had \$43 million (2010: \$46 million) of a long/short credit fund that we do not have the ability to liquidate at our own discretion as the fund is beyond its investment period and is currently distributing capital to its investors. Of the remaining credit fund holdings (long/short credit and distressed securities), 32% (2010: 32%) of the carrying value has annual or semi-annual liquidity and 68% (2010: 68%) has quarterly liquidity, subject to prior written redemption notice varying from 65 to 95 days. At March 31, 2011 and December 31, 2010, none of our credit funds had established side-pockets.

At March 31, 2011, we have no unfunded commitments relating to our investments in hedge and credit funds.

**c) Net Investment Income**

Net investment income was derived from the following sources:

| <b>Three months ended March 31,</b> | <b>2011</b>       | <b>2010</b>       |
|-------------------------------------|-------------------|-------------------|
| Fixed maturities                    | \$ 88,581         | \$ 91,118         |
| Other investments                   | 25,311            | 16,265            |
| Cash and cash equivalents           | 2,153             | 1,735             |
| Equities                            | 824               | 588               |
| Short-term investments              | 387               | 220               |
| <b>Gross investment income</b>      | <b>117,256</b>    | <b>109,926</b>    |
| Investment expenses                 | (6,601)           | (5,307)           |
| <b>Net investment income</b>        | <b>\$ 110,655</b> | <b>\$ 104,619</b> |

**d) Net Realized Investment Gains (Losses)**

The following table provides an analysis of net realized investment gains (losses):

| <b>Three months ended March 31,</b> | <b>2011</b> | <b>2010</b> |
|-------------------------------------|-------------|-------------|
|-------------------------------------|-------------|-------------|

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|   |                  |                  |
|---|------------------|------------------|
| Gross realized gains  | \$ 76,332        | \$ 59,963        |
| Gross realized losses   | (38,413)         | (41,338)         |
| Net OTTI recognized in earnings                               | (1,940)          | (5,508)          |
| Net realized gains on fixed maturities and equities           | 35,979           | 13,117           |
| Change in fair value of investment derivatives <sup>(1)</sup> | (9,100)          | (158)            |
| Fair value hedges: <sup>(1)</sup>                             |                  |                  |
| Derivative instruments  | (30,481)         | 34,927           |
| Hedged investments  | 33,746           | (31,710)         |
| <b>Net realized investment gains</b>                          | <b>\$ 30,144</b> | <b>\$ 16,176</b> |

(1) Refer to Note 6 Derivative Instruments



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The following table summarizes the OTTI recognized in earnings by asset class:

| Three months ended March 31,             | 2011            | 2010            |
|--|-----------------|-----------------|
| <b>Fixed maturities:</b>                 |                 |                 |
| Corporate debt                           | \$ 1,026        | \$ 1,650        |
| Non-Agency RMBS                          | 370             | 1,064           |
| ABS                                      | 61              | 1,126           |
| Municipals                               | 483             | -               |
|  | <b>1,940</b>    | <b>3,840</b>    |
| <b>Equities</b>                          | <b>-</b>        | <b>1,668</b>    |
| <b>Total OTTI recognized in earnings</b> | <b>\$ 1,940</b> | <b>\$ 5,508</b> |

The following table provides a roll forward of the credit losses, ( credit loss table ), before income taxes, for which a portion of the OTTI was recognized in AOCI:

| Three months ended March 31,   | 2011            | 2010              |
|--|-----------------|-------------------|
| Balance at beginning of period   | \$ 57,498       | \$ 162,390        |
| Credit impairments recognized on securities not previously impaired        | -               | 344               |
| Additional credit impairments recognized on securities previously impaired | (96)            | 587               |
| Change in recoveries of future cash flows expected to be collected         | (5)             | 485               |
| Securities sold/redeemed/matured   | (48,022)        | (5,963)           |
| <b>Balance at end of period</b>  | <b>\$ 9,375</b> | <b>\$ 157,843</b> |

For the three months ended March 31, 2011, there were no significant credit loss events. The \$48 million decrease in the above table for the first quarter of 2011 was primarily driven by the maturity of one medium-term note that was previously impaired in 2009. This security matured with a realized gain of \$14 million.

**4. FAIR VALUE MEASUREMENTS****Fair Value Hierarchy**

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Fair value is defined as the price to sell an asset or transfer a liability (i.e. the exit price ) in an orderly transaction between market participants. We use a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The hierarchy is broken down into three levels as follows:

Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.

Level 2 Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

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

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**AXIS CAPITAL HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**4. FAIR VALUE MEASUREMENTS (CONTINUED)**

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment.

Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This may lead us to change the selection of our valuation technique (from market to cash flow approach) or may cause us to use multiple valuation techniques to estimate the fair value of a financial instrument. This circumstance could cause an instrument to be reclassified between levels.

We used the following valuation techniques and assumptions in estimating the fair value of our financial instruments as well as the general classification of such financial instruments pursuant to the above fair value hierarchy.

**Fixed Maturities**

At each valuation date, we use the market approach valuation technique to estimate the fair value of our fixed maturities portfolio, when possible. This market approach includes, but is not limited to, prices obtained from third party pricing services for identical or comparable securities and the use of pricing matrix models using observable market inputs such as yield curves, credit risks and spreads, measures of volatility, and prepayment speeds. Pricing from third party pricing services is sourced from multiple vendors, and we maintain a vendor hierarchy by asset type based on historical pricing experience and vendor expertise.

The following describes the significant inputs generally used to determine the fair value of our fixed maturities by asset class.

*U.S. government and agency*

U.S. government and agency securities consist primarily of bonds issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. As the fair values of our U.S. Treasury securities are based on unadjusted market prices in active markets, they are classified within Level 1. The fair values of U.S. government agency securities are priced using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of U.S. government agency securities are classified within Level 2.

*Non-U.S. government*

Non-U.S. government securities comprise bonds issued by non-U.S. governments and their agencies along with supranational organizations (also known as sovereign debt securities). The fair value of these securities is based on prices obtained from international indices or a valuation model that includes the following inputs: interest rate yield curves, cross-currency basis index spreads, and country credit spreads for structures similar to the sovereign bond in terms of issuer, maturity and seniority. As the significant inputs are observable market inputs, the fair value of non-U.S. government securities are classified within Level 2.

*Corporate debt*

Corporate debt securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are generally determined using the spread above the risk-free yield curve. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As these spreads and the yields for the risk-free yield curve are observable market inputs, the fair values of our corporate debt securities are classified within Level 2. Where pricing is unavailable from pricing services, we obtain

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non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, securities are classified within Level 3 and consisted of private corporate debt securities at March 31, 2011.

### *MBS*

Our portfolio of RMBS and CMBS are originated by both agencies and non-agencies. The fair values of these securities are determined through the use of a pricing model (including Option Adjusted Spread) which uses prepayment speeds and spreads to determine the appropriate average life of the MBS. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As the significant inputs used to price MBS are observable market inputs, the fair values of the MBS are classified within Level 2. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. These securities are classified within Level 3.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**4. FAIR VALUE MEASUREMENTS (CONTINUED)**

*ABS*

ABS include mostly investment-grade bonds backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loan receivables, credit card receivables, and CLO debt tranch securities originated by a variety of financial institutions. Similarly to MBS, the fair values of ABS are priced through the use of a model which uses prepayment speeds and spreads sourced primarily from the new issue market. As the significant inputs used to price ABS are observable market inputs, the fair values of ABS are classified within Level 2. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers or use a discounted cash flow model to estimate fair value. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. At March 31, 2011, the use of a discounted cash flow model was limited to our investment in CLO debt tranch securities and included the following significant inputs: default and loss severity rates, collateral spreads, and risk free yield curves, which have not changed since December 31, 2010. As most of these inputs are unobservable, these securities are classified within Level 3.

*Municipals*

Our municipal portfolio comprises bonds issued by U.S. domiciled state and municipality entities. The fair value of these securities is determined using spreads obtained from broker-dealers, trade prices and the new issue market. As the significant inputs used to price the municipals are observable market inputs, municipals are classified within Level 2.

**Equity Securities**

Equity securities include U.S. and foreign common stocks as well as a foreign bond mutual fund. For common stocks we classified these within Level 1 as their fair values are based on quoted market prices in active markets. Our investment in the foreign bond mutual fund has daily liquidity, with redemption based on the net asset value of the fund. Accordingly, we have classified this investment as Level 2.

**Other Investments**

As a practical expedient, we estimate fair values for hedge and credit funds using net asset values as advised by external fund managers or third party administrators. As our investment in hedge and credit funds have redemption restrictions (see Note 3 for further details), we have classified these investments as Level 3.

CLO Equities were classified within Level 3 as we estimated the fair value for these securities using an income approach valuation technique (internal discounted cash flow model) due to the lack of observable, relevant trades in the secondary markets. At March 31, 2011, we have not changed our significant inputs (default rates, loss severity rate and estimated maturity dates) in our valuation model since December 31, 2010.

**Derivative Instruments**

Our foreign currency forward contracts and options are customized to our hedging strategies and trade in the over-the-counter derivative market. We use the market approach valuation technique to estimate the fair value for these derivatives based on significant observable market inputs from third party pricing vendors, non-binding broker-dealer quotes and/or recent trading activity. Accordingly, we classified these derivatives within Level 2.

**Table of Contents****AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****4. FAIR VALUE MEASUREMENTS (CONTINUED)**

The table below presents the financial instruments measured at fair value on a recurring basis.

|                                | Quoted Prices in<br>Active Markets for<br>Identical Assets<br><br>(Level 1) | Significant<br>Other Observable<br>Inputs<br><br>(Level 2) | Significant<br>Unobservable<br>Inputs<br><br>(Level 3) | Total Fair<br>Value  |
|--------------------------------|---|--|--|----------------------|
| <b>At March 31, 2011</b>       |   |  |  |                      |
| <b>Assets</b>                  |   |  |  |                      |
| Fixed maturities               |   |  |  |                      |
| U.S. government and agency     | \$ 831,638  | \$ 237,312   | \$ -   | \$ 1,068,950         |
| Non-U.S. government            | -   | 838,339  | -  | 838,339              |
| Corporate debt                 | -   | 4,051,134  | 1,550  | 4,052,684            |
| Agency RMBS                    | -   | 2,622,697  | -  | 2,622,697            |
| CMBS                           | -   | 482,246  | -  | 482,246              |
| Non-Agency RMBS                | -   | 216,031  | 11,606   | 227,637              |
| ABS                            | -   | 614,441  | 43,178   | 657,619              |
| Municipals                     | -   | 776,218  | -  | 776,218              |
|                                | 831,638   | 9,838,418  | 56,334   | 10,726,390           |
| Equity securities              | 421,757   | 80,339   | -  | 502,096              |
| Other investments              | -   | -  | 554,113  | 554,113              |
| Other assets (see Note 6)      | -   | 19,575   | -  | 19,575               |
| <b>Total</b>                   | <b>\$ 1,253,395</b>   | <b>\$ 9,938,332</b>  | <b>\$ 610,447</b>                                      | <b>\$ 11,802,174</b> |
| <b>Liabilities</b>             |   |  |  |                      |
| Other liabilities (see Note 6) | \$ -  | \$ 29,552  | \$ -   | \$ 29,552            |
| <b>At December 31, 2010</b>    |   |  |  |                      |
| <b>Assets</b>                  |   |  |  |                      |
| Fixed maturities               |   |  |  |                      |
| U.S. government and agency     | \$ 588,281  | \$ 271,839   | \$ -   | \$ 860,120           |
| Non-U.S. government            | -   | 772,798  | -  | 772,798              |
| Corporate debt                 | -   | 4,161,358  | 1,550  | 4,162,908            |
| Agency RMBS                    | -   | 2,593,582  | -  | 2,593,582            |
| CMBS                           | -   | 474,785  | -  | 474,785              |
| Non-Agency RMBS                | -   | 224,524  | 19,678   | 244,202              |
| ABS                            | -   | 618,665  | 43,178   | 661,843              |
| Municipals                     | -   | 712,659  | -  | 712,659              |
|                                | 588,281   | 9,830,210  | 64,406   | 10,482,897           |

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|                                |                   |                     |                   |                      |
|--------------------------------|-------------------|---------------------|-------------------|----------------------|
| Equity securities              | 271,451           | 77,803              | -                 | 349,254              |
| Other investments              | -                 | -                   | 519,296           | 519,296              |
| Other assets (see Note 6)      | -                 | 6,641               | -                 | 6,641                |
| <b>Total</b>                   | <b>\$ 859,732</b> | <b>\$ 9,914,654</b> | <b>\$ 583,702</b> | <b>\$ 11,358,088</b> |
| <b><u>Liabilities</u></b>      |                   |                     |                   |                      |
| Other liabilities (see Note 6) | \$ -              | \$ 14,986           | \$ -              | \$ 14,986            |

During 2011 and 2010, we had no transfers between Levels 1 and 2.

**Table of Contents****AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****4. FAIR VALUE MEASUREMENTS (CONTINUED)**Level 3 financial instruments

The following tables present changes in Level 3 for financial instruments measured at fair value on a recurring basis for the periods indicated:

|  | Corporate<br>Debt | CMBS | Fixed Maturities<br>Non-Agency<br>RMBS | ABS       | Total     | Other<br>Investments | Total<br>Assets |
|--|-------------------|------|--|-----------|-----------|----------------------|-----------------|
| <b>Three months ended March 31, 2011</b>                                       |                   |      |  |           |           |                      |                 |
| <b>Balance at beginning of period</b>  | \$ 1,550          | \$ - | \$ 19,678                              | \$ 43,178 | \$ 64,406 | \$ 519,296           | \$ 583,702      |
| Total net realized and unrealized gains included in net income <sup>(1)</sup>  | -                 | -    | -                                      | -         | -         | 25,031               | 25,031          |
| Total net realized and unrealized losses included in net income <sup>(1)</sup> | -                 | -    | -                                      | -         | -         | -                    | -               |
| Change in net unrealized gains included in other comprehensive income          | -                 | -    | 54                                     | -         | 54        | -                    | 54              |
| Change in net unrealized losses included in other comprehensive income         | -                 | -    | -                                      | -         | -         | -                    | -               |
| Purchases  | -                 | -    | -                                      | -         | -         | 45,000               | 45,000          |
| Sales  | -                 | -    | -                                      | -         | -         | (27,063)             | (27,063)        |
| Settlements / distributions  | -                 | -    | (617)                                  | -         | (617)     | (8,151)              | (8,768)         |
| Transfers into Level 3   | -                 | -    | -                                      | -         | -         | -                    | -               |
| Transfers out of Level 3   | -                 | -    | (7,509)                                | -         | (7,509)   | -                    | (7,509)         |
| <b>Balance at end of period</b>  | \$ 1,550          | \$ - | \$ 11,606                              | \$ 43,178 | \$ 56,334 | \$ 554,113           | \$ 610,447      |

|  |      |      |      |      |      |           |           |
|--|------|------|------|------|------|-----------|-----------|
| <b>Level 3 gains / losses included in earnings attributable to the change in unrealized gains / losses relating to those assets held at the reporting date</b> | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 25,263 | \$ 25,263 |
|--|------|------|------|------|------|-----------|-----------|

**Three months ended March 31, 2010**

|  |           |          |          |           |           |            |            |
|--|-----------|----------|----------|-----------|-----------|------------|------------|
| <b>Balance at beginning of period</b>  | \$ 18,130 | \$ 2,409 | \$ 6,639 | \$ 43,585 | \$ 70,763 | \$ 520,188 | \$ 590,951 |
| Total net realized and unrealized gains included in net income <sup>(1)</sup>  | -         | -        | -        | -         | -         | 14,902     | 14,902     |
| Total net realized and unrealized losses included in net income <sup>(1)</sup> | (1,550)   | -        | -        | -         | (1,550)   | -          | (1,550)    |
| Change in net unrealized gains included in other comprehensive income          | 1,623     | 32       | 274      | 106       | 2,035     | -          | 2,035      |
| Change in net unrealized losses included in other comprehensive income         | (34)      | (238)    | (20)     | (24)      | (316)     | -          | (316)      |
| Purchases  | -         | 3,474    | -        | 4,000     | 7,474     | -          | 7,474      |
| Sales  | -         | -        | -        | -         | -         | (42,593)   | (42,593)   |
| Settlements / distributions  | -         | (111)    | (353)    | (4)       | (468)     | (5,031)    | (5,499)    |
| Transfers into Level 3   | -         | -        | 780      | -         | 780       | -          | 780        |
| Transfers out of Level 3   | -         | (2,119)  | (3,900)  | -         | (6,019)   | -          | (6,019)    |



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|  |            |          |          |           |            |            |            |
|--|------------|----------|----------|-----------|------------|------------|------------|
| <b>Balance at end of period</b>  | \$ 18,169  | \$ 3,447 | \$ 3,420 | \$ 47,663 | \$ 72,699  | \$ 487,466 | \$ 560,165 |
| <b>Level 3 gains / losses included in earnings attributable to the change in unrealized gains / losses relating to those assets held at the reporting date</b> | \$ (1,550) | \$ -     | \$ -     | \$ -      | \$ (1,550) | \$ 14,902  | \$ 13,352  |

(1) Realized gains and losses on fixed maturities are included in net realized investment gains (losses). Realized gains and (losses) on other investments are included in net investment income.

**Table of Contents****AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****4. FAIR VALUE MEASUREMENTS (CONTINUED)****Transfers into Level 3 from Level 2**

The transfers to Level 3 from Level 2 made in 2010 were due to a reduction in the volume of recently executed transactions or a lack of available quotes from pricing vendors and broker-dealers. None of the transfers were as a result of changes in valuation methodology that we made.

**Transfers out of Level 3 into Level 2**

The transfers to Level 2 from Level 3 made in 2010 and 2011 were primarily due to the availability of observable market inputs and multiple quotes from pricing vendors and broker-dealers as a result of the return of liquidity in the credit markets.

**Fair Values of Financial Instruments**

The carrying amount of financial assets and liabilities presented on the Consolidated Balance Sheets as at March 31, 2011, and December 31, 2010 approximated their fair values with the exception of senior notes. At March 31, 2011, the senior notes are recorded at amortized cost with a carrying value of \$994 million (2010: \$994 million) and have a fair value of \$1,037 million (2010: \$1,018 million).

**5. RESERVE FOR LOSSES AND LOSS EXPENSES**

The following table shows a reconciliation of our beginning and ending gross unpaid losses and loss expenses for the periods indicated:

| <b>Three months ended March 31,</b>                                | <b>2011</b>  | <b>2010</b>  |
|--|--------------|--------------|
| Gross reserve for losses and loss expenses, beginning of period    | \$ 7,032,375 | \$ 6,564,133 |
| Less reinsurance recoverable on unpaid losses, beginning of period | (1,540,633)  | (1,381,058)  |
| Net reserve for losses and loss expenses, beginning of period      | 5,491,742    | 5,183,075    |
| Net incurred losses related to:                                    |              |              |
| Current year   | 1,069,505    | 549,728      |
| Prior years  | (49,704)     | (81,466)     |
|  | 1,019,801    | 468,262      |
| Net paid losses related to:  |              |              |
| Current year   | (13,640)     | (11,306)     |
| Prior years  | (213,147)    | (249,727)    |

|  |                     |                     |
|--|---------------------|---------------------|
|  | <b>(226,787)</b>    | (261,033)           |
| Foreign exchange and other                                       | <b>62,690</b>       | (58,144)            |
| Net reserve for losses and loss expenses, end of period          | <b>6,347,446</b>    | 5,332,160           |
| Reinsurance recoverable on unpaid losses, end of period          | <b>1,666,415</b>    | 1,427,362           |
| <b>Gross reserve for losses and loss expenses, end of period</b> | <b>\$ 8,013,861</b> | <b>\$ 6,759,522</b> |

We write business with loss experience generally characterized as low frequency and high severity in nature, which results in volatility in our financial results. During the three months ended March 31, 2011, we recognized net loss and loss expenses of \$204 million and \$289 million, respectively, in relation to the Christchurch, New Zealand and Japanese earthquakes. Our estimated net losses in relation to these events were derived from ground-up assessments of our in-force contracts and treaties providing coverage in the affected regions and are consistent with our market shares in those regions. We also considered current industry insured loss estimates, market share analyses and catastrophe modeling analyses, when appropriate, in addition to the information available to date from clients, brokers and loss adjusters. Industry-wide insured loss estimates for these events, as well as our own estimates remain subject to change as additional actual loss data becomes available. Actual losses in relation to these events may ultimately differ materially from current loss estimates.

**Table of Contents****AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****5. RESERVE FOR LOSSES AND LOSS EXPENSES (CONTINUED)**

The proximity of the Japanese earthquake to our reporting date means that very limited information is yet available to us, inherently increasing the amount of management judgment required to arrive at our estimate of net losses and the associated uncertainty. In addition, a number of other factors limit our ability to accurately estimate the quantum of losses associated with this event including, but not limited to, the magnitude of the event and associated damage, uncertainties about the extent and nature of damages and corresponding coverages (including business interruption and contingent business interruption coverages), the ultimate size of losses to be assumed by Japan's cooperative mutuals and limitations associated with modeled losses.

Net losses and loss expenses incurred include net favorable prior year reserve development of \$50 million and \$81 million for the three months ended March 31, 2011 and 2010, respectively. Prior year reserve development arises from changes to loss estimates recognized in the current year that relate to losses incurred in previous calendar years.

The following table summarizes net favorable reserve development by segment:

| <b>Three months ended March 31,</b> | <b>2011</b>      | <b>2010</b> |
|-------------------------------------|------------------|-------------|
| Insurance                           | <b>\$ 14,728</b> | \$ 25,369   |
| Reinsurance                         | <b>34,976</b>    | 56,097      |
| <b>Total</b>                        | <b>\$ 49,704</b> | \$ 81,466   |

Overall, a significant portion of the net favorable prior period reserve development in the first quarters of 2011 and 2010 was generated from the property, marine, and aviation lines of our insurance segment and the property and catastrophe lines of our reinsurance segment. These lines of business, the majority of which have short-tail exposures, contributed 75% and 63% of the total net favorable reserve development in the first quarters of 2011 and 2010, respectively. The favorable development on these lines of business primarily reflects the recognition of better than expected loss emergence, rather than explicit changes in our actuarial assumptions.

Approximately \$16 million and \$36 million of the net favorable reserve development in the first quarter of 2011 and 2010, respectively, was generated from professional lines insurance and reinsurance business. This favorable development was driven by increased incorporation of our own historical claims experience into our estimation of ultimate loss ratios for accident years 2007 and prior, with less weighting being given to information derived from industry benchmarks.

**Table of Contents****AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****6. DERIVATIVE INSTRUMENTS**

The following table summarizes the balance sheet classification of derivatives recorded at fair values. The notional amount of derivative contracts represents the basis upon which pay or receive amounts are calculated and is presented in the table to quantify the volume of our derivative activities. Notional amounts are not necessary reflective of credit risk.

|   | March 31, 2011                   |   |   | December 31, 2010                |   |   |
|---|----------------------------------|---|---|----------------------------------|---|---|
|   | Derivative<br>Notional<br>Amount | Asset<br>Derivative<br>Fair<br>Value <sup>(1)</sup> | Liability<br>Derivative<br>Fair<br>Value <sup>(1)</sup> | Derivative<br>Notional<br>Amount | Asset<br>Derivative<br>Fair<br>Value <sup>(1)</sup> | Liability<br>Derivative<br>Fair<br>Value <sup>(1)</sup> |
| <b>Fair value hedges</b>                    |                                  |   |   |                                  |   |   |
| Foreign exchange contracts                  | \$ 567,450                       | \$ 10,272   | \$ 14,338   | \$ 612,845                       | \$ -  | \$ 13,748   |
| <b>Derivatives not designated as hedges</b> |                                  |   |   |                                  |   |   |
| <i>Relating to investment portfolio:</i>    |                                  |   |   |                                  |   |   |
| Foreign exchange contracts                  | 241,136                          | 96  | 6,416   | 154,990                          | 2,182   | 746   |
| <i>Relating to underwriting portfolio:</i>  |                                  |   |   |                                  |   |   |
| Currency collar options                     | 38,200                           | 696   | -   | -                                | -   | -   |
| Foreign exchange contracts                  | \$ 698,192                       | 8,511   | 8,798   | \$ 110,564                       | 4,459   | 492   |
| <b>Total derivatives</b>                    |                                  | \$ 19,575   | \$ 29,552   |                                  | \$ 6,641  | \$ 14,986   |

(1) Asset and liability derivatives are classified within other assets and other liabilities on the balance sheet.

**Fair Value Hedges**

We entered into foreign exchange contracts to hedge the foreign currency exposure of two available for sale fixed maturity portfolios denominated in Euros. The hedges were designated and qualified as fair value hedges, resulting in the net impact of the hedges recognized in net realized investment gains (losses).

The following table provides the total impact on earnings relating to foreign exchange contracts designated as fair value hedges along with the impact of the related hedged investment portfolio for the periods indicated:

| Three months ended March 31, | 2011        | 2010      |
|------------------------------|-------------|-----------|
| Foreign exchange contracts   | \$ (30,481) | \$ 34,927 |

|   |                 |                 |
|---|-----------------|-----------------|
| Hedged investment portfolio                         | 33,746          | (31,710)        |
| <b>Hedge ineffectiveness recognized in earnings</b> | <b>\$ 3,265</b> | <b>\$ 3,217</b> |

#### Derivative Instruments not Designated as Hedges

##### *a) Relating to Investment Portfolio*

Within our investment portfolio we are exposed to foreign currency risk. Accordingly, the fair values for our investment portfolio are partially influenced by the change in foreign exchange rates. We may enter into foreign exchange contracts to manage the effect of this currency risk. These foreign currency hedging activities are not designated as specific hedges for financial reporting purposes.

**Table of Contents****AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****6. DERIVATIVE INSTRUMENTS (CONTINUED)**

In addition, our external equity investment managers have the discretion to hold foreign currency exposures as part of their total return strategy.

The significant increase in the notional amount of investment related derivatives since December 31, 2010, was primarily due to hedging an increase in Canadian and Euro denominated fixed maturities.

*b) Relating to Underwriting Portfolio*

Our insurance and reinsurance subsidiaries and branches operate in various foreign countries and consequently our underwriting portfolio is exposed to significant foreign currency risk. 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 foreign currency forward contracts and options. In addition, we may utilize foreign currency swaps for cash management purposes.

The significant increase in the notional amount of underwriting related derivatives since December 31, 2010, was primarily due to hedging our foreign denominated liability exposure relating to the significant catastrophe losses incurred from the New Zealand and Japanese earthquakes.

The total unrealized and realized gains (losses) recognized in earnings for derivatives not designated as hedges were as follows:

|  | <b>Location of Gain (Loss) Recognized<br/>in Income on Derivative</b> | <b>Three months ended<br/>March 31,</b> |             |
|--|---|---|-------------|
|  |   | <b>2011</b>                             | <b>2010</b> |
| <i>Relating to investment portfolio:</i>   |   |   |             |
| Foreign exchange contracts                 | Net realized investment gains (losses)                                | <b>\$ (9,100)</b>                       | \$ (158)    |
| <i>Relating to underwriting portfolio:</i> |   |   |             |
| Currency collar options                    | Foreign exchange gains (losses)                                       | <b>697</b>                              |             |
| Foreign exchange contracts                 | Foreign exchange gains (losses)                                       | <b>(3,004)</b>                          | 3,064       |
| <b>Total</b>                               |   | <b>\$ (11,407)</b>                      | \$ 2,906    |

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## AXIS CAPITAL HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**7. SHARE-BASED COMPENSATION**Restricted Stock

The following table provides a reconciliation of the beginning and ending balance of nonvested restricted stock (including restricted stock units) for the three months ended March 31, 2011:

|   | Number of<br>Restricted<br>Stock | Weighted Average<br>Grant Date<br>Fair Value |
|---|----------------------------------|--|
| Nonvested restricted stock - beginning of period  | 3,882                            | \$ 31.95                                     |
| Granted   | 1,725                            | 36.44  |
| Vested  | (1,704)                          | 35.09  |
| Forfeited   | (72)                             | 29.43  |
| <b>Nonvested restricted stock - end of period</b> | <b>3,831</b>                     | <b>\$ 32.63</b>                              |

For the three months ended March 31, 2011, we incurred share-based compensation costs of \$10 million (2010: \$10 million) and recorded tax benefits thereon of \$2 million (2010: \$2 million). The total grant-date fair value of shares vested during the three months ended March 31, 2011 was \$60 million (2010: \$58 million). At March 31, 2011 there were \$111 million (2010: \$91 million) of unrecognized share-based compensation costs, which are expected to be recognized over the weighted average period of 3.2 years (2010: 3.0 years).

**8. EARNINGS PER COMMON SHARE**

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

| At and for the three months ended March 31,        | 2011             | 2010           |
|--|------------------|----------------|
| <b>Basic earnings (loss) per common share</b>      |                  |                |
| Net income available to common shareholders        | \$ (383,760)     | \$ 111,812     |
| Weighted average common shares outstanding         | 113,351          | 128,202        |
| <b>Basic earnings (loss) per common share</b>      | <b>\$ (3.39)</b> | <b>\$ 0.87</b> |
| <b>Diluted earnings (loss) per common share</b>    |                  |                |
| Net income (loss) available to common shareholders | \$ (383,760)     | \$ 111,812     |



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|  |                  |                |
|--|------------------|----------------|
| Weighted average common shares outstanding - basic   | <b>113,351</b>   | 128,202        |
| Warrants   | -                | 11,675         |
| Stock compensation plans                             | -                | 2,299          |
| Weighted average common shares outstanding - diluted | <b>113,351</b>   | 142,176        |
| <b>Diluted earnings (loss) per common share</b>      | <b>\$ (3.39)</b> | <b>\$ 0.79</b> |

Due to the net loss incurred in the three months ended March 31, 2011, all the share equivalents were anti-dilutive. For the same period in 2010, 400,834 share equivalents were excluded in the computation of diluted earnings per share because their effect would have been anti-dilutive.

**Table of Contents****AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****9. SHAREHOLDERS EQUITY**

The following table presents our common shares issued and outstanding:

| <b>Three months ended March 31,</b>             | <b>2011</b>     | <b>2010</b> |
|---|-----------------|-------------|
| Shares issued, balance at beginning of period   | <b>154,912</b>  | 152,465     |
| Shares issued                                   | <b>1,908</b>    | 2,008       |
| <b>Total shares issued at end of period</b>     | <b>156,820</b>  | 154,473     |
| Treasury shares, balance at beginning of period | <b>(42,519)</b> | (20,325)    |
| Shares repurchased                              | <b>(399)</b>    | (9,993)     |
| <b>Total treasury shares at end of period</b>   | <b>(42,918)</b> | (30,318)    |
| <b>Total shares outstanding</b>                 | <b>113,902</b>  | 124,155     |

**10. COMMITMENTS AND CONTINGENCIES****a) Legal Proceedings**

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

In 2005, a putative class action lawsuit was filed against our U.S. insurance subsidiaries. In re Insurance Brokerage Antitrust Litigation was filed on August 15, 2005 in the United States District Court for the District of New Jersey and includes as defendants numerous insurance brokers and insurance companies. The lawsuit alleges antitrust and Racketeer Influenced and Corrupt Organizations Act ( RICO ) violations in connection with the payment of contingent commissions and manipulation of insurance bids and seeks damages in an unspecified amount. On October 3, 2006, the District Court granted, in part, motions to dismiss filed by the defendants, and ordered plaintiffs to file supplemental pleadings setting forth sufficient facts to allege their antitrust and RICO claims. After plaintiffs filed their supplemental pleadings, defendants renewed their motions to dismiss. On April 15, 2007, the District Court dismissed without prejudice plaintiffs' complaint, as amended, and granted plaintiffs thirty (30) days to file another amended complaint and/or revised RICO Statement and Statements of Particularity. In May 2007, plaintiffs filed (i) a Second Consolidated Amended Commercial Class Action complaint, (ii) a Revised Particularized Statement Describing the Horizontal Conspiracies Alleged in the Second Consolidated Amended Commercial Class Action Complaint, and (iii) a Third Amended Commercial Insurance Plaintiffs' RICO Case Statement Pursuant to Local Rule 16.1(B)(4). On June 21, 2007, the defendants filed renewed motions to dismiss. On September 28, 2007, the District Court dismissed with prejudice plaintiffs' antitrust and RICO claims and declined to exercise supplemental jurisdiction over plaintiffs' remaining state law claims. On October 10, 2007, plaintiffs filed a notice of appeal of all adverse orders and decisions to the United States Court of Appeals for the Third Circuit, and a hearing was held in April 2009. On August 16, 2010, the Third Circuit Court of Appeals affirmed the District Court's dismissal of the antitrust and RICO claims arising from the contingent commission

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arrangements and remanded the case to the District Court with respect to the manipulation of insurance bids allegations. We continued to believe that the lawsuit was completely without merit and on that basis vigorously defended the filed action. However, for the sole purpose of avoiding additional litigation costs, we reached an agreement in principle with plaintiffs during the first quarter of 2011 to settle all claims and causes of action in this matter for an immaterial amount. The settlement is contingent upon the negotiation, agreement and execution of a definitive settlement agreement and District Court approval of the final terms and conditions of the settlement.

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**AXIS CAPITAL HOLDINGS LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**10. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**b) Dividends for Common Shares and Preferred Shares**

On March 3, 2011, our Board of Directors declared a dividend of \$0.23 per common share to shareholders of record at the close of business on March 31, 2011 and payable on April 15, 2011. The Board of Directors also declared a dividend of \$0.453125 per Series A 7.25% Preferred Share and a dividend of \$1.875 per Series B 7.5% Preferred Share. The Series A Preferred Share dividend is payable on April 15, 2011 to shareholders of record at the close of business on March 31, 2011 and the Series B Preferred Share dividend is payable on June 1, 2011 to shareholders of record at the close of business on May 13, 2011.

**c) Reinsurance Purchase Commitment**

We purchase reinsurance coverage for our insurance lines of business. The minimum reinsurance premiums are contractually due on a quarterly basis in advance. Accordingly at March 31, 2011, we have an outstanding reinsurance purchase commitment of \$39 million.

**11. SUBSEQUENT EVENT**

Subsequent to March 31, 2011, certain of our founding shareholders exercised their warrants on a cashless basis pursuant to the terms of the applicable warrant agreements, resulting in a lower number of shares being issued than the number of warrants exercised. Accordingly, we issued 11,852,589 shares upon the exercise of 18,102,623 warrants. In connection with the warrant exercise, we paid deferred dividends of \$93 million to those warrant holders who chose the deferred cash option for dividends declared. This amount was included in other liabilities in the consolidated balance sheets at March 31, 2011. At April 28, 2011, 1,697,839 warrants remain outstanding, exercisable at an average price of \$10.52.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following is a discussion and analysis of our financial condition and results of operations. This should be read in conjunction with the consolidated financial statements and related notes included in Item 1 of this report and also our Management's Discussion and Analysis of Results of Operations and Financial Condition contained in our Annual Report on Form 10-K for the year ended December 31, 2010. Tabular dollars are in thousands, except per share amounts. Amounts in tables may not reconcile due to rounding differences.

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**FIRST QUARTER 2011 FINANCIAL HIGHLIGHTS**

**First Quarter 2011 Consolidated Results of Operations**

Net loss available to common shareholders of \$384 million, or \$3.39 per share basic and diluted

Operating loss of \$414 million, or \$3.65 per share<sup>(1)</sup>

Gross premiums written of \$1.5 billion

Net premiums written of \$1.4 billion

Net premiums earned of \$788 million

Net favorable prior year reserve development of \$50 million, pre-tax

Estimated pre-tax net losses (net of reinstatement premiums) of \$87 million, \$203 million and \$287 million for the significant Australian loss events (including the January floods and Cyclone Yasi), the Christchurch, New Zealand earthquake and the Japanese earthquake, respectively

Underwriting loss of \$461 million and combined ratio of 161.3%

Net investment income of \$111 million

Net realized investment gains of \$30 million

**First Quarter 2011 Consolidated Financial Condition**

Total cash and investments of \$13.0 billion; fixed maturities, cash and short-term securities comprise 92% of total cash and investments and have an average credit rating of AA

Total assets of \$17.7 billion

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Reserve for losses and loss expenses of \$8.0 billion and reinsurance recoverable of \$1.7 billion

Total debt of \$994 million and a debt to total capital ratio of 16.1%

Common shareholders' equity of \$4.7 billion; diluted book value per common share of \$35.69

Strong liquidity, with 69% or \$9.0 billion of our cash and investment portfolio invested in investment-grade, intermediate-maturity fixed income holdings (excluding restricted investments) and cash expected to be available within one to three business days

(1) Operating income (loss) is a non-GAAP financial measure as defined in SEC Regulation G. See *Non-GAAP Financial Measures* for reconciliation to nearest GAAP financial measure (net income (loss) available to common shareholders).

**Table of Contents****EXECUTIVE SUMMARY****Business Overview**

We are a Bermuda-based global provider of specialty lines insurance and treaty reinsurance products with operations in Bermuda, the United States, Europe, Singapore, Canada and Australia. Our underwriting operations are organized around our two global underwriting platforms, AXIS Insurance and AXIS Reinsurance. Our strategy is to leverage our expertise, experience and relationships to expand our business globally. We are focused on organic growth, which we have supplemented with small acquisitions, while managing a portfolio of diversified and attractively priced risks. Our execution on this strategy in the first three months of 2011 included:

the continuing growth of our Global Accident & Health operations, focused on specialty accident products rather than traditional medical coverages; and

taking advantage of select opportunities for premium growth.

**Results of Operations**

| <b>Three months ended March 31,</b>                       | <b>2011</b>         | <b>%<br/>Change</b> | <b>2010</b>       |
|---|---------------------|---------------------|-------------------|
| Underwriting income (loss):                               |                     |                     |                   |
| Insurance   | \$ (48,027)         | nm                  | \$ 33,453         |
| Reinsurance   | (413,278)           | nm                  | (5,007)           |
| Net investment income                                     | 110,655             | 6%                  | 104,619           |
| Net realized investment gains                             | 30,144              | 86%                 | 16,176            |
| Other expenses, net                                       | (54,035)            | 92%                 | (28,210)          |
| Net income (loss)   | (374,541)           | nm                  | 121,031           |
| Preferred share dividends                                 | (9,219)             | -                   | (9,219)           |
| <b>Net income (loss) available to common shareholders</b> | <b>\$ (383,760)</b> | <b>nm</b>           | <b>\$ 111,812</b> |
| <b>Operating income (loss)</b>                            | <b>\$ (413,902)</b> | <b>nm</b>           | <b>\$ 95,650</b>  |

nm - not meaningful

**Underwriting Results**

We recognized an underwriting loss of \$461 million for the first quarter of 2011, compared to underwriting income of \$28 million for the same period of 2010. The primary driver of this change was the significant natural catastrophe activity in 2011. In particular, we recognized estimated pre-tax net losses (net of related reinstatement premiums) of \$287 million, \$203 million and \$87 million for the Japanese earthquake, the Christchurch, New Zealand earthquake and Australian weather events, respectively. Comparatively, our catastrophe losses (net of related reinstatement premiums) in the first quarter of 2010 were also notable but less significant, consisting largely of \$100 million as a result of the



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Chilean earthquake and a further \$47 million combined for Australian storms, European Windstorm Xynthia and U.S. winter storms.

Our insurance segment's 2011 underwriting results reflected pre-tax net losses (inclusive of related premiums to reinstate reinsurance protection) of \$50 million in relation to the events noted above. An \$11 million reduction in net favorable prior period reserve development also contributed to the variance between periods, as well as higher acquisition costs and general and administrative expenses. Partially offsetting these differences, reduced ceded reinsurance costs due to the restructuring of certain programs on renewal in the second quarter of 2010 increased net premiums earned.

The \$408 million increase in the reinsurance segment's underwriting loss was primarily attributable to the higher level of catastrophe activity described above; associated pre-tax net losses for the segment (net of related reinstatement premiums) were \$527 million in 2011, compared to \$142 million in 2010. Also contributing to the variance was a \$21 million reduction in net favorable prior period reserve development.

**Table of Contents*****Net Investment Income***

Net investment income for the three months ended March 31, 2011 increased \$6 million, primarily due to higher returns from our alternative investment portfolio ( other investments ). While lower reinvestment yields contributed to a reduction in income from our fixed maturity portfolio, this was largely offset by an increased level of investment in fixed maturity securities.

***Net Realized Investment Gains***

During both periods, we realized investment-related gains on sale as we rebalanced the composition of our fixed maturity portfolio.

***Other Expenses, Net***

The movement in net other expenses for the quarter was primarily due to foreign exchange rate movements. We recognized \$15 million in foreign exchange losses in the current quarter, primarily due to the remeasurement of net liabilities denominated in the Euro, following the appreciation of that currency against the U.S. Dollar. In the first quarter of 2010, we recognized foreign exchange gains of \$8 million as the U.S. Dollar strengthened against the Euro and Sterling. Our March 2010 senior note issuance contributed to higher interest costs when compared to the prior year, while the significant catastrophe losses in 2011 contributed to a reduction in income tax expense.

**Outlook**

We believe that the impact of the significant first quarter catastrophes, coming after an active catastrophe year in 2010, and combined with low profitability in the industry, low investment yields and the impact of new catastrophe models, will lead to improvements in insurance and reinsurance pricing. We have noted recent changes in the property catastrophe reinsurance market. As expected, rates are increasing notably in areas materially affected by the catastrophe events. However, rate reductions for property catastrophe business in virtually all regions appear to have halted in light of these events. We are noting a similar trend in the primary insurance market on a global basis, particularly for property and energy lines.

**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:

| <b>Three months ended and at March 31,</b>  | <b>2011</b>     | <b>2010</b> |
|---|-----------------|-------------|
| ROACE (annualized) <sup>(1)</sup>           | <b>(31.3%)</b>  | 9.1%        |
| Operating ROACE (annualized) <sup>(2)</sup> | <b>(33.7%)</b>  | 7.7%        |
| DBV per common share <sup>(3)</sup>         | <b>\$ 35.69</b> | \$ 34.56    |
| Cash dividends declared per common share    | <b>\$ 0.23</b>  | \$ 0.21     |

(1) Return on average common equity ( ROACE ) is calculated by dividing annualized net income (loss) available to common shareholders for the period by the average shareholders' equity determined by using the common shareholders' equity balances at the beginning and end of the period.

(2) Operating ROACE is calculated by dividing annualized operating income (loss) for the period by the average common shareholders' equity determined by using the common shareholders' equity balances at the beginning and end of the period. Annualized operating ROACE is a non-GAAP financial measure as defined in SEC Regulation G. See *Non-GAAP Financial Measures* for reconciliation to the nearest GAAP financial measure (ROACE).

(3) Diluted book value ( DBV ) represents total common shareholders' equity divided by the number of common shares and diluted common share equivalents outstanding, determined using the treasury stock method.

**Return on Equity**

Our underwriting loss was the primary driver of both the negative annualized ROACE and operating ROACE for the first quarter of 2011. In contrast, we generated underwriting income in the three months ended March 31, 2010, contributing to the positive ROACE and operating ROACE results for that period.

**Diluted book value per common share**

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Our DBV per common share has increased 3% since March 31, 2010, primarily as a result of \$324 million in net income available to common shareholders over the past 12 months and the execution of common share repurchases at a discount to book value.

**Table of Contents****UNDERWRITING RESULTS GROUP**

The following table provides our group underwriting results for the periods indicated. Underwriting income is a measure of underwriting profitability that takes into account net premiums earned and other insurance related income as revenues and net losses and loss expenses, acquisition costs and underwriting-related general and administrative costs as expenses.

| Three months ended March 31,                    | 2011                | %         | 2010             |
|---|---------------------|-----------|------------------|
| Revenues:                                       |                     | Change    |                  |
| Gross premiums written                          | \$ 1,548,430        | 9%        | \$ 1,425,201     |
| Net premiums written                            | 1,400,779           | 13%       | 1,243,635        |
| Net premiums earned                             | 788,201             | 13%       | 696,192          |
| Other insurance related income                  | 763                 |           | 626              |
| Expenses:                                       |                     |           |                  |
| Current year net losses and loss expenses       | (1,069,505)         |           | (549,728)        |
| Prior period reserve development                | 49,704              |           | 81,466           |
| Acquisition costs                               | (135,356)           |           | (116,649)        |
| General and administrative expenses             | (95,112)            |           | (83,461)         |
| <b>Underwriting income (loss)<sup>(1)</sup></b> | <b>\$ (461,305)</b> | <b>nm</b> | <b>\$ 28,446</b> |

nm - not meaningful

(1) Refer to Item 1, Note 2 to the Consolidated Financial Statements, for a reconciliation of underwriting income to Income before income tax for the periods indicated above.

**UNDERWRITING REVENUES*****Premiums Written:***

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

| Three months ended March 31, | Gross Premiums Written |           |                     |
|------------------------------|------------------------|-----------|---------------------|
|                              | 2011                   | Change    | 2010                |
| Insurance                    | \$ 424,991             | 14%       | \$ 372,929          |
| Reinsurance                  | 1,123,439              | 7%        | 1,052,272           |
| <b>Total</b>                 | <b>\$ 1,548,430</b>    | <b>9%</b> | <b>\$ 1,425,201</b> |
| <b>% ceded</b>               |                        |           |                     |
| Insurance                    | 32%                    | (13)pts   | 45%                 |

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|              |            |               |            |
|--------------|------------|---------------|------------|
| Reinsurance  | 1%         | -             | 1%         |
| <b>Total</b> | <b>10%</b> | <b>(3)pts</b> | <b>13%</b> |

|              | Net Premiums Written |            |                     |
|--------------|----------------------|------------|---------------------|
|              | 2011                 | % Change   | 2010                |
| Insurance    | \$ 289,316           | 40%        | \$ 206,812          |
| Reinsurance  | 1,111,463            | 7%         | 1,036,823           |
| <b>Total</b> | <b>\$ 1,400,779</b>  | <b>13%</b> | <b>\$ 1,243,635</b> |

Gross premiums written in our insurance segment increased this quarter, primarily driven by our new Global Accident & Health ( Global A&H ) operations. Gross premiums written in our reinsurance segment increased from the first quarter of 2010, primarily driven by growth in our proportional motor reinsurance business. Our catastrophe reinsurance gross premiums written also increased; however, this increase was driven by the renewal of two European two-year contracts. On a constant currency basis, our

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reinsurance gross premiums written increased 10%. The majority of our reinsurance contracts renew in the first quarter and, thus, the impact of foreign exchange rate movements on gross premiums written is greatest during this period. The U.S. Dollar was stronger at our major January 1<sup>st</sup> renewal date, resulting in a corresponding reduction in gross premiums written. Thus, on a US dollar basis, reinsurance gross premiums written increased by 7%.

The reductions in our ceded premium ratios in 2011 were primarily attributable to changes in our reinsurance purchasing effected during the second quarter of 2010.

***Net Premiums Earned:***

Net premiums earned by segment were as follows:

| Three months ended March 31, | 2011              |             | 2010              |             | %          |
|------------------------------|-------------------|-------------|-------------------|-------------|------------|
|                              |                   |             |                   |             | Change     |
| Insurance                    | \$ 327,648        | 42%         | \$ 256,281        | 37%         | 28%        |
| Reinsurance                  | 460,553           | 58%         | 439,911           | 63%         | 5%         |
| <b>Total</b>                 | <b>\$ 788,201</b> | <b>100%</b> | <b>\$ 696,192</b> | <b>100%</b> | <b>13%</b> |

Changes in net premiums earned reflect period to period changes in net premiums written and business mix, together with normal variability in premium earning patterns.

The increase in total net premiums earned in the quarter was primarily driven by our insurance segment, resulting from the previously discussed changes in our reinsurance purchasing and a 10% increase in gross premiums written on a rolling twelve-month basis. Growth in our motor reinsurance business over the past year drove the increase in reinsurance net premiums earned.

**UNDERWRITING EXPENSES**

The following table provides a breakdown of our combined ratio:

| Three months ended March 31,                            | 2011          | % Point<br>Change | 2010         |
|---|---------------|-------------------|--------------|
| Current accident year loss ratio                        | 135.7%        | 56.7              | 79.0%        |
| Prior period reserve development                        | (6.3%)        | 5.4               | (11.7%)      |
| Acquisition cost ratio                                  | 17.1%         | 0.4               | 16.7%        |
| General and administrative expense ratio <sup>(1)</sup> | 14.8%         | 0.5               | 14.3%        |
| <b>Combined ratio</b>                                   | <b>161.3%</b> | <b>63.0</b>       | <b>98.3%</b> |

(1) The general and administration expense ratio includes corporate expenses not allocated to underwriting segments of 2.7% and 2.3% for the three months ended March 31, 2011 and 2010, respectively. These costs are discussed further in the *Other Expenses, Net* section below.

**Current Accident Year Loss Ratio**

The 56.7 percentage point increase in our first quarter current accident year loss ratio was primarily driven by increased natural catastrophe losses. A notable number of catastrophe events occurred in the first quarter of 2011, the most significant of which were:

Australian loss events, including heavy rainfall leading to severe flooding in January and the landfall of Cyclone Yasi in February. We recognized estimated pre-tax net losses (net of related reinstatement premiums) of \$87 million in relation to these events, with the vast majority of this amount emanating from our reinsurance segment.

A 6.3-magnitude earthquake on February 21<sup>st</sup> in the vicinity of Christchurch, New Zealand. This earthquake caused significant damage to both commercial and residential property. We recognized estimated pre-tax net losses (net of related reinstatement premiums) of \$203 million in relation to this event. The majority of our estimated net losses for this event emanate from our reinsurance segment.

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The March 11<sup>th</sup> 9.0-magnitude undersea earthquake approximately 45 miles east of the Tohoku region of Japan, which triggered extremely destructive tsunami waves that struck Japan within minutes. This earthquake is believed to be the largest ever recorded in Japan and one of the five most powerful in the world since 1900. Along with the ensuing tsunami, the earthquake caused extensive property damage over a vast area. We recognized estimate pre-tax net losses (net of related reinstatement premiums) of \$287 million in relation to this event. Net losses in our insurance segment are not expected to exceed \$25 million due to ceded reinsurance protection limiting net retentions; thus, the majority of this amount related to our reinsurance segment.

In comparison, during the first quarter of 2010 we recognized \$100 million in estimated net pre-tax losses (net of related reinstatement premiums) in relation to the February 27, 2010 Chilean earthquake and \$47 million for Australian storms, European Windstorm Xynthia and U.S. winter storms, combined.

Our estimated net losses in relation to these catastrophe events were derived from ground-up assessments of our in-force contracts and treaties providing coverage in the affected regions and are consistent with our market shares in those regions. We also considered current industry insured loss estimates, market share analyses and catastrophe modeling analyses, when appropriate, in addition to the information available to date from clients, brokers and loss adjusters. Industry-wide insured loss estimates for these events, as well as our own estimates, remain subject to change as additional actual loss data becomes available. Actual losses in relation to these events may ultimately differ materially from the estimates outlined above.

The proximity of the Japanese earthquake to our reporting date means that very limited information is yet available to us, inherently increasing the amount of management judgment required to arrive at our estimate of net losses and the associated uncertainty. In addition, a number of other factors limit our ability to accurately estimate the quantum of losses associated with this event including, but not limited to, the magnitude of the event and associated damage, uncertainties about the extent and nature of damages and corresponding coverages (including business interruption and contingent business interruption coverages), the ultimate size of losses to be assumed by Japan's cooperative mutuals and limitations associated with modeled losses.

We believe that total insured losses will be at least \$6 billion for the Australian events and will fall within the range of \$8 to \$12 billion for the New Zealand earthquake. Our current estimate for the Japanese earthquake contemplated total insured losses, excluding those assumed by the Japanese government, of \$30 to \$35 billion.

**Prior Period Reserve Development**

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

| <b>Three months ended March 31,</b> | <b>2011</b>      | <b>2010</b> |
|-------------------------------------|------------------|-------------|
| Insurance                           | <b>\$ 14,728</b> | \$ 25,369   |
| Reinsurance                         | <b>34,976</b>    | 56,097      |
| <b>Total</b>                        | <b>\$ 49,704</b> | \$ 81,466   |

**Overview**

Overall, a significant portion of the net favorable prior period reserve development in the first quarters of 2011 and 2010 was generated from the property, marine, and aviation lines of our insurance segment and the property and catastrophe lines of our reinsurance segment. These lines of business, the majority of which have short-tail exposures, contributed 75% and 63% of the total net favorable reserve development in the first quarters of 2011 and 2010, respectively. The favorable development on these lines of business primarily reflects the recognition of better than expected loss emergence, rather than explicit changes in our actuarial assumptions.

Approximately \$16 million and \$36 million of the net favorable reserve development in the first quarter of 2011 and 2010, respectively, was generated from professional lines insurance and reinsurance business. This favorable development was driven by increased incorporation of our own historical claims experience into our estimation of ultimate loss ratios for accident years 2007 and prior, with less weighting being given to information derived from industry benchmarks.





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We caution that conditions and trends that impacted the development of our liabilities in the past may not necessarily occur in the future. The following sections provide further details on prior year reserve development by segment, line of business and accident year.

**Insurance Segment:**

| Three months ended March 31, | 2011             | 2010             |
|------------------------------|------------------|------------------|
| Property                     | \$ 16,090        | \$ 14,944        |
| Marine                       | 2,445            | 2,320            |
| Aviation                     | 921              | (813)            |
| Credit and political risk    | (32)             | (12,638)         |
| Professional lines           | 2,301            | 22,452           |
| Liability                    | (6,997)          | (896)            |
| <b>Total</b>                 | <b>\$ 14,728</b> | <b>\$ 25,369</b> |

In the first quarter of 2011, we recognized \$15 million of net favorable prior period reserve development, the principal components of which were:

\$16 million of net favorable prior period reserve development on property business, the majority of which emanated from the 2010 accident year and related to better than expected loss emergence with respect to the December flooding in Australia. This included an \$8 million reduction for one particular policy, following the receipt of updated information.

\$2 million of net favorable prior period reserve development on professional lines business, primarily for the 2007 and prior accident years for the reasons discussed in the overview. However, this was partially offset by \$4 million of net adverse reserve development on the 2010 accident year.

\$7 million of net adverse prior period development on liability business, primarily related to the 2010 accident year and driven by the receipt of two notable claims.

In the first quarter of 2010, we recognized \$25 million of net favorable prior period reserve development, the principal components of which were:

\$14 million of net favorable prior period reserve development on property business, the majority of which related to the 2008 and 2007 accident years and was driven by better than expected loss emergence.

\$13 million of net adverse prior period reserve development on credit and political risk business, as we finalized settlements for certain loss events.

\$22 million of net favorable prior period reserve development on professional lines business, principally related to the 2005 and 2006 accident years, for reasons described in the overview.

**Reinsurance Segment:**

| <b>Three months ended March 31,</b> | <b>2011</b>      | <b>2010</b> |
|-------------------------------------|------------------|-------------|
| Catastrophe and property            | <b>\$ 17,891</b> | \$ 35,068   |
| Credit and bond                     | <b>9,931</b>     | 5,455       |
| Professional lines                  | <b>13,614</b>    | 13,533      |
| Motor                               | <b>(5,791)</b>   | (83)        |
| Liability                           | <b>(669)</b>     | 2,124       |
| <b>Total</b>                        | <b>\$ 34,976</b> | \$ 56,097   |

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In the first quarter of 2011, we recognized \$35 million of net favorable prior period reserve development, the principal components of which were:

\$18 million of net favorable prior period reserve development on catastrophe and property business consisting largely of:

\$17 million of net favorable prior period reserve development on property business, primarily spanning the 2007 through 2010 accident years and due to better than expected loss emergence.

\$3 million of net favorable prior period reserve development on crop reserves related to the 2009 accident year due to better than expected loss emergence.

\$2 million of net adverse prior period reserve development on catastrophe business, driven by a reallocation of aggregate treaty losses to a prior accident year.

\$10 million of net favorable prior period development on trade credit and bond reinsurance lines of business, largely related to the 2009 and 2010 accident years, in recognition of better than expected loss emergence and updated information from our cedants.

\$14 million of net favorable prior period reserve development on professional lines reinsurance business, primarily on the 2006 and 2005 accident years, for reasons discussed in the overview above.

\$6 million of net adverse prior period reserve development on motor business, primarily on the 2007 through 2010 accident years and reflective of recent settlement trends observed in the U.K. motor market.

In the first quarter of 2010, we recognized \$56 million of net favorable prior period reserve development, the principal components of which were:

\$35 million of net favorable prior period reserve development on catastrophe and property business, consisting largely of:

\$20 million of net favorable prior period reserve development on catastrophe business, emanating largely from the 2009 and 2005 accident years. While the 2009 accident year development was primarily driven by better than expected loss experience, the development on the 2005 accident year principally related to a reduction in our reserve for one particular claim following the receipt of updated information.

\$8 million of net favorable prior period reserve development on crop reserves, principally related to the 2009 accident year and largely as a result of a reduction in reserves for Canadian crop losses following updated information from the cedant.

\$6 million of net favorable prior period reserve development on property business, emanating mainly from the 2008 accident year and related to better than expected loss emergence.

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\$5 million of net favorable prior period reserve development on trade credit and bond business, largely related to the 2007 and 2006 accident years and reflecting better than expected loss emergence.

\$14 million of net favorable prior period reserve development on professional lines reinsurance business, primarily related to the 2004 and 2005 accident years, for reasons discussed in the overview above.

\$2 million of net favorable prior period reserve development on liability reserves, primarily as a result of the commutation of two treaties.

**Table of Contents****RESULTS BY SEGMENT****INSURANCE SEGMENT**

Results from our insurance segment were as follows:

| Three months ended March 31,              | 2011               | %             | 2010             |
|---|--------------------|---------------|------------------|
| <b>Revenues:</b>                          |                    | <b>Change</b> |                  |
| Gross premiums written                    | \$ 424,991         | 14%           | \$ 372,929       |
| Net premiums written                      | 289,316            | 40%           | 206,812          |
| Net premiums earned                       | 327,648            | 28%           | 256,281          |
| Other insurance related income            | 763                |               | 626              |
| <b>Expenses:</b>                          |                    |               |                  |
| Current year net losses and loss expenses | (281,361)          |               | (156,072)        |
| Prior period reserve development          | 14,728             |               | 25,369           |
| Acquisition costs                         | (42,079)           |               | (31,141)         |
| General and administrative expenses       | (67,726)           |               | (61,610)         |
| <b>Underwriting income (loss)</b>         | <b>\$ (48,027)</b> | nm            | <b>\$ 33,453</b> |

| <b>Ratios:</b>                   |               | %             | Point         |              |
|----------------------------------|---------------|---------------|---------------|--------------|
|                                  |               | <b>Change</b> | <b>Change</b> |              |
| Current year loss ratio          | 85.9%         |               | 25.0          | 60.9%        |
| Prior period reserve development | (4.5%)        |               | 5.4           | (9.9%)       |
| Acquisition cost ratio           | 12.8%         |               | 0.6           | 12.2%        |
| General and administrative ratio | 20.7%         |               | (3.3)         | 24.0%        |
| <b>Combined ratio</b>            | <b>114.9%</b> |               | <b>27.7</b>   | <b>87.2%</b> |

nm not meaningful

***Gross Premiums Written:***

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

| Three months ended March 31, | 2011       |     | 2010       |     | %             |
|------------------------------|------------|-----|------------|-----|---------------|
|                              |            |     |            |     | <b>Change</b> |
| Property                     | \$ 116,231 | 27% | \$ 118,214 | 32% | (2%)          |
| Marine                       | 63,655     | 15% | 66,859     | 18% | (5%)          |

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|                           |                   |             |                   |             |            |
|---------------------------|-------------------|-------------|-------------------|-------------|------------|
| Terrorism                 | 6,270             | 1%          | 5,091             | 1%          | 23%        |
| Aviation                  | 2,803             | 1%          | 3,136             | 1%          | (11%)      |
| Credit and political risk | 10,801            | 3%          | (2,698)           | (1%)        | nm         |
| Professional lines        | 136,544           | 32%         | 127,945           | 34%         | 7%         |
| Liability                 | 44,878            | 11%         | 53,716            | 15%         | (16%)      |
| Other <sup>(1)</sup>      | 43,809            | 10%         | 666               | -           | nm         |
| <b>Total</b>              | <b>\$ 424,991</b> | <b>100%</b> | <b>\$ 372,929</b> | <b>100%</b> | <b>14%</b> |

nm not meaningful

(1) Includes accident and health

The 14% growth in gross premiums written for the first quarter was primarily driven by our new Global A&H operations and is reflective of our investment in that platform over the past 18 months. Our first quarter 2010 credit and political risk gross premiums written included reductions of \$12 million in connection with the settlement of prior accident year claims. Excluding Global A&H

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and the 2010 credit and political risk premium reductions, premiums for the segment were down 1% in the current quarter. The largest decline related to liability business, primarily driven by our decision in the second quarter of 2010 to cease underwriting excess and surplus primary casualty business. During the first quarter of 2011, we experienced broad-based rate decreases across the majority of our lines of business; however, the impact of this was somewhat mitigated by select growth opportunities.

**Premiums Ceded:** Premiums ceded in the current quarter were \$136 million, or 32% of gross premiums written, compared with \$166 million, or 45%, in the comparable period in 2010. The reduction in the ceded ratio was primarily attributable to changes in our reinsurance purchasing, including higher attachment points on our property excess of loss program and reduced cession rates on our professional lines quota share reinsurance programs on renewal during the second quarter of 2010.

**Net Premiums Earned:**

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

| Three months ended March 31, | 2011              |             | 2010              |             | %<br>Change |
|------------------------------|-------------------|-------------|-------------------|-------------|-------------|
| Property                     | \$ 92,075         | 28%         | \$ 65,461         | 25%         | 41%         |
| Marine                       | 29,282            | 9%          | 34,978            | 14%         | (16%)       |
| Terrorism                    | 8,197             | 3%          | 7,597             | 3%          | 8%          |
| Aviation                     | 16,571            | 5%          | 15,264            | 6%          | 9%          |
| Credit and political risk    | 27,001            | 8%          | 14,729            | 6%          | 83%         |
| Professional lines           | 124,124           | 38%         | 98,542            | 38%         | 26%         |
| Liability                    | 22,497            | 7%          | 19,576            | 8%          | 15%         |
| Other <sup>(1)</sup>         | 7,901             | 2%          | 134               | -           | nm          |
| <b>Total</b>                 | <b>\$ 327,648</b> | <b>100%</b> | <b>\$ 256,281</b> | <b>100%</b> | <b>28%</b>  |

nm - not meaningful

(1) Includes accident and health

Net premiums written in the twelve months ended March 31, 2011 increased 39% compared to that of the twelve months ended March 31, 2010, largely as a result of the previously discussed changes in reinsurance purchasing as well as a 10% increase in gross premiums written. The 28% increase in net premiums earned for the three months ended March 31, 2011 is largely reflective of this change.

**Loss Ratio:**

The table below shows the components of our loss ratio:

| Three months ended March 31,     | 2011         | % Point<br>Change | 2010         |
|----------------------------------|--------------|-------------------|--------------|
| Current accident year            | 85.9%        | 25.0              | 60.9%        |
| Prior period reserve development | (4.5%)       | 5.4               | (9.9%)       |
| <b>Loss ratio</b>                | <b>81.4%</b> | <b>30.4</b>       | <b>51.0%</b> |



**Current Accident Year Loss Ratio**

The increase in our current accident year loss ratio was primarily the result of natural catastrophe activity. We recognized estimated pre-tax net losses of \$20 million and \$27 million (inclusive of related premiums to reinstate our reinsurance protection), respectively, for the Christchurch, New Zealand and Japanese earthquakes. A higher level of loss activity in our energy lines of business, and to a lesser extent property lines, as well as a general rate softening also contributed to the increase.

Refer to the *Prior Period Reserve Development* section for further details.

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**Acquisition Cost Ratio:** The increase in our acquisition cost ratio reflects the impact of changes in our property and professional lines reinsurance purchasing, although the impact was slightly muted by a non-recurring premium tax adjustment recognized in the first quarter of 2010.

**General and Administrative Expense Ratio:** Total general and administrative expenses increased for the quarter, primarily due to additional staffing costs associated with the build-out of the segment's platform. However, the general and administrative expense ratio declined in comparison to the prior year, as a result of an increase in net premiums earned.

**REINSURANCE SEGMENT**

Results from our reinsurance segment were as follows:

| Three months ended March 31,              | 2011                | %<br>Change | 2010              |
|---|---------------------|-------------|-------------------|
| <b>Revenues:</b>                          |                     |             |                   |
| Gross premiums written                    | \$ 1,123,439        | 7%          | \$ 1,052,272      |
| Net premiums written                      | 1,111,463           | 7%          | 1,036,823         |
| Net premiums earned                       | 460,553             | 5%          | 439,911           |
| <b>Expenses:</b>                          |                     |             |                   |
| Current year net losses and loss expenses | (788,144)           |             | (393,656)         |
| Prior period reserve development          | 34,976              |             | 56,097            |
| Acquisition costs                         | (93,277)            |             | (85,508)          |
| General and administrative expenses       | (27,386)            |             | (21,851)          |
| <b>Underwriting loss</b>                  | <b>\$ (413,278)</b> | <b>nm</b>   | <b>\$ (5,007)</b> |

|                                  |               | % Point<br>Change |               |
|----------------------------------|---------------|-------------------|---------------|
| <b>Ratios:</b>                   |               |                   |               |
| Current year loss ratio          | 171.1%        | 81.6              | 89.5%         |
| Prior period reserve development | (7.6%)        | 5.2               | (12.8%)       |
| Acquisition cost ratio           | 20.3%         | 0.9               | 19.4%         |
| General and administrative ratio | 5.9%          | 0.9               | 5.0%          |
| <b>Combined ratio</b>            | <b>189.7%</b> | <b>88.6</b>       | <b>101.1%</b> |

nm not meaningful

| Three months ended March 31, | 2011       |     | 2010       |     | %<br>Change | Excluding FX<br>Impact |
|------------------------------|------------|-----|------------|-----|-------------|------------------------|
| Catastrophe                  | \$ 253,218 | 23% | \$ 227,781 | 22% | 11%         | 13%                    |
| Property                     | 182,204    | 16% | 178,498    | 17% | 2%          | 5%                     |
| Professional lines           | 93,273     | 8%  | 106,799    | 10% | (13%)       | (12%)                  |
| Credit and bond              | 236,645    | 21% | 228,073    | 22% | 4%          | 9%                     |
| Motor                        | 195,114    | 17% | 118,114    | 11% | 65%         | 70%                    |
| Liability                    | 99,015     | 9%  | 133,379    | 13% | (26%)       | (25%)                  |
| Engineering                  | 50,664     | 5%  | 44,376     | 4%  | 14%         | 18%                    |
| Other                        | 13,306     | 1%  | 15,252     | 1%  | (13%)       | (8%)                   |

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|              |                     |             |                     |             |           |            |
|--------------|---------------------|-------------|---------------------|-------------|-----------|------------|
| <b>Total</b> | <b>\$ 1,123,439</b> | <b>100%</b> | <b>\$ 1,052,272</b> | <b>100%</b> | <b>7%</b> | <b>10%</b> |
|--------------|---------------------|-------------|---------------------|-------------|-----------|------------|

The majority of our European reinsurance business renews at January 1<sup>st</sup>. As a result, the impact of foreign exchange rate movements on our gross premiums written is greatest for the first quarter of each year. Our gross premiums written for the first quarter of 2011 were adversely impacted by a stronger U.S. dollar at January 1<sup>st</sup>, primarily against the Euro and Sterling. The impact of foreign

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exchange rate movements is highlighted in the table above; adjusting for exchange rate changes, gross premiums written for the segment increased 10%.

Premiums written in our motor line of business drove the increase for the quarter, primarily as a result of increases in our proportional motor reinsurance business. In addition, the renewal of a two-year French motor treaty contributed to the quarter over quarter variance. Our catastrophe premium also increased in 2011; however, this was largely due to the renewal of two 2009 European contracts. These contracts now provide three-year cover. Partially offsetting these increases, our liability premiums declined largely due to the non-renewal of a significant contact as the cedant was acquired by a company that did not require reinsurance support.

***Net Premiums Earned:***

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

| Three months ended March 31, | 2011              |             | 2010              |             | %<br>Change |
|------------------------------|-------------------|-------------|-------------------|-------------|-------------|
| Catastrophe                  | \$ 121,485        | 26%         | \$ 117,417        | 27%         | 3%          |
| Property                     | 86,786            | 19%         | 80,878            | 18%         | 7%          |
| Professional lines           | 67,555            | 15%         | 71,305            | 16%         | (5%)        |
| Credit and bond              | 62,243            | 13%         | 54,023            | 12%         | 15%         |
| Motor                        | 44,091            | 10%         | 30,375            | 7%          | 45%         |
| Liability                    | 54,254            | 12%         | 63,407            | 14%         | (14%)       |
| Engineering                  | 18,190            | 4%          | 15,846            | 4%          | 15%         |
| Other                        | 5,949             | 1%          | 6,660             | 2%          | (11%)       |
| <b>Total</b>                 | <b>\$ 460,553</b> | <b>100%</b> | <b>\$ 439,911</b> | <b>100%</b> | <b>5%</b>   |

The increase in net premiums earned largely reflects increased motor business written over the past year.

**Loss Ratio:**

The table below shows the components of our loss ratio:

| Three months ended March 31,     | 2011          | % Point<br>Change | 2010         |
|----------------------------------|---------------|-------------------|--------------|
| Current accident year            | 171.1%        | 81.6              | 89.5%        |
| Prior period reserve development | (7.6%)        | 5.2               | (12.8%)      |
| <b>Loss ratio</b>                | <b>163.5%</b> | <b>86.8</b>       | <b>76.7%</b> |

**Current Accident Year Loss Ratio**

The 81.6 percentage point increase in our first quarter current accident year loss ratio was primarily driven by increased natural catastrophe losses. During the three months ended March 31, 2011, we recognized pre-tax net losses (net of related reinstatement premiums) of \$84 million, \$183 million and \$260 million in relation to the Australian loss events, the Christchurch, New Zealand earthquake and the Japanese earthquake, respectively. Comparatively, we recognized pre-tax net losses (net of related reinstatement premiums) of \$95 million for the Chilean earthquake in the first quarter of 2010 and a further \$47 million for Australian storms, European Windstorm Xynthia and U.S. winter storms, combined. The

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impact of rate reductions was partially offset by an anticipated improvement in our trade credit and bond reinsurance loss ratio in light of the continuing global economic recovery.

Refer to the *Prior Period Reserve Development* section for further details.

**Table of Contents****OTHER EXPENSES, NET**

The following table provides a breakdown of our other expenses, net:

| Three months ended March 31,         | 2011             | %          | 2010             |
|--------------------------------------|------------------|------------|------------------|
|                                      |                  | Change     |                  |
| Corporate expenses                   | \$ 21,408        | 31%        | \$ 16,308        |
| Foreign exchange losses (gains)      | 15,058           | nm         | (8,147)          |
| Interest expense and financing costs | 15,860           | 83%        | 8,688            |
| Income tax expense                   | 1,709            | (85%)      | 11,361           |
| <b>Total</b>                         | <b>\$ 54,035</b> | <b>92%</b> | <b>\$ 28,210</b> |

nm not meaningful

**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% and 2.3% for the first quarter of 2011 and 2010, respectively.

**Foreign Exchange Losses (Gains):** Some of our business is written in currencies other than the U.S. Dollar. The foreign exchange losses in the three months ended March 31, 2011 were primarily due to the remeasurement of net liabilities denominated in Euro, following that currency's appreciation against the U.S. Dollar. In contrast, the depreciation of the Euro and Sterling in the three months ended March 31, 2010 drove the foreign exchange gains for the period.

**Income Tax Expense:** Income tax expense is generated primarily through our foreign operations in the United States and Europe. Our effective tax rate, which is calculated as income tax expense divided by income before tax, was (0.5)% for the first quarter of 2011 compared with 8.6% for the same period of 2010. This effective rate can vary between periods depending on the distribution of net income (loss) amongst tax jurisdictions. Although we generated a consolidated net loss for the first quarter of 2011 due to the significant catastrophe activity previously discussed, the majority of this loss was borne by our Bermudian operations. Our U.S. and European operations generated taxable income for the quarter, although significantly less than the prior year; as such, we have recognized an income tax expense for the period.

**Table of Contents****NET INVESTMENT INCOME AND NET REALIZED INVESTMENT GAINS/LOSSES****Net Investment Income**

The following table provides a breakdown of income earned from our cash and investment portfolio by major asset class:

| <b>Three months ended March 31,</b> | <b>2011</b>       | <b>%<br/>Change</b> | <b>2010</b>       |
|-------------------------------------|-------------------|---------------------|-------------------|
| Fixed maturities                    | \$ 88,581         | (3%)                | \$ 91,118         |
| Other investments                   | 25,311            | 56%                 | 16,265            |
| Cash and cash equivalents           | 2,153             | 24%                 | 1,735             |
| Equities                            | 824               | 40%                 | 588               |
| Short-term investments              | 387               | 76%                 | 220               |
| <b>Gross investment income</b>      | <b>117,256</b>    | <b>7%</b>           | <b>109,926</b>    |
| Investment expense                  | (6,601)           | 24%                 | (5,307)           |
| <b>Net investment income</b>        | <b>\$ 110,655</b> | <b>6%</b>           | <b>\$ 104,619</b> |
| <b>Pre-tax yield:<sup>(1)</sup></b> |                   |                     |                   |
| Fixed maturities                    | 3.4%              |                     | 3.8%              |
| Cash and cash equivalents           | 0.7%              |                     | 0.6%              |

(1) Pre-tax yield is annualized and calculated as net investment income divided by the average month-end amortized cost balances for the periods indicated.

**Fixed Maturities**

The decline in net investment income during the current quarter was due to lower reinvestment yields, primarily driven by a downward shift in U.S. Treasury rates over the comparable period. This was offset partially by additional income generated from a larger portfolio in comparison to 2010. For the three months ended March 31, 2011, our pre-tax yield on fixed maturities was 3.4%, a decrease of 41 basis points from the same quarter in 2010.

**Other Investments**

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

| <b>Three months ended March 31,</b> | <b>2011</b> | <b>2010</b> |
|-------------------------------------|-------------|-------------|
| CLO - equity tranching securities   | \$ 12,149   | \$ 2,292    |
| Credit funds                        | 5,209       | 6,455       |
| Hedge funds                         | 4,050       | 2,288       |
| Funds of hedge funds                | 3,903       | 3,867       |

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|  |                  |                  |
|--|------------------|------------------|
| Short duration high yield fund                           | -                | 1,363            |
| <b>Total</b>   | <b>\$ 25,311</b> | <b>\$ 16,265</b> |
| <b>Pre-tax return on other investments<sup>(1)</sup></b> | <b>4.7%</b>      | <b>2.9%</b>      |

(1) The pre-tax return on other investments is non-annualized and calculated by dividing net investment income from other investments by the average month-end fair value balances held for the periods indicated.

Net investment income and pre-tax return from other investments increased by \$9 million in 2011 primarily due to an increase in fair value for our CLO Equities. This was driven primarily by lower than anticipated default rates, resulting in higher cash distributions from CLO Equities than previously expected.



**Table of Contents****Net Realized Investment Gains/Losses**

The following table provides a breakdown of net realized investment gains:

| <b>Three months ended March 31,</b>            | <b>2011</b>      | <b>2010</b> |
|--|------------------|-------------|
| <i>On sale of investments:</i>                 |                  |             |
| Fixed maturities and short-term investments    | \$ 34,215        | \$ 17,068   |
| Equities                                       | 3,704            | 1,557       |
|  | <b>37,919</b>    | 18,625      |
| OTTI charges recognized in earnings            | <b>(1,940)</b>   | (5,508)     |
| Change in fair value of investment derivatives | <b>(9,100)</b>   | (158)       |
| Fair value hedges                              | <b>3,265</b>     | 3,217       |
| <b>Net realized investment gains</b>           | <b>\$ 30,144</b> | \$ 16,176   |

**On sale of investments**

The increase in net realized investment gains on the sale of fixed maturities relates primarily to gains on sales of corporate debt securities (including matured MTNs previously impaired) as a result of rebalancing our investment portfolio.

**Change in fair value of investment derivatives**

From time to time, we may economically hedge the foreign exchange exposure of non-U.S. denominated securities by entering into foreign exchange contracts. During the three months ended March 31, 2011, we hedged certain Euro denominated securities resulting in \$9 million in unrealized losses on foreign exchange contracts as the Euro appreciated 6% over the U.S. dollar during the quarter. These hedges did not qualify for fair value hedge accounting and accordingly, the corresponding unrealized gains on the hedged securities are recorded as part of accumulated other comprehensive income in shareholders' equity.

***Total Return***

The following table provides a breakdown of the total return on cash and investments for the period indicated:

| <b>Three months ended March 31,</b>                           | <b>2011</b>          | <b>2010</b>   |
|---|----------------------|---------------|
| Net investment income   | \$ 110,655           | \$ 104,619    |
| Net realized investments gains                                | 30,144               | 16,176        |
| Change in net unrealized gains/losses, net of currency hedges | <b>(21,763)</b>      | 85,259        |
| <b>Total</b>  | <b>\$ 119,036</b>    | \$ 206,054    |
| <b>Average cash and investments<sup>(1)</sup></b>             | <b>\$ 12,872,228</b> | \$ 11,742,385 |

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|  |             |      |
|--|-------------|------|
| <b>Total return on average cash and investments, pre-tax<sup>(2)</sup></b> | <b>0.9%</b> | 1.8% |
|--|-------------|------|

- (1) The average cash and investments balance is calculated by taking the average of the month-end fair value balances held for the periods indicated.
- (2) Non-annualized.

**Table of Contents****CASH AND INVESTMENTS**

The table below provides a breakdown of our cash and investments:

|  | March 31, 2011            |                      | December 31, 2010         |                      |
|--|---------------------------|----------------------|---------------------------|----------------------|
|  | Amortized Cost<br>or Cost | Fair Value           | Amortized Cost<br>or Cost | Fair Value           |
| Fixed maturities                               | \$ 10,591,298             | \$ 10,726,390        | \$ 10,346,243             | \$ 10,482,897        |
| Equities                                       | 466,429                   | 502,096              | 327,207                   | 349,254              |
| Other investments                              | 489,876                   | 554,113              | 478,872                   | 519,296              |
| Short-term investments                         | 132,512                   | 132,512              | 172,719                   | 172,719              |
| <b>Total investments</b>                       | <b>\$ 11,680,115</b>      | <b>\$ 11,915,111</b> | <b>\$ 11,325,041</b>      | <b>\$ 11,524,166</b> |
| <b>Cash and cash equivalents<sup>(1)</sup></b> | <b>\$ 1,086,189</b>       | <b>\$ 1,086,189</b>  | <b>\$ 1,045,355</b>       | <b>\$ 1,045,355</b>  |

(1) Includes restricted cash and cash equivalents of \$123 million and \$116 million for 2011 and 2010, respectively.

The amortized cost/cost of our total investments increased by \$355 million from December 31, 2010, primarily due to investing a portion of our operating cash flows generated during the quarter as well as \$165 million of net unsettled investment purchases at March 31, 2011. The fair value of our total investments increased by \$391 million from December 31, 2010, due to net contributions and improved valuations.

The following provides a further analysis on our investment portfolio by asset classes.

**Table of Contents****Fixed Maturities**

The following provides a breakdown of our investment in fixed maturities:

|                                      | March 31, 2011       |             | December 31, 2010    |             |
|--------------------------------------|----------------------|-------------|----------------------|-------------|
|                                      | Fair Value           | % of Total  | Fair Value           | % of Total  |
| <b>Fixed maturities:</b>             |                      |             |                      |             |
| U.S. government and agency           | \$ 1,068,950         | 10%         | \$ 860,120           | 8%          |
| Non-U.S. government                  | 838,339              | 8%          | 772,798              | 7%          |
| Corporate debt                       | 4,052,684            | 38%         | 4,162,908            | 40%         |
| Agency RMBS                          | 2,622,697            | 25%         | 2,593,582            | 25%         |
| CMBS                                 | 482,246              | 4%          | 474,785              | 5%          |
| Non-Agency RMBS                      | 227,637              | 2%          | 244,202              | 2%          |
| ABS                                  | 657,619              | 6%          | 661,843              | 6%          |
| Municipals <sup>(1)</sup>            | 776,218              | 7%          | 712,659              | 7%          |
| <b>Total</b>                         | <b>\$ 10,726,390</b> | <b>100%</b> | <b>\$ 10,482,897</b> | <b>100%</b> |
| <b>Credit ratings:<sup>(2)</sup></b> |                      |             |                      |             |
| U.S. government and agency           | \$ 1,068,950         | 10%         | \$ 860,120           | 8%          |
| AAA <sup>(3)</sup>                   | 4,758,081            | 44%         | 4,852,558            | 46%         |
| AA                                   | 1,056,804            | 10%         | 1,081,535            | 10%         |
| A                                    | 2,246,818            | 21%         | 2,150,324            | 21%         |
| BBB                                  | 1,133,339            | 11%         | 1,163,168            | 11%         |
| Below BBB <sup>(4)</sup>             | 462,398              | 4%          | 375,192              | 4%          |
| <b>Total</b>                         | <b>\$ 10,726,390</b> | <b>100%</b> | <b>\$ 10,482,897</b> | <b>100%</b> |

(1) Includes bonds issued by states, municipalities, and political subdivisions.

(2) As assigned by S&P. In the absence of an S&P rating, we used the lower rating established by either Moody's or Fitch.

(3) Includes U.S. government-sponsored agency RMBS.

(4) Non-investment grade securities

During the current quarter, we increased our U.S. government and agency holdings as we reduced our exposure to credit spread securities (particularly investment-grade corporate debt) and used U.S. Treasuries to manage duration. We also made an additional investment of \$92 million to our high yield corporate portfolio using proceeds from a matured investment grade medium term note. At March 31, 2011, fixed maturities had a weighted average credit rating of AA- (2010: AA-) with an approximate average duration of 3.1 years (2010: 3.2 years). When incorporating cash and cash equivalents into this calculation (bringing fixed maturities and cash to \$11.8 billion), the average credit rating would be AA and the average duration would be 2.8 years (2010: 2.9 years).

**Equities**

During the first quarter of 2011, we increased our allocation to global equities by \$140 million, mainly investing in equity exchange traded funds which are designed to track our global equity benchmark. This increased allocation provides a diversification benefit to our predominantly fixed income invested asset base.

**Table of Contents****Other Investments**

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

|                                | March 31, 2011    |               | December 31, 2010 |               |
|--------------------------------|-------------------|---------------|-------------------|---------------|
| Funds of hedge funds           | \$ 238,519        | 43.0%         | \$ 235,240        | 45.3%         |
| Hedge funds                    | 151,125           | 27.3%         | 123,036           | 23.7%         |
| <b>Total hedge funds</b>       | <b>389,644</b>    | <b>70.3%</b>  | <b>358,276</b>    | <b>69.0%</b>  |
| Long/short credit              | 80,809            | 14.6%         | 82,846            | 16.0%         |
| Distressed securities          | 23,399            | 4.2%          | 21,911            | 4.2%          |
| <b>Total credit funds</b>      | <b>104,208</b>    | <b>18.8%</b>  | <b>104,757</b>    | <b>20.2%</b>  |
| <b>CLO - Equities</b>          | <b>60,261</b>     | <b>10.9%</b>  | <b>56,263</b>     | <b>10.8%</b>  |
| <b>Total other investments</b> | <b>\$ 554,113</b> | <b>100.0%</b> | <b>\$ 519,296</b> | <b>100.0%</b> |

The increase in the fair value of our total hedge funds investment during the first quarter of 2011 reflects \$23 million of net subscriptions and \$8 million of pricing appreciation. The fair value of our credit funds remained mostly unchanged as \$5 million in improved valuations was offset by \$5 million of cash distributions.

The increase in the fair value of the CLO Equities since December 31, 2010, was primarily due to \$12 million of improved valuations due to lower default rates than previously expected. We have not changed our significant assumptions in our discounted cash flow model. The increase in fair value was partially offset by \$8 million in cash distributions received during the quarter.

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

Refer to the *Liquidity and Capital Resources* section included under Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2010 for a general discussion of our liquidity and capital resources.

The following table summarizes our consolidated capital for the periods indicated:

|  | March 31,<br>2011   | December 31,<br>2010 |
|--|---------------------|----------------------|
| Long-term debt   | \$ 994,246          | \$ 994,110           |
| Preferred shares   | 500,000             | 500,000              |
| Common equity  | 4,689,580           | 5,124,970            |
| Shareholders' equity                                       | 5,189,580           | 5,624,970            |
| <b>Total capital</b>                                       | <b>\$ 6,183,826</b> | <b>\$ 6,619,080</b>  |
| <b>Ratio of debt to total capital</b>                      | <b>16.1%</b>        | <b>15.0%</b>         |
| <b>Ratio of debt and preferred equity to total capital</b> | <b>24.2%</b>        | <b>22.6%</b>         |

We finance our operations with a combination of debt and equity capital. Our debt to total capital and debt and preferred equity to total capital ratios provide an indication of our capital structure, along with some insight into our financial strength. A company with higher ratios in comparison to industry average may show weak financial strength because the cost of its debts may adversely affect results of operations and/or increase its default risk. Although our net loss during the quarter depleted a portion of our capital base, we believe that our financial flexibility remains strong.

During the three months ended March 31, 2011, our common equity decreased by \$435 million. The following table reconciles our opening and closing common equity positions:

| Three months ended March 31,  | 2011                |
|---|---------------------|
| <b>Common equity - opening</b>  | <b>\$ 5,124,970</b> |
| Net loss  | (374,541)           |
| Change in unrealized appreciation on available for sale investments, net of tax | (23,382)            |
| Share repurchases   | (14,527)            |
| Common share dividends  | (30,772)            |
| Preferred share dividends   | (9,219)             |
| Share-based compensation  | 10,447              |

Foreign currency translation adjustment and other

6,604

**Common equity - closing****\$ 4,689,580**

As previously discussed, we recognized \$577 million of net losses (net of related reinstatement premiums) related to significant catastrophe events during the first quarter of 2011. There is significant uncertainty associated with our estimate of net losses payable in relation to these events, as detailed in the Underwriting Results Group section of this report. While we expect this will result in a corresponding increase in our net paid losses in future quarters, we continue to anticipate that cash flows from operations will be sufficient to cover cash outflows, including our contractual commitments, through the foreseeable future.

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**CRITICAL ACCOUNTING ESTIMATES**

Our Consolidated Financial Statements have been prepared in conformity with U.S. GAAP and include certain accounting policies that we consider to be critical due to the level of judgment and uncertainty inherent in the application of those policies. While we believe that the amounts included in our Consolidated Financial Statements reflect our best judgment, the use of different assumptions could produce materially different accounting estimates. As disclosed in our 2010 Annual Report on Form 10-K, we believe the following accounting estimates are critical to our operations and require the most subjective and complex judgment:

Reserve for losses and loss expenses

Reinsurance recoverable balances

Premiums

Fair Value Measurements

Other-Than-Temporary Impairments (OTTI)

There have been no material changes in our critical accounting estimates since December 31, 2010. Refer to Item 7 included in our Annual Report on Form 10-K for the year ended December 31, 2010 for further qualitative and quantitative discussions of our Critical Accounting Estimates.

**NEW ACCOUNTING STANDARDS**

At April 29, 2011, there were no recently issued accounting pronouncements that we had not yet adopted.

**OFF-BALANCE SHEET AND SPECIAL PURPOSE ENTITY ARRANGEMENTS**



At March 31, 2011, we have not entered into any off-balance sheet arrangements, as defined by Item 303(a)(4) of Regulation S-K.

**Table of Contents****NON-GAAP FINANCIAL MEASURES**

In this report, we have presented operating income (loss), which is a non-GAAP financial measure as defined in Regulation G. Operating income (loss) represents after-tax operational results without consideration of after-tax net realized investment gains (losses). In addition, we have presented diluted operating earnings (loss) per share and operating return on average common equity ( operating ROACE ), which are derived from the non-GAAP operating income (loss) measure. These measures can be reconciled to the nearest GAAP financial measures as follows:

| <b>Three months ended March 31,</b>  | <b>2011</b>         | <b>2010</b>      |
|--|---------------------|------------------|
| Net income (loss) available to common shareholders                                   | \$ (383,760)        | \$ 111,812       |
| Net realized investment gains, net of tax <sup>(1)</sup>                             | (30,142)            | (16,162)         |
| <b>Operating income (loss)</b>   | <b>\$ (413,902)</b> | <b>\$ 95,650</b> |
| Net income (loss) per share - diluted  | \$ (3.39)           | \$ 0.79          |
| Net realized investment gains, net of tax  | (0.26)              | (0.12)           |
| <b>Operating income (loss) per share - diluted</b>                                   | <b>\$ (3.65)</b>    | <b>\$ 0.67</b>   |
| Weighted average common shares and common share equivalents - diluted <sup>(2)</sup> | <b>113,351</b>      | 142,176          |
| Average common shareholders' equity  | <b>\$ 4,907,275</b> | \$ 4,938,132     |
| ROACE (annualized)   | <b>(31.3%)</b>      | 9.1%             |
| Operating ROACE (annualized)   | <b>(33.7%)</b>      | 7.7%             |

(1) Tax cost of \$2 and \$14 for the three months ended March 31, 2011 and 2010, respectively. Tax impact is estimated by applying the statutory rates of applicable jurisdictions, after consideration of other relevant factors including the ability to utilize capital losses.

(2) Refer to Note 8 to the Consolidated Financial Statements for further details on the dilution calculation.

We present our results of operations in the way we believe will be most meaningful and useful to investors, analysts, rating agencies and others who use our financial information to evaluate our performance. This presentation includes the use of operating income (loss) and annualized operating return on average common equity, which is based on the operating income (loss) measure. Although the investment of premiums to generate income and realized investment gains (or losses) is an integral part of our operations, the determination to realize investment gains (or losses) is independent of the underwriting process and is heavily influenced by the availability of market opportunities. Furthermore, many users believe that the timing of the realization of investment gains (or losses) is somewhat opportunistic for many companies. In this regard, certain users of our financial statements evaluate earnings excluding after-tax net realized investment gains (losses) to understand the profitability of recurring sources of income.

We believe that showing net income available to common shareholders exclusive of net realized gains (losses) reflects the underlying fundamentals of our business. In addition, we believe that this presentation enables investors and other users of our financial information to analyze performance in a manner similar to how our management analyzes the underlying business performance. We also believe this measure follows industry practice and, therefore, facilitates comparison of our performance with our peer group. We believe that equity analysts and certain rating agencies that follow us, and the insurance industry as a whole, generally exclude realized gains (losses) from their analyses for the same reasons.



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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

Refer to Item 7A included in our 2010 Form 10-K. There have been no material changes to this item since December 31, 2010.

**ITEM 4. CONTROLS AND PROCEDURES**

The Company's management has performed an evaluation, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)) as of March 31, 2011. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2011, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and is accumulated and communicated to management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

The Company's management has performed an evaluation, with the participation of the Company's Chief Executive Officer and the Company's Chief Financial Officer, of changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2011. Based upon that evaluation, there were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

In 2005, a putative class action lawsuit was filed against our U.S. insurance subsidiaries. In re Insurance Brokerage Antitrust Litigation was filed on August 15, 2005 in the United States District Court for the District of New Jersey and includes as defendants numerous insurance brokers and insurance companies. The lawsuit alleges antitrust and Racketeer Influenced and Corrupt Organizations Act ( RICO ) violations in connection with the payment of contingent commissions and manipulation of insurance bids and seeks damages in an unspecified amount. On October 3, 2006, the District Court granted, in part, motions to dismiss filed by the defendants, and ordered plaintiffs to file supplemental pleadings setting forth sufficient facts to allege their antitrust and RICO claims. After plaintiffs filed their supplemental pleadings, defendants renewed their motions to dismiss. On April 15, 2007, the District Court dismissed without prejudice plaintiffs' complaint, as amended, and granted plaintiffs thirty (30) days to file another amended complaint and/or revised RICO Statement and Statements of Particularity. In May 2007, plaintiffs filed (i) a Second Consolidated Amended Commercial Class Action complaint, (ii) a Revised Particularized Statement Describing the Horizontal Conspiracies Alleged in the Second Consolidated Amended Commercial Class Action Complaint, and (iii) a Third Amended Commercial Insurance Plaintiffs' RICO Case Statement Pursuant to Local Rule 16.1(B)(4). On June 21, 2007, the defendants filed renewed motions to dismiss. On September 28, 2007, the District Court dismissed with prejudice plaintiffs' antitrust and RICO claims and declined to exercise supplemental jurisdiction over plaintiffs' remaining state law claims. On October 10, 2007, plaintiffs filed a notice of appeal of all adverse orders and decisions to the United States Court of Appeals for the Third Circuit, and a hearing was held in April 2009. On August 16, 2010, the Third Circuit Court of Appeals affirmed the District Court's dismissal of the antitrust and RICO claims arising from the contingent commission arrangements and remanded the case to the District Court with respect to the manipulation of insurance bids allegations. We continued to believe that the lawsuit was completely without merit and on that basis vigorously defended the filed action. However, for the sole purpose of avoiding additional litigation costs, we reached an agreement in principle with plaintiffs during the first quarter of 2011 to settle all claims and causes of action in this matter for an immaterial amount. The settlement is contingent upon the negotiation, agreement and execution of a definitive settlement agreement and District Court approval of the final terms and conditions of the settlement.

**ITEM 1A. RISK FACTORS**

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There were no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table sets forth information regarding the number of shares we repurchased during the three months ended March 31, 2011:

**ISSUER PURCHASES OF EQUITY SECURITIES**

| <b>Period</b>       | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid Per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<sup>(a)</sup></b> | <b>Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Announced Plans or Programs<sup>(b)</sup></b> |
|---------------------|---|-------------------------------------|---|---|
| January 1-31, 2011  | 4,111                                   | \$35.58                             | -   | \$ 593.4 million  |
| February 1-28, 2011 | 392,178                                 | \$36.46                             | -   | \$ 593.4 million  |
| March 1-31, 2011    | 2,480                                   | \$32.96                             | -   | \$ 593.4 million  |
| <b>Total</b>        | <b>398,769</b>                          |                                     | <b>-</b>  | <b>\$ 593.4 million</b>   |

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

(b) On September 24, 2010, our Board of Directors approved a new share repurchase plan to repurchase up to \$750 million of our common shares until December 31, 2012. Share repurchases may be effected from time to time in open market or privately negotiated transactions, depending on market conditions.

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**ITEM 6. EXHIBITS**

- (a) Exhibits
- 3.1 Certificate of Incorporation and Memorandum of Association (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-103620) filed on April 16, 2003).
- 3.2 Amended and Restated Bye-Laws (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed on May 15, 2009).
- 4.1 Specimen Common Share Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 3) (No. 333-103620) filed on June 10, 2003).
- 4.2 Certificate of Designations setting from the specific rights, preferences, limitations and other terms of the Series A Preferred Shares (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 4, 2005).
- 4.3 Certificate of Designations setting from the specific rights, preferences, limitations and other terms of the Series B Preferred Shares (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on November 23, 2005).
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- \*101 The following financial information from AXIS Capital Holdings Limited's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 formatted in XBRL: (i) Consolidated Balance Sheets at March 31, 2011 and December 31, 2010; (ii) Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010; (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2011 and 2010; (iv) Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2011 and 2010; (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010; and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text.

\* As provided in Rule 406T of Regulation S-T, this information is furnished herewith and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 unless AXIS Capital Holdings Limited specifically incorporates it by reference.



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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: April 29, 2011

**AXIS CAPITAL HOLDINGS LIMITED**

By:

/s/ JOHN R. CHARMAN  
John R. Charman  
President and Chief Executive Officer

/s/ ALBERT BENCHIMOL  
Albert Benchimol  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)