

AXIS CAPITAL HOLDINGS LTD
Form 10-K
February 22, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from to

Commission file number 001-31721

AXIS CAPITAL HOLDINGS LIMITED

(Exact name of registrant as specified in its charter)

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BERMUDA

(State or other jurisdiction of incorporation or organization)

98-0395986

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

92 Pitts Bay Road, Pembroke, Bermuda HM 08

(Address of principal executive offices and zip code)

(441) 496-2600

(Registrant's telephone number, including area code)

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

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

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

None

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

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2011, was approximately \$3.4 billion.

At February 7, 2012, there were outstanding 130,847,292 common shares, \$0.0125 par value per share, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A relating to the annual meeting of shareholders to be held on May 3, 2012 are incorporated by reference in Part III of this Form 10-K.

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Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the U.S. federal securities laws. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the United States securities laws. In some cases, these statements can be identified by the use of forward-looking words such as may, should, could, anticipate, estimate, expect, plan, believe, predict, potential and intend. Forward-looking statements contained in this report may include information regarding our estimates 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, coverage and regulatory 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,
- 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 these 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 this report.

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

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PART I

ITEM 1. BUSINESS

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

GENERAL

AXIS Capital is the Bermuda-based holding company for the AXIS group of companies and was incorporated on December 9, 2002. AXIS Specialty Bermuda commenced operations on November 20, 2001. AXIS Specialty Bermuda and its subsidiaries became wholly owned subsidiaries of AXIS Capital pursuant to an exchange offer consummated on December 31, 2002. We provide a broad range of specialty (re)insurance on a worldwide basis, through operating subsidiaries and branch networks based in Bermuda, the United States, Canada, Europe, Australia and Singapore. We also maintain marketing offices in Brazil, France and Spain. Our business consists of two distinct global underwriting platforms, AXIS Insurance and AXIS Re.

At December 31, 2011, we had common shareholders' equity of \$4.9 billion, total capital of \$6.4 billion and total assets of \$17.8 billion.

OUR BUSINESS STRATEGY

Our mission is to be a leading, diversified specialty (re)insurance company, as measured by quality, sustainability and profitability.

Our business strategy is to leverage our management's extensive expertise, experience and long-standing market relationships to expand our business globally. We manage a book of business diversified both geographically and by product line. We seek to provide high-quality products and services to our clients, while maintaining profitability and generating superior returns on equity over the underwriting cycle. Historically, we have focused on organic growth, which we have supplemented with small acquisitions. Risk management is a strategic priority embedded in our culture and our Risk Management department continues to monitor, review and refine our enterprise risk management framework.

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

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Our underwriting operations are organized around two global underwriting platforms, AXIS Insurance and AXIS Re. Therefore 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. For additional information relating to our reportable segments, see Note 3 to our Consolidated Financial Statements presented under Item 8, *Financial Statements and Supplementary Data* and *Management's Discussion and Analysis of Financial Condition and Results of Operations* under Item 7.

The table below presents gross premiums written in each of our reportable segments for each of the most recent three years.

Year ended December 31,	2011	2010	2009
Insurance	\$ 2,121,829	\$ 1,916,116	\$ 1,775,590
Reinsurance	1,974,324	1,834,420	1,811,705
Total	\$ 4,096,153	\$ 3,750,536	\$ 3,587,295

Insurance Segment**Lines of Business and Distribution**

Our insurance segment operates through offices in Bermuda, the United States, Canada, Europe, Australia and Singapore and offers specialty insurance products to a variety of niche markets on a worldwide basis. The following are the lines of business in our insurance segment:

Property: provides physical loss or damage, business interruption and machinery breakdown coverage for virtually all types of property, including commercial buildings, residential premises, construction projects and onshore energy installations. This line of business consists of both primary and excess risks, some of which are catastrophe-exposed.

Marine: provides coverage for traditional marine classes, including offshore energy, cargo, liability, recreational marine, fine art, specie, hull and war. Offshore energy coverage includes physical damage, business interruption, operators extra expense and liability coverage for all aspects of offshore upstream energy, from exploration and construction through the operation and distribution phases.

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

Aviation: provides hull and liability and specific war coverage primarily for passenger airlines but also for cargo operations, general aviation operations, airports, aviation authorities, security firms and product manufacturers.

Credit and political risk: provides credit and political risk insurance products for banks and corporations. Coverage is provided for a range of risks including sovereign default, credit default, political violence, currency inconvertibility and non-transfer, expropriation, aircraft non-repossession and contract frustration due to political events. The credit insurance coverage is primarily for lenders seeking to mitigate the risk of non-payment from their borrowers in emerging markets. For the credit insurance contracts, it is necessary for

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the buyer of the insurance (most often a bank) to hold an insured asset (most often an underlying loan) in order to claim compensation under the insurance contract. The traditional political risk coverage provides protection against sovereign actions that result in the impairment of cross-border investments for banks and major corporations (known as "CEND" coverages).

Professional lines: provides coverage for directors' and officers' liability, errors and omissions liability, employment practices liability, fiduciary liability, crime, professional indemnity and other financial insurance related coverages for commercial enterprises, financial institutions and not-for-profit organizations. This business is predominantly written on a claims-made basis.

Liability: primarily targets primary and low/mid-level excess and umbrella commercial liability risks in the U.S. excess and surplus lines markets. Target industry sectors include construction, manufacturing, transportation and trucking and other services. We also target middle to high excess liability business in the London and Bermuda wholesale markets and primary and excess liability business in the Canadian marketplace.

Accident & health: includes accidental death, travel insurance and specialty health products for employer and affinity groups, financial institutions, schools and colleges, as well as accident & health reinsurance for catastrophic or per life events on a quota share and/or excess of loss basis, with aggregate and/or per person deductibles.

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

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

Year ended December 31,	2011		2010		2009	
Aon	\$ 397,189	19%	\$ 303,264	16%	\$ 270,658	15%
Marsh	388,834	18%	363,454	19%	309,278	17%
Willis	203,011	10%	180,583	9%	150,197	9%
Other brokers	881,285	41%	844,509	44%	803,183	45%
Managing general agencies and underwriters	251,510	12%	224,306	12%	242,274	14%
Total	\$ 2,121,829	100%	\$ 1,916,116	100%	\$ 1,775,590	100%

No customer accounted for more than 10% of the gross premiums written in the insurance segment.

Competitive Environment

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

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Reinsurance Segment

Lines of Business and Distribution

Our reinsurance segment operates through offices in Bermuda, New York, Zurich, Singapore and São Paulo. We focus on writing business on an excess of loss basis, where possible, whereby we typically provide an indemnification to the reinsured entity for a portion of losses both individually and in the aggregate, on policies in excess of a specified individual or aggregate loss deductible. We also write business on a proportional basis, receiving an agreed percentage of the premium and accepting liability for the same percentage of incurred losses. Reinsurance may be written on a portfolio (i.e. treaty) basis or on an individual risk (i.e. facultative) basis. The majority of our business is written on a treaty basis and primarily produced through reinsurance brokers worldwide.

Our reinsurance segment provides non-life reinsurance to insurance companies on a worldwide basis. The following are the lines of business in our reinsurance segment:

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

Property: includes reinsurance written on both a proportional and a per risk excess of loss basis and covers underlying personal lines and commercial property exposures. Here the primary reason for the product is not simply to protect against catastrophic perils, however they are normally included with limitations.

Professional Lines: covers directors and officers liability, employment practices liability, medical malpractice, lawyers and accountants liability, environmental liability and miscellaneous errors and omissions insurance risks. The underlying business is predominantly written on a claims-made basis. Business is written on both a proportional and excess of loss basis.

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

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

Liability: provides coverage to insurers of standard casualty business, excess and surplus casualty business and specialty casualty programs. The primary focus of the underlying business is general liability, although workers compensation and auto liability are also written.

Engineering: provides coverage for all types of construction risks and risks associated with erection, testing and commissioning of machinery and plants during the construction stage. This line of business also includes coverage for losses arising from operational failures of machinery, plant and equipment and electronic equipment as well as business interruption.

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

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

Year ended December 31,	2011		2010		2009	
Aon	\$ 727,102	37%	\$ 622,703	34%	\$ 677,810	37%
Marsh	566,451	29%	547,470	30%	496,900	27%
Willis	335,387	17%	305,474	16%	322,512	18%
Other brokers	161,486	8%	198,779	11%	144,860	8%
Direct	183,898	9%	159,994	9%	169,623	10%
Total	\$ 1,974,324	100%	\$ 1,834,420	100%	\$ 1,811,705	100%

No customer accounted for more than 10% of the gross premiums written in the reinsurance segment.

Competitive Environment

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

RESERVE FOR UNPAID LOSSES AND LOSS EXPENSES

We establish a reserve for losses and loss expenses (loss reserves) for claims that arise from our (re)insurance products. These loss reserves are balance sheet liabilities representing management's best estimate of the amounts we will be required to pay in the future for claims that have occurred on or before the balance sheet date, whether already reported to us (case reserves) or not yet reported to us (IBNR reserves).

The table on the following page presents the development of our loss reserves since inception. This table does not present accident year or policy development data.

The top line of the table shows our initial reported gross loss reserves at the end of each year and is reconciled to our net unpaid loss reserves by adjusting for reinsurance recoverable on unpaid losses. Our net unpaid loss reserves represent the estimated amount of net losses and loss expenses arising in the current year and all prior years that remain unpaid at the balance sheet date.

The next section of the table shows our re-estimated net unpaid loss reserves at the end of each succeeding year. The cumulative redundancies on net reserves reflect cumulative differences between our initial net loss reserve estimates and the currently re-estimated net loss reserves. Annual changes in these estimates are referred to as net favorable prior period reserve development and are recognized in our Consolidated Statements of Operations during the year of the re-estimation; these amounts are the net result of a number of underlying movements, both favorable and adverse.

The lower portion of the table shows the portion of the net unpaid loss reserve estimate that was paid (i.e. claims paid) by the end of each subsequent year. This section of the table provides an indication of the portion of the re-estimated net unpaid loss reserve that is settled and is unlikely to develop in the future.

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Our historical net paid losses and loss expenses are but one of many quantitative and qualitative factors considered in establishing the amount of our loss reserves; see the *Critical Accounting Estimates Reserve for Losses and Loss Expenses* section of Item 7 for further information on the establishment of management's best estimate of loss reserves on a quarterly basis. For additional information regarding the significant underlying movements in our estimate of loss reserves during the most recent three years, refer to the *Underwriting Results Group Underwriting Expenses* section of Item 7. Note that the conditions and trends that affected the development of our loss reserves in the past may not necessarily recur in the future. Accordingly, it is not appropriate to project future redundancies based on the historical experience in this table.

Also included in the table is the impact of foreign exchange rate movements during each year presented. Portions of our loss reserves relate to claims expected to be paid in currencies other than our reporting currency, the U.S. Dollar. Movements in foreign exchange rates, therefore, result in variations in our estimated net loss reserves. Such variations are recognized as they arise, as part of net losses and loss expenses in our Consolidated Statements of Operations. For example, during the year ended December 31, 2011, depreciation in the rates of exchange between the euro and Sterling and the U.S. dollar drove a \$16 million reduction in our net loss reserves established prior to and during 2011. To minimize the impact of foreign exchange driven volatility associated with our loss reserves denominated in foreign currencies, we generally hold cash and investments and/or derivative instruments denominated in the same currencies.

At the bottom of the table is a reconciliation of our re-estimated gross loss reserves with our re-estimated net unpaid loss reserves as of December 31, 2011. As our ceded reinsurance programs cover different lines of business and accident years, net and gross loss experience will not necessarily develop proportionately.

To facilitate an understanding of the information provided in the table, the following is an example using net loss reserves established at December 31, 2005. It can be seen from the top section of the table that at December 31, 2005, our estimate of loss reserves net of unpaid reinsurance recoverable was \$3,270 million.

The next section of the table shows that our current estimate of net unpaid loss reserves for events occurring on or before December 31, 2005 is \$2,366 million. The cumulative redundancy from our initial estimate of \$905 million was recognized over the course of the following six calendar years: \$217 million in 2006, \$115 million in 2007, \$188 million in 2008, \$221 million in 2009, \$100 million in 2010 and the remaining \$64 million in 2011.

The following section of the table presents our cumulative claims paid at the end of each subsequent year. Of the net \$1,931 million we have paid subsequent to December 31, 2005, \$880 million was paid in 2006, \$413 million in 2007, \$208 million in 2008, \$270 million in 2009, \$102 million in 2010 and the remaining \$58 million in 2011.

In summary, at December 31, 2005, we estimated our net loss reserves payable for claims arising from loss events occurring on or before that date were \$3,270 million. At December 31, 2011, we have paid \$1,931 million towards settlement of these claims and now believe that we will ultimately pay \$2,366 million for full settlement.

It is important to note that the redundancies in our loss reserves noted in the table are cumulative and, therefore, should not be added together. In 2011, we revised our cumulative December 31, 2005 estimate of net loss reserves from \$2,429 million to \$2,366 million. This favorable development of \$64 million is also included in each column to the right of the December 31, 2005 column, to recognize that the redundancy was also embedded in our estimated loss reserves at December 31 of each of the following years.

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	Year ended December 31,										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Gross reserves for losses and loss expenses	\$ 963	\$ 215,934	\$ 992,846	\$ 2,404,560	\$ 4,743,338	\$ 5,015,113	\$ 5,587,311	\$ 6,244,783	\$ 6,564,133	\$ 7,032,375	\$ 8,425,045
Reinsurance recoverable	-	(1,703)	(124,899)	(564,314)	(1,473,241)	(1,310,904)	(1,297,539)	(1,314,551)	(1,381,058)	(1,540,633)	(1,736,823)
Net reserves for unpaid losses and loss expenses	963	214,231	867,947	1,840,246	3,270,097	3,704,209	4,289,772	4,930,232	5,183,075	5,491,742	6,688,222
Net reserves re-estimated as of:											
1 Year later	\$ 165	\$ 158,443	\$ 686,235	\$ 1,457,250	\$ 3,053,561	\$ 3,367,232	\$ 3,913,485	\$ 4,507,061	\$ 4,870,020	\$ 5,234,281	
2 Years later	165	141,290	539,110	1,179,851	2,938,734	3,076,025	3,533,313	4,235,219	4,623,109		
3 Years later	165	109,711	434,221	1,080,083	2,750,476	2,773,158	3,281,011	4,007,046			
4 Years later	196	97,981	386,029	962,910	2,529,259	2,576,226	3,074,010				
5 Years later	196	96,864	347,544	889,190	2,429,724	2,445,150					
6 Years later	196	96,179	326,729	863,225	2,365,515						
7 Years later	196	92,517	315,548	839,214							
8 Years later	196	89,664	312,628								
9 Years later	196	89,218									
10 Years later	196										
Cumulative redundancy on net reserves	\$ 767	\$ 125,013	\$ 555,319	\$ 1,001,032	\$ 904,582	\$ 1,259,059	\$ 1,215,762	\$ 923,186	\$ 559,966	\$ 257,461	
Cumulative net paid losses as of:											
1 Year later	\$ 15	\$ 47,838	\$ 108,547	\$ 291,695	\$ 880,120	\$ 636,266	\$ 615,717	\$ 982,036	\$ 1,042,890	\$ 953,035	
2 Years later	125	56,781	169,853	432,963	1,292,738	999,280	1,147,990	1,539,713	1,592,741		
3 Years later	165	66,569	202,136	511,325	1,500,652	1,355,821	1,461,494	1,936,555			
4 Years later	165	63,835	221,644	574,874	1,771,039	1,513,350	1,655,688				
5 Years later	165	72,323	245,978	615,920	1,873,052	1,625,423					
6 Years later	165	80,099	254,676	650,110	1,930,682						
7 Years later	165	81,130	263,412	677,351							
8 Years later	165	83,276	269,909								
9 Years later	165	83,272									
10 Years later	165										
Impact of foreign exchange and other	\$ -	\$ 961	\$ 3,240	\$ 4,664	\$ (13,329)	\$ 23,581	\$ 28,588	\$ (133,345)	\$ 82,018	\$ (25,282)	\$ (16,462)
Gross reserve for losses and loss expenses re-estimated	\$ 196	\$ 110,705	\$ 429,666	\$ 1,371,101	\$ 3,733,186	\$ 3,578,354	\$ 4,139,108	\$ 5,217,882	\$ 5,969,271	\$ 6,757,130	
Reinsurance recoverable re-estimated	-	(21,487)	(117,038)	(531,887)	(1,367,671)	(1,133,204)	(1,065,098)	(1,210,836)	(1,346,162)	(1,522,849)	

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Net reserve for unpaid losses and loss expenses re-estimated	196	89,218	312,628	839,214	2,365,515	2,445,150	3,074,010	4,007,046	4,623,109	5,234,281
Cumulative redundancy on gross reserve	\$ 767	\$ 105,229	\$ 563,180	\$ 1,033,459	\$ 1,010,152	\$ 1,436,759	\$ 1,448,203	\$ 1,026,901	\$ 594,862	\$ 275,245

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CASH AND INVESTMENTS

We seek to balance the investment portfolios' objectives of (1) increasing book value with (2) the generation of relatively stable investment income, while providing sufficient liquidity to meet our claims and other obligations. Liquidity needs arising from potential claims are of primary importance and are considered in asset class participation and the asset allocation process. Intermediate maturity investment grade fixed income securities have duration characteristics similar to our expected claim payouts and are therefore central to our investment portfolios' asset allocation. At December 31, 2011, the duration of our fixed maturities portfolio was approximately 3 years, which approximates the estimated duration of our net insurance liabilities.

To diversify risk and optimize the growth in our book value, we may invest in other asset classes such as equity securities, high yield securities and alternative investments (e.g. hedge funds) which provide higher potential total rates of return. Such individual investment classes involve varying degrees of risk, including the potential for more volatile returns and reduced liquidity. However, as part of a balanced portfolio, they also provide diversification from interest rate and credit risk.

With regard to our investment portfolio, we utilize third party investment managers for security selection and trade execution functions, subject to our guidelines and objectives for each asset class. This enables us to actively manage our investment portfolio with access to top talents specializing in various products and markets. We select the managers based on various criteria including investment style, track record, performance and corporate governance. Additionally, we monitor approved investment asset classes for each subsidiary through analysis of our operating environment, including expected volatility of cash flows, overall capital position, regulatory and rating agency considerations. The Finance Committee of our Board of Directors approves our overall group asset allocation targets and investment policy and guidelines to ensure that they are consistent with our overall goals, strategies and objectives. We also have an Investment and Finance Committee, comprising senior management, which oversees the implementation of our investment strategy.

For additional information regarding the investment portfolio refer to the *Management's Discussion and Analysis of Financial Condition and Results of Operations - Cash and Investments* section under Item 7 and Note 5 - Investments to our Consolidated Financial Statements presented under Item 8.

Refer to *Risk and Capital Management* for details relating to the management of our investment risk.

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RISK AND CAPITAL MANAGEMENT

Risk management framework Overview

Mission and objectives

The mission of Enterprise Risk Management (ERM) at AXIS is to promptly identify, measure, report and monitor risks that affect the achievement of our strategic, operational and financial objectives. The key objectives of our risk management framework are to:

Protect our capital base and earnings by monitoring our risks against our stated risk tolerances;

Promote a sound risk management culture through disciplined and informed risk taking;

Enhance value creation and contribute to an optimal risk-return profile by providing the basis for efficient capital deployment;

Support our group-wide decision making process by providing reliable and timely risk information; and

Safeguard AXIS's reputation.

Risk governance

At the heart of our risk management framework is a governance process with responsibilities for taking, managing, monitoring and reporting risks. We articulate the roles and responsibilities for risk management throughout the organization, from the Board of Directors and the Chief Executive Officer to our business and functional areas, thus embedding risk management throughout the business (see *Risk Governance and Risk Management Organization* section).

To support our governance process, we rely on our documented policies and guidelines. Our Risk Standards specify our principles, risk appetite and tolerances for managing individual and aggregate risks. We also have procedures to approve exceptions and procedures for referring risk issues to senior management and the Board of Directors. Our qualitative and quantitative risk reporting framework provides transparency and early warning indicators to senior management with regard to our overall risk profile, adherence to risk tolerances and improvement actions both at an operating entity and Group level.

Various governance and control bodies (such as Management Audit Committees) coordinate to help to ensure that objectives are being achieved, risks are identified and appropriately managed and internal controls are in place and operating effectively.

Internal capital model

An important aspect to our risk management framework is our internal capital model. Utilizing this modeling framework provides us with a holistic view of the capital we put at risk in any year by allowing us to understand the relative interaction among the risks impacting us. This integrated approach recognizes that a single risk factor can affect different sub-portfolios and that different risk factors can have different mutual dependencies. We attempt to continually review and strengthen the capabilities, functionality and user benefits of our internal capital model framework as our business, risk landscape and external environment continue to evolve.

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As well as being used to measure capital adequacy (see *Capital Management* section), our internal capital model is used as a tool in managing our business and for strategic planning via capital allocations and through to portfolio monitoring, investment asset allocations and transaction evaluations.

Risk diversification

As a global (re)insurer offering a variety of products across different businesses, diversification is a key component of our business model and risk framework. Diversification enhances our ability to manage our risks by limiting the impact of a single event and contributing to relatively stable long-term results and general risk profile. The degree to which the diversification effect can be realized depends not only on the correlation between risks but also the level of relative concentration of those risks. Therefore, our aim is to maintain a balanced risk profile without any disproportionately large risks. Our internal capital model considers the level of correlation and diversification between individual risks and we measure concentration risk consistently across our business units in terms of pre and post diversified internal risk capital requirements.

Risk appetite and limit framework

Our integrated risk management framework considers material risks in our business either from investments, underwriting or in our operations across the world. Large risks that might accumulate and have the potential to produce substantial losses are subject to our global risk appetite and limit framework. Our risk appetite, as authorized by our Board of Directors, represents the amount of risk that we are willing to accept within the constraints imposed by our capital resources as well as the expectations of our stakeholders as to the type of risk we hold within our business. At an annual aggregated level, we manage our total risk exposure so that the potential financial loss from all risks in any one year (at a group and operating entity level) is unlikely to exceed a defined percentage of our total capital at different return periods.

Specific risk limits are defined and translated into a consistent framework across our identified risk categories and across our operating entities, and are intended to limit the impact of individual risk types or accumulations of risk. Individual limits are established through an iterative process to ensure that the overall framework complies with our group-wide requirements on capital adequacy and risk accumulation.

We monitor risk, through, for example, risk dashboards and limit consumption reports. These are intended to allow us to detect potential deviations from our internal risk limits at an early stage.

External perspectives

Various external stakeholders, among them regulators, rating agencies, investors and accounting bodies, are placing increasing emphasis on the importance of sound risk management in our industry.

New regulatory regimes, such as Solvency II in the European Union (EU) and the equivalent framework in Bermuda, emphasize a risk-based and economic approach, based on comprehensive quantitative and qualitative assessments and reports. Our internal capital model framework, while incorporating our internal approach to managing risks, also reflects our current interpretation of the evolving Solvency II and related standards.

Risk governance and risk management organization

The key elements of our governance framework, as it relates specifically to risk management, are described below.

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Board of Directors Level

Our Board of Directors has oversight responsibility for the Group's risk management. It approves any changes to the guidelines and key principles of our risk framework. The Risk Committee of our Board (Risk Committee) which serves as a focal point for this oversight, recommends to the Board any changes to the Group's risk tolerances, reviews the measurement of adherence to these, monitors the aggregation of risk, and reviews top risk issues and exposures. The Risk Committee further reviews the Group's general risk policies and procedures to satisfy itself that effective systems of risk management have been established and are maintained.

The Risk Committee assesses the independence and objectivity of our Group Risk Management function (Group Risk), approves its terms of reference and reviews its ongoing activities. The Risk Committee receives regular reports from Group Risk and assesses whether significant risk issues are being addressed by management.

The Finance Committee of our Board oversees the Group's investment of funds and adequacy of financing facilities. This includes approval of the Group's strategic asset allocation plan. The Risk Committee ensures compliance with the Group's risk framework. The Audit Committee of our Board, which is supported by our internal audit function, is responsible for overseeing internal controls and compliance procedures and also reviews with management and the Chairman of the Risk Committee the Group's guidelines and policies regarding risk assessment and risk management.

Group executive level

Our management Executive Committee formulates our business objectives and risk strategy within the overall risk appetite set by our Board. It allocates capital resources and limits across the Group, with the objective of balancing return and risk. While the management Executive Committee is responsible overall for risk management, it has delegated some authority to various committees. Three Executive level committees focus on the Group's risk exposure:

Our Risk Management Committee (RMC) has responsibility for reviewing the allocation of capital, approving individual risk limits and determining changes to our internal risk capital methodology. The RMC also reviews new business plans in the context of our risk framework and defined risk appetite. Further, the RMC reviews and advises management with respect to certain individual transactions in accordance with the quantitative and qualitative criteria outlined in our business referral guidelines.

Our Investment & Finance Committee oversees the Group's investment activities by, among other things, monitoring market risks, the performance of our investment managers and the Group's asset-liability management, liquidity positions and investment policies and guidelines. The Investment & Finance Committee also prepares the Group's strategic asset allocation and presents it to the Finance Committee of the Board for approval.

Our Reinsurance Security Committee (RSC) sets out the financial security requirements of our reinsurance counterparties and recommends tolerance levels for different types of ceded business.

Group risk management organization

As a general principle, management in each of our business units is responsible in the first instance for both the risks and returns of its decisions. Management is the owner of risk management processes and is responsible for managing our business within defined risk tolerances.

Our Chief Risk Officer leads our independent Group Risk function, which is responsible for oversight of risk taking activity across the Group and providing guidance and support for risk management practices. Group Risk is

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responsible for developing methods and processes for identifying, measuring, managing and reporting risk. This forms the basis for informing the Risk Committee and RMC of the Group's risk profile. Group Risk develops our risk management framework and oversees the adherence to this framework at the Group and operating entity level. Our Chief Risk Officer regularly reports risk matters to the Chief Executive Officer, management Executive Committee and the Risk Committee.

Our global risk management network also includes Risk Officers within our business units and investment department. These local risk units, which have regular and close interaction with Group Risk, assist with embedding the risk management framework into our business.

Internal Audit, an independent, objective function, reports to the Audit Committee of the Board on the effectiveness of our risk management framework. This includes assurance that key business risks have been adequately identified and managed appropriately and that our system of internal control is operating effectively. Internal audit also provides an independent validation of our internal capital model and coordinates risk-based audits, compliance reviews, and other specific initiatives to evaluate and address risk within targeted areas of our business.

Our risk governance structure is further complemented by our Legal Department which seeks to mitigate legal and regulatory compliance risks with support from other departments. This includes ensuring that significant developments in law and regulations are observed and that we react appropriately to impending legislative changes and applicable court rulings.

Risk Landscape

Our risk landscape comprises strategic, insurance, credit, market, operational, liquidity and other risks that arise as a result of doing business. We provide definitions of these risk categories in the following sections as well as our related risk management. Across these risk categories, we identify and evaluate emerging threats and opportunities through a systemic framework that includes the assessment of potential surprise factors that could affect known loss potentials.

Strategic Risk

Strategic risk is the risk of loss arising from our inability to pursue an opportunity, implement appropriate business plans or adapt to changes in the external environment. We assess any strategic action in the context of our risk framework by reviewing the specific impact of the strategy against our classes of risk prior to the action taking place. Additionally, what we learn about risk through our monitoring, reporting and control processes provides important feedback in terms of reevaluating our risks and, therefore, reevaluating our business strategy.

We undertake a strategic business planning process on an annual basis which is overseen by our management Executive Committee, business segment Boards and our Board of Directors. Our internal capital model provides an input into this process by providing an assessment as to whether our prospective business and investment strategies are in line with our defined risk appetite and objectives, at both the group and operating entity level. The model also provides a basis for optimizing our risk-return profile by providing consistent risk measurement across the Group. The model outputs are reviewed and supplemented with management's judgment and business experience and expertise.

We specifically evaluate the risks of potential merger and acquisition transactions both from a quantitative and qualitative perspective. We conduct risk assessments of merger and acquisition transactions to evaluate risks

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specifically related to the integration of acquiring a business. Additionally, we have governance procedures in place to review and approve potential new initiatives within our existing businesses in order to evaluate whether the risks are well understood and justified by the potential rewards.

Insurance Risk

Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities transferred to us through the underwriting process.

Since our inception in 2001, we have expanded our international underwriting presence, with offices in Bermuda, the U.S., Europe, Singapore, Canada, Latin America and Australia. Our disciplined underwriting approach coupled with a group-wide peer review process has enabled us to manage this growth in a controlled and consistent manner.

A critical element of our management of insurance risk is our peer review process which allows us to monitor market conditions and aggregations risk-by-risk, at the highest levels within the Group. Underwriting is also conducted in accordance with other protocols, including underwriting guidelines which provide a framework for consistent pricing and risk analysis and ensuring alignment to our risk appetite. Our business units set limits on underwriting capacity, and cascade authority to individuals based on their specific expertise.

We also have significant audit coverage across our business units, including Management Initiated Audits (MIAs). MIAs are audits of underwriting and claims files performed by teams independent of those who originated the transactions, the purpose of which is to test the robustness of our underwriting, claims and operating processes and to recognize any early indicators of future trends in our operational risk.

Reinsurance purchasing

Another key component of our mitigation of insurance risk is the purchase of reinsurance on both a treaty (covering a portfolio of risks) and facultative (single risk) basis. We primarily purchase reinsurance within AXIS Insurance, on both our short and long tail lines of business.

For treaty reinsurance, we purchase both proportional and non-proportional cover. Under proportional reinsurance, we cede an agreed proportion of the premiums and the losses and loss adjustment expenses on the policies we underwrite. We primarily use proportional reinsurance on our casualty and professional lines portfolio, whereby we protect against higher loss frequency rather than specific events. We also use non-proportional reinsurance, whereby losses up to a certain amount (i.e. our retention) are borne by us. Using non-proportional reinsurance we can limit our liability with a retention which reflects our willingness and ability to bear risk, and therefore in line with our risk appetite. We primarily purchase the following forms of non-proportional reinsurance:

Excess of loss per risk – the reinsurer indemnifies us for loss amounts of all individual policies effected, defined in the treaty terms and conditions. Per risk treaties are an effective means of risk mitigation against large single losses (e.g. a large fire claim).

Catastrophe excess of loss – provides aggregate loss cover for our insurance portfolio against the accumulation of losses incurred from a single event (e.g. windstorm).

We have a centralized Ceded Reinsurance department which coordinates external treaty reinsurance purchasing across the Group and is overseen by our Reinsurance Purchasing Group (RPG). The RPG, which includes our Chief Executive Officer, Chief Risk Officer and Chairman of AXIS Insurance, approves each treaty placement, and aims to ensure that appropriate diversification exists within our counterparty panels.

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Facultative reinsurance is case by case risk transfer which we may also use to complement treaty reinsurance by covering additional risks above and beyond what is already covered in treaties. Facultative reinsurance is monitored through our peer review processes.

Natural peril catastrophe risk

Natural catastrophes such as earthquakes, storms and floods represent a challenge for risk management due to their accumulation potential and occurrence volatility. In managing natural catastrophe risk, our internal risk tolerance framework aims to limit both the loss of capital due to a single event and the loss of capital that would occur from multiple (but perhaps smaller events) in any year. Within this framework, we have an established risk tolerance for single event, single zone probable maximum loss (PML) within defined zones and at various return periods. For example, at the 1-in-250 year return period, we are not willing to expose more than 25% of our prior quarter-end common-equity from a single event within a single zone.

The table below shows our PML estimates for certain defined single zones which correspond to peak industry catastrophe exposures at January 1, 2012 and 2011:

At January 1,

(in millions of U.S. dollars)

Single zone/single event	Perils	2012			2011		
		50 Year Return Period	100 Year Return Period	250 Year Return Period	50 Year Return Period	100 Year Return Period	250 Year Return Period
Southeast	U.S. Hurricane	\$ 488	\$ 689	\$ 981	\$ 609	\$ 866	\$ 1,236
Northeast	U.S. Hurricane	100	324	631	73	221	544
Mid-Atlantic	U.S. Hurricane	190	485	1,014	131	373	900
Gulf of Mexico	U.S. Hurricane	334	457	743	287	421	683
California	Earthquake	435	625	971	471	722	1,128
Europe	Windstorm	242	355	538	326	441	646
Japan	Earthquake	188	296	565	203	316	663
Japan	Windstorm	74	121	144	88	150	178

The return period refers to the frequency with which losses of a given amount or greater are expected to occur. A zone is a geographic area in which the insurance risks are considered to be correlated to a single catastrophic event. Estimated losses from a modeled event are grouped into a single zone, as shown above, based on where the majority of the total estimated industry loss is expected to occur. In managing zonal concentrations, we aim to ensure that the geography of single events is suitably captured, but distinct enough that they track specific types of events. For example, our definition of Southeast wind encompasses five states, including Florida, while our definition of Gulf Wind encompasses four states, including Texas.

Our PMLs take into account the fact that an event may trigger claims in a number of lines of business. For instance, our U.S. hurricane modeling includes the estimated pre-tax impact to our financial results arising from our catastrophe, property, engineering, energy, marine and aviation lines of business. Our PMLs include assumptions regarding the location, size and magnitude of an event, the frequency of events, the construction type and a property's susceptibility to damage, and the cost of rebuilding the property. Loss estimates for non-U.S. zones will be subject to foreign exchange rates, although we may mitigate this currency variability from a book value point of view.

As indicated in the table above, our modeled single occurrence 1-in-100 year return period PML for a Southeast hurricane, net of reinsurance, is approximately \$0.7 billion. According to our modeling, there is a one percent chance that on an annual basis, our losses incurred from a Southeast hurricane event could be in excess of \$0.7 billion. Conversely, there is a 99% chance that on an annual basis, the loss from a Southeast hurricane will fall below \$0.7 billion.

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We have developed our PML estimates using multiple commercially available vendor models, including AIR and RMS (which we also use for pricing catastrophe risk). These models cover the major peril regions where we face potential exposure. We supplement the hypothetical loss scenarios generated by the vendor models with historical loss information and underwriters judgment. We combine the outputs of catastrophe models with our estimate of non-modeled perils and other factors which we believe, from our experience, provides us with a more complete view of catastrophe risk.

Our PML estimates are based on assumptions that are inherently subject to significant uncertainties and contingencies. These uncertainties and contingencies can affect actual losses and could cause actual losses to differ materially from those expressed above. We aim to reduce the potential for model error in a number of ways, the most important of which is by ensuring that management's judgment supplements the model outputs. We also perform ongoing model validation both within our business units and through our catastrophe model validation unit. These validation procedures include sensitivity testing of models to understand their key variables and, where possible, back testing the model outputs to actual results.

Our estimated net losses from peak zone catastrophes may change from period to period as a result of several factors, which include but are not limited to, updates to vendor catastrophe models, changes in our own modeling, changes in our underwriting portfolios, changes to our reinsurance purchasing strategy and changes in foreign exchange rates. During 2011, following our validation work, we incorporated the inputs of RMS version 11 in our catastrophe modeling. As a result of this, our U.S. wind PMLs moderately increased, although, year over year, the impact of this was partially offset or outweighed (depending on zone) by a rebalancing of our portfolio as we reacted to changing market pricing conditions.

Man-made catastrophe risk

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

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

Reserving risk

Our loss reserving process demands data quality and reliability and requires a quantitative and qualitative review of both our overall reserves and individual large claims. Within a structured control framework, claims information is communicated on a regular basis throughout our organization, including to senior management, to provide an increased awareness regarding the losses that have taken place throughout the insurance markets. The detailed and analytical reserving approach that follows is designed to absorb and understand the latest information on our reported and unreported claims, to recognize the resultant exposure as quickly as possible, to make appropriate and realistic provisions in our financial statements. We have well established processes for determining carried reserves, which we endeavor to apply consistently over time.

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Reserving for long-tail lines of business represents a significant component of reserving risk. When loss trends prove to be higher than those underlying our reserving assumptions, the risk is greater because of a stacking-up effect: we carry reserves to cover claims arising from several years of underwriting activity and these reserves are likely to be adversely affected by unfavorable loss trends. We manage and mitigate reserving risk on long-tail business in a variety of ways. First, we limit the amount of long-tail business we write in line with maintaining a well-balanced and diversified global portfolio of business. In 2011, our long-tail net premiums written (namely liability and motor business) represented 16% of our total premium written. We also purchase reinsurance on the liability business written in our insurance segment to reduce our net positions. Secondly, we follow a disciplined underwriting process that utilizes available information, including industry trends.

Another significant component of reserving risk relates to the estimation of losses in the aftermath of a major catastrophe event. For further discussion on this, as well as a description of our reserving process, refer to *Critical Accounting Estimates Reserve for Losses and Loss Expenses* under Item 7.

Claims handling risk

In accepting risk, we are committing to the payment of claims and therefore these risks must be understood and controlled. We have claims teams located throughout our main business units. Our claim teams include a diverse group of experienced professionals, including claims adjusters and attorneys. We also use approved external service providers, such as independent adjusters and appraisers, surveyors, accountants, investigators and specialist attorneys, as appropriate.

We maintain claims handling guidelines and claims reporting control and escalation procedures in all our claims units. Large claims matters are reviewed during weekly claims meetings. The minutes from each meeting are circulated to our underwriters, senior management and others involved in the reserving process. To maintain communication between underwriting and claims teams, claims personnel regularly report at underwriting meetings and frequently attend client meetings.

AXIS fosters a strong culture of review among its claims teams. This includes MIAs, whereby senior claims handlers audit a sample of claim files. The process is designed to ensure consistency between the claims units and to develop group wide best practices.

When we receive notice of a claim, regardless of size, it is recorded within our underwriting and claims system. To assist with the reporting of significant claims, we have also developed a standard format and procedure to produce flash reports for significant events and potential losses, regardless of whether we have exposure. Our process for flash reporting allows a direct notification to be communicated to underwriters and senior management worldwide. Similarly, for natural peril catastrophes, we have developed a catastrophe database, along with catastrophe coding in certain systems, that allows for the gathering, blending and reporting of loss information as it develops from early modeled results to fully adjusted and paid losses.

Credit Risk

Credit risk represents the risk of incurring financial loss due to the diminished creditworthiness (eroding credit rating and, ultimately, default) of our third party counterparties. We distinguish between three types of credit exposure; the risk of issuer default from instruments in which we invest or trade, such as corporate bonds; counterparty exposure in a direct contractual relationship, such as retrocession; and the risk we assume through our (re)insurance contracts, such as our credit and political risk and trade credit and bond lines of business.

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Credit risk aggregation

We monitor and control the aggregation of credit risk on a group-wide basis by assigning limits on the maximum credit exposure we are willing to assume by single obligors and groups, industry sector, country, region or other inter-dependencies. Our credit exposures are aggregated based on the origin of risk. Limits are based and adjusted on a variety of factors including the prevailing economic environment and the nature of the underlying credit exposures. During 2011, we reduced our internal risk limit to certain European countries, which we believe have been subject to credit deterioration due to weaknesses in their economic and fiscal situations.

Our credit aggregation measurement and reporting process is facilitated by our credit risk exposure database, which contains relevant information on counterparty details and credit risk exposures. The database is accessible by management throughout the Group, thus providing transparency to allow for the implementation of active exposure management strategies. We also license third party databases to provide credit risk assessments. The global sovereign debt crisis has resulted in heightened concerns about the creditworthiness of certain countries (e.g. Greece, Ireland, Italy, Spain and Portugal), sectors (e.g. banking) and individual entities. We are monitoring all our credit aggregations and, where appropriate, we have adjusted our internal risk limits (see above) and/or taken specific actions to reduce our risk exposures. Refer to *Cash and Investments* in Item 7 for a tabular disclosure of eurozone exposure for our fixed maturity portfolio.

Credit risk aggregation is also managed through minimizing overlaps in underwriting, financing and investing activities.

Credit risk relating to investing activities

With our fixed maturity investment portfolio, which represents approximately \$11 billion or 61% of our total assets, we are exposed to potential losses arising from the diminished creditworthiness of issuers of bonds as well as third party counterparties such as custodians. We limit such credit risk through diversification, issuer exposure limitation graded by ratings and, with respect to custodians, through contractual and other legal remedies. Excluding U.S. Treasury and Agency securities, we limit our concentration of credit risk to any single corporate issuer to 2% or less of our fixed maturities portfolio for securities rated A- or above and 1% or less of our fixed maturities portfolio for securities rated below A-.

We also have credit risk relating to our cash and cash equivalents. In order to mitigate concentration and operational risks related to cash and cash equivalents, we limit the maximum amount of cash that can be deposited with a single counterparty and additionally limit acceptable counterparties based on current rating, outlook and other relevant factors.

Credit risk relating to reinsurance recoverable assets

Within our reinsurance purchasing activities, we are exposed to the credit risk of a reinsurer failing to meet its obligations under our reinsurance contracts. To help mitigate this, all of our reinsurance purchasing is subject to financial security requirements specified by our RSC. The RSC maintains a list of approved reinsurers, performs credit risk assessments for potential new reinsurers, regularly monitors approved reinsurers with consideration for events which may have a material impact on their creditworthiness, recommends counterparty tolerance levels for different types of ceded business and monitors concentrations of credit risk. This assessment considers a wide range of individual attributes, including a review of the counterparty's financial strength, industry position and other qualitative factors.

We monitor counterparty credit quality and exposures, with special monitoring of those cases that merit close attention.

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Credit risk relating to our underwriting portfolio

In our insurance segment, we provide credit insurance primarily for lenders (financial institutions) seeking to mitigate the risk of non-payment from their borrowers primarily in emerging markets. This product has complemented our more traditional political risk insurance business in recent years. For the credit insurance contracts, it is necessary for the buyer of the insurance, most often a bank, to hold an insured asset, most often an underlying loan, in order to claim compensation under the insurance contract. The vast majority of the credit insurance provided is for single-name illiquid risks, primarily in the form of senior secured bank loans that can be individually analyzed and underwritten. As part of this underwriting process, an evaluation of credit-worthiness and reputation of the obligor is critical and forms the cornerstone of the underwriting process. We generally require that our clients retain a share of each transaction that we insure. A key element to our underwriting analysis is the assessment of recovery in the event of default and, accordingly, the strength of the collateral and the enforceability of rights to the collateral are paramount. We avoid insurance for structured finance products defined by pools of risks and insurance for synthetic products that would expose us to mark-to-market losses. We also seek to avoid terms in our credit insurance contracts which introduce liquidity risk, most notably, in the form of a collateralization requirement upon a ratings downgrade. We also provide protection against sovereign default or sovereign actions that result in impairment of cross-border investments for banks and corporations. Of note, we do not have any direct sovereign credit insurance exposure to any of the eurozone countries. Our contracts generally include conditions precedent to our liability relating to the enforceability of the insured transaction and restricting amendments to the transaction documentation, obligations on the insured to prevent and minimize losses, subrogation rights (including rights to have the insured asset transferred to us) and waiting periods. Under most of our policies, a loss payment is made in the event the debtor failed to pay our client when payment is due subject to a waiting period of up to 180 days.

In our reinsurance segment, we provide reinsurance of credit and bond insurers exposed to the risks of financial loss arising from non-payment of trade receivables covered by a policy (credit insurance) or non-performance (bonding). Our credit insurance exposures are concentrated primarily within Western European economies, while our surety bond exposures are concentrated primarily within Latin American and Western European economies.

Market Risk

Market risk is the risk that our financial instruments may be negatively impacted by movements in financial market prices or rates such as equity prices, interest rates, credit spreads and foreign exchange rates. Fluctuations in market rates primarily affect our investment portfolio.

Through asset and liability management, we aim to ensure that economic factors influence the value of our investments and that of our loss reserves and other liabilities in the same way; thus mitigating the effect of market fluctuations. For example, we reflect important features of our liabilities, such as maturity patterns and currency structures, on the assets side of the balance sheet by acquiring investments with similar characteristics.

We supplement our asset-liability management with various internal policies and limits. As part of our strategic asset allocation process, different asset strategies are simulated and stressed in order to evaluate the best portfolio (given return objectives and risk constraints) at both the group and operating entity level. We centralize the management of asset classes to control aggregation of risk, and provide a consistent approach to constructing portfolios as well as the selection process of external asset managers. We have limits on the concentration of investments by single issuers and certain asset classes, and we limit the level of illiquid investments (see *liquidity risk* below). Further, our investment guidelines do not permit the use of leverage in any of our fixed maturity portfolios.

We regularly stress test our investment portfolios using historical and hypothetical scenarios to analyze the impact of unusual market conditions and to ensure potential investment losses remain within our risk appetite. At an

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annual aggregated level, we manage the total risk exposure to our investment portfolio so that the total return investment loss in any one year is unlikely to exceed a defined percentage of our common equity at a defined return period.

We manage foreign currency risk by seeking to match our estimated (re)insurance liabilities payable in foreign currencies with assets, including cash and investments that are also denominated in such currencies. Where necessary, we use derivative financial instruments for economic hedging purposes. For example, in certain circumstances, we use forward contracts and currency options, to economically hedge portions of our un-matched foreign currency exposures.

Operational Risk

Operational risk represents the risk of financial loss as a result of inadequate processes, system failures, human error or external events. We have a dedicated team within Group Risk responsible for overseeing the management of operational risks, applying a centrally coordinated methodology to identify and assess risks. We have developed a group-wide operational risk framework that focuses on early recognition of operational risks. As part of this, we maintain an operational loss-event database which helps us better monitor and analyze potential operational risk, identify any trends, and, where necessary, put in place improvement actions to avoid occurrence or recurrence of operational loss events.

We manage transaction type operational risks through the application of process controls throughout our business. In testing these controls, we supplement the work of our internal audit team, with regular underwriting and claim MIAs (as discussed above).

We have specific processes and systems in place to focus on high priority operational matters such as information security, managing business continuity, and third party vendor risk:

Major failures and disasters which could cause a severe disruption to working environments, facilities and personnel, represent a significant operational risk to us. Our Business Continuity Management framework strives to protect critical business functions from these effects to enable us to carry out our core tasks in time and at the quality required. During 2011, we continued to review our Business Continuity Planning procedures through cyclical planned tests.

Dedicated security standards are in place for our IT systems to ensure the proper use, availability and protection of our information assets. During 2011, we continued to enhance our data synchronization architecture across our multi-regional data centers to increase the availability of our core processing systems, communication networks, and databases. Applications with automated workflows were deployed which enforce access to our respective enterprise systems and require periodic recertification. We also expanded our intrusion prevention monitoring, upgraded our anti-malware protections, implemented data loss prevention capability, segmented the telecommunications architecture, refreshed all user access tokens, increased the strength of our data encryption, and deployed mobile device management technology to meet the demands of a more versatile and dispersed workforce.

Our use of third party vendors exposes us to a number of increased operational risks, including the risk of security breaches, fraud, non-compliance with laws and regulations or internal guidelines and inadequate service. We manage material third party vendor risk, by, among other things, performing a thorough risk assessment on potential large vendors, reviewing a vendor's financial stability, ability to provide ongoing service and business continuity planning.

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Liquidity Risk

Liquidity risk is the risk that we may not have sufficient liquid financial resources to meet our obligations when they fall due, or would have to incur excessive costs to do so. As a (re)insurer, our core business generates liquidity primarily through premium and investment income. Our exposure to liquidity risk stems mainly from the need to cover potential extreme loss events and regulatory constraints that limit the flow of funds within the Group. To manage these risks, we have a range of liquidity policies and measures in place:

We maintain cash and cash equivalents and high quality, liquid investment portfolios to meet expected outflows, as well as those that could result from a range of potential stress events. We place internal limits on the maximum percentage of cash and investments which may be in a restricted form as well as a minimum percentage of our investment portfolio to mature within a defined timeframe.

We maintain committed borrowing facilities, as well as access to diverse funding sources to cover contingencies. Funding sources include asset sales, external debt issuances and lines of credit.

Capital Management

Our capital management strategy is to maximize long-term shareholder value by optimizing capital allocation while managing capital in accordance with our desired financial strength rating, as well as regulatory and solvency requirements.

We monitor the capital positions of the Group and operating entity level and apply regular stress tests based on adverse scenarios. This allows us to take appropriate measures to ensure the continued strength of capital and solvency positions, and also enables us to take advantage of growth opportunities as they arise. Such measures are performed as and when required and include traditional capital management tools (e.g. dividends, share buy-backs, issuances of shares or debt) or through changes to our risk exposure (e.g. recalibration of our investment portfolio or changes to our reinsurance purchasing strategy).

Internal capital adequacy

Our internal capital model plays an important role in the management and allocation of internal capital. Our internal capital requirement captures the potential for severe, but rare, aggregate losses over a one-year time horizon, which we also measure, monitor and report at more extreme return periods. Our internal capital model is also used to manage risks resulting from reasonably possible smaller adverse events that could occur in the near-term, because the results allow us to analyze our exposure to each source of risk both separately and in aggregate.

Regulatory capital requirements

In each country in which we operate, the local regulator specifies the minimum amount and type of capital that each of the regulated entities must hold in support of their liabilities. We target to hold, in addition to the minimum capital required to comply with the solvency requirements, an adequate buffer to ensure that each of our operating entities meets its local capital requirements. Refer to Note 18 of the Consolidated Financial Statements, under Item 8 for further information.

Rating agency capital requirements

Rating agencies apply their own models to evaluate the relationship between the required risk capital of a company and its available capital resources. The assessment of capital adequacy is usually an integral part of the rating agency process. Meeting rating agency capital requirements and maintaining strong credit ratings are strategic business objectives of the AXIS Group. For further information on our financial strength refer to the Liquidity and Capital Resources section in Item 7 of this report.

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REGULATION

General

The business of (re)insurance is regulated in most countries, although the degree and type of regulation varies significantly from one jurisdiction to another. In addition, many jurisdictions are currently evaluating changes to their regulation and AXIS is monitoring these potential developments. To the extent AXIS is aware of impending changes in regulation, we designate project teams to prepare the organization to comply on a timely basis with such anticipated changes. The following describes the current material regulations under which the Company operates.

Bermuda

Our Bermuda insurance operating subsidiary, AXIS Specialty Bermuda, is a Class 4 general business insurer subject to the Insurance Act 1978 of Bermuda and related regulations, as amended (the "Insurance Act"). The Insurance Act provides that no person may carry on any insurance or reinsurance business in or from within Bermuda unless registered as an insurer by the BMA under the Insurance Act. The Insurance Act imposes on Bermuda insurance companies solvency and liquidity standards and auditing and reporting requirements, and grants the BMA powers to supervise, investigate, require information and demand the production of documents and intervene in the affairs of insurance companies. Significant requirements pertaining to Class 4 insurers include the appointment of an independent auditor, the appointment of a loss reserve specialist, the appointment of a principal representative in Bermuda, the filing of annual and quarterly Statutory Financial Returns, the filing of annual GAAP financial statements, the filing of an annual capital and solvency return, compliance with minimum and enhanced capital requirements, compliance with certain restrictions on reductions of capital and the payment of dividends and distributions, compliance with group solvency and supervision rules, if applicable, and compliance with the Insurance Code of Conduct.

In 2011, the BMA notified AXIS Specialty Bermuda that it intended to act as group supervisor and that it had designated AXIS Specialty Bermuda as the "designated insurer" of the AXIS group of insurance companies. In accordance with the Group Supervision and Insurance Group Solvency Rules which came into effect on January 16, 2012, the AXIS insurance group is now required to prepare and submit annual audited group GAAP financial statements, annual group statutory financial statements, an annual group statutory financial return, an annual group capital and solvency return and quarterly group unaudited financial returns. Enhanced group capital requirements will come into effect in 2013.

AXIS Capital, AXIS Specialty Bermuda and AXIS Specialty Holdings Bermuda Limited must also comply with provisions of the Bermuda Companies Act 1981, as amended (the "Companies Act"), regulating the payment of dividends and distributions. A Bermuda company may not declare or pay a dividend or make a distribution out of contributed surplus if there are reasonable grounds for believing that: (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the company's assets would thereby be less than its liabilities.

The Singapore branch of AXIS Specialty Bermuda (established in 2008) is also regulated by the Monetary Authority of Singapore pursuant to The Insurance Act of Singapore, and is registered by the Accounting and Corporate Regulatory Authority ("ACRA") as a foreign company in Singapore and regulated by ACRA pursuant to the Singapore Companies Act. Prior to establishing its Singapore branch, AXIS Specialty Bermuda had maintained a representative office in Singapore since 2004.

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AXIS Specialty Holdings Bermuda Limited

AXIS Specialty Holdings Bermuda Limited is an intermediate holding company for AXIS Specialty Bermuda. It is not subject to insurance regulation.

United States

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

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

State Insurance Regulation

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

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

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

Although the insurance industry generally is not directly regulated by the federal government, federal legislation and initiatives can affect the industry and our business. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank") was signed into law. Certain sections of that act pertain to the regulation and business of insurance. Specifically, the Federal Insurance Office was created ("FIO"). Initially the

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FIO will have limited authority and mainly collect information and report on the business of insurance to Congress. In addition, Dodd-Frank contained the Nonadmitted and Reinsurance Reform Act of 2010 (NRRA). NRRA attempts to coordinate the payment of surplus lines taxes, simplify the granting of alien insurers to become surplus lines authorized and coordinates the credit for certain reinsurance. Various sections of Dodd-Frank become effective over time and regulations have yet to be drafted for certain provisions. AXIS does not anticipate that Dodd-Frank will have any material effect on its operations or finances this year, but will continue to monitor its implementation.

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

The insurance laws of each state of the United States and of many other countries regulate or prohibit the sale of (re)insurance within their jurisdictions by (re)insurers that are not admitted to do business within such jurisdictions, or conduct business pursuant to exemptions. AXIS Specialty Europe is eligible to write surplus lines business in all 50 of the United States, the District of Columbia, Puerto Rico and all other U.S. territories. AXIS Specialty Bermuda and AXIS Re Ltd. (including its branch AXIS Re Europe) are not licensed or eligible to write business in the United States. AXIS Specialty Bermuda, AXIS Specialty Europe and AXIS Re Ltd. do not maintain offices, solicit, advertise, underwrite, settle claims or conduct any insurance activities in any jurisdiction in the United States where the conduct of such activities would require these companies to be admitted or authorized.

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

Our European legal entities will be subject to Solvency II regulation when the directive is implemented in Ireland in 2013. Solvency II is a risk based capital regime that consolidates and modernizes European (re)insurance regulation and supervision. Under Solvency II, European (re)insurers will calculate capital in accordance with a new standard formula or approved internal model, implement a risk management framework and governance measures and fulfill enhanced disclosure requirements.

Ireland

AXIS Specialty Europe

AXIS Specialty Europe is a non-life insurance limited liability company incorporated under the laws of Ireland and is authorized and regulated by the Central Bank of Ireland (CBI) pursuant to the Insurance Acts 1909 to 2000, as amended, statutory instruments and the Central Bank Acts 1942 - 2010, as well as regulations relating to general insurance. AXIS Specialty Europe is authorized to conduct business in 16 non-life insurance classes of business. AXIS Specialty Europe may also write reinsurance business up to certain limitations within the classes

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of insurance business for which it is authorised. Significant additional regulation that applies to AXIS Specialty Europe includes the CBI's 2010 Corporate Governance Code for Credit Institutions and Insurance Undertakings and the CBI's 2011 Fit and Proper requirements.

Ireland is a member of the European Economic Area, (EEA), which comprises each of the countries of the European Union, (EU), and Iceland, Lichtenstein and Norway. Ireland transposed the EU's Third Non-Life Insurance Directive into Irish law. This directive introduced a single system for the authorization and financial supervision of non-life insurance companies by their home state. Under this system, AXIS Specialty Europe is permitted to provide insurance services to clients located in any other EEA member state (Freedom of Services), provided it has notified the CBI and subject to compliance with any general good requirements as may be established by the applicable EEA member state regulators. AXIS Specialty Europe has notified the CBI of its intention to provide insurance services from Ireland and the United Kingdom on a Freedom of Services basis in all 30 EEA countries.

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

In July 2008, AXIS Specialty Europe established AXIS Specialty Australia, a branch office in Australia to transact general insurance business. While the CBI continues to be the responsible supervisory authority, the Australia Prudential Regulation Authority is also responsible for prudential supervision of the branch. AXIS Specialty Europe is also registered with the Australia Securities Investment Commission in accordance with Australia's Corporations Act 2001, as amended.

AXIS Re Ltd.

AXIS Re Ltd. is a reinsurance limited liability company incorporated under the laws of Ireland. AXIS Re Ltd. is authorized by the CBI as a composite reinsurer (non-life and life) in accordance with the European Communities (Reinsurance) Regulations 2006 (the Regulations). The Regulations, as amended, which gave effect to the EU Reinsurance Directive, provide a comprehensive framework for the authorization and supervision of reinsurers in Ireland. Significant additional regulation that applies to AXIS Re Ltd. includes the CBI's 2010 Corporate Governance Code for Credit Institutions and Insurance Undertakings, the CBI's 2007 Corporate Governance for Reinsurance Undertakings Guidance and the CBI's Fit and Proper requirements.

The EU Reinsurance Directive provides that the authorization and supervision of European reinsurers is the responsibility of the EU member where the head office of the relevant reinsurer is located. Once authorized in its home state, a reinsurer is automatically entitled to conduct reinsurance business in all EEA member states under the principles of Freedom of Establishment and Freedom of Services, similar to the system that applies to EU based insurers. The Reinsurance Directive provides that the home state regulator is fully responsible for the financial and prudential supervision of a reinsurer, including business it carries on in other countries, either through branches or Freedom of Services.

In September 2003, AXIS Re Ltd. established a branch in Zurich, Switzerland, known as AXIS Re Europe. The Swiss Financial Market Supervisory Authority (FINMA) does not impose additional regulation upon a Swiss branch of a foreign reinsurer.

AXIS Re Ltd. has obtained local regulatory permissions to reinsure companies in Brazil, Chile, Columbia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Peru and Venezuela.

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AXIS Re Ltd. has marketing offices in Brazil, France and Spain. These offices are representative offices only and no business may be written or any regulated activity conducted from these offices. AXIS Re Limited Escritório de Representação No Brasil Ltda. was established in Brazil as a subsidiary of AXIS Re Ltd. to facilitate the Brazilian regulatory requirements for approval of a representative office of AXIS Re Ltd.

AXIS Specialty Holdings Ireland Ltd.

AXIS Specialty Holdings Ireland Ltd. is the holding company for AXIS Specialty Europe Ltd and AXIS Re Ltd. In its capacity as a holding company of EU regulated (re)insurance companies, AXIS Specialty Holdings Ireland Ltd. is subject to certain of the CBI's consolidated solvency requirements.

AXIS Specialty Global Holdings Limited

AXIS Specialty Global Holdings Limited is an intermediate holding company for the AXIS U.S. (re)insurance companies. It is not subject to insurance regulation.

United Kingdom

Under the law of England and Wales, a company may only conduct insurance and/or reinsurance business in the United Kingdom upon authorization. AXIS Specialty Bermuda and the U.S. (re)insurance subsidiaries are not authorized to conduct insurance and/or reinsurance business in the United Kingdom. AXIS Re Ltd. is authorized to transact business in the United Kingdom on a freedom of services basis pursuant to the reinsurance directive, and AXIS Specialty Europe is authorized to transact business in the U.K. on a freedom of services basis pursuant to the Third Non-Life Insurance Directive and to conduct business in the U.K. on a freedom of establishment basis through its branch, AXIS Specialty London.

Switzerland

AXIS Re Ltd. conducts reinsurance business from its branch in Zurich, Switzerland, subject to the supervision of the CBI. AXIS Specialty Europe, AXIS Specialty Bermuda and the U.S. (re)insurance subsidiaries are not authorized to conduct insurance or reinsurance business in Switzerland.

Singapore

AXIS Specialty Bermuda conducts (re)insurance business from its branch in Singapore, subject to the supervision of the BMA and the Monetary Authority of Singapore. AXIS Specialty Europe, AXIS Re Ltd., and the U.S. (re)insurance subsidiaries are not authorized to conduct insurance or reinsurance business in Singapore.

Canada

AXIS Reinsurance Company conducts (re)insurance business from its branch in Canada, subject to the supervision of the New York Department of Insurance and the Office of the Superintendent of Financial Institutions Canada (OSFI), the federal regulatory authority that supervises federal Canadian and non-Canadian insurance companies operating in Canada pursuant to the Insurance Companies Act (Canada). The branch is authorized by OSFI to transact insurance and reinsurance. In addition, the branch is subject to the laws and regulations of each of the provinces and territories in which it is licensed.

AXIS Specialty Europe, AXIS Re Ltd., AXIS Specialty Bermuda and the U.S. other insurance subsidiaries are not otherwise authorized to conduct insurance or reinsurance business in Canada.

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Australia

AXIS Specialty Europe conducts (re)insurance business from its branch in Australia, subject to the supervision of the CBI and the Australian Prudential Regulatory Authority (APRA). Significant additional regulation that applies to AXIS Specialty Australia includes branch capital adequacy, assets in Australia, risk management and governance.

AXIS Specialty Bermuda, AXIS Re Ltd. and the U.S. (re)insurance subsidiaries are not authorized to conduct insurance or reinsurance business in Australia.

Other Countries

The AXIS (re)insurance companies also (re)insure risks in many countries in accordance with regulatory permissions and exemptions available to non-admitted (re)insurers.

EMPLOYEES

As of February 17, 2012 we had approximately 1,100 employees. We believe that our employee relations are excellent.

AVAILABLE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and therefore file periodic reports, proxy statements and other information, including reports filed by officers and directors under Section 16(a) of the Exchange Act, with the Securities and Exchange Commission (SEC). The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (such as us) and the address of that site is <http://www.sec.gov>. Our common shares are traded on the NYSE with the symbol **AXS** and you can review similar information concerning us at the office of the NYSE at 20 Broad Street, New York, New York, 10005. Our Internet website address is <http://www.axiscapital.com>. Information contained in our website is not part of this report.

We make available free of charge, including through our internet website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Current copies of the charter for each of our Audit Committee, Corporate Governance and Nominating Committee, Compensation Committee, Finance Committee, Executive Committee and Risk Committee, as well as our Corporate Governance Guidelines and Code of Business Conduct, are available on our internet website at <http://www.axiscapital.com>.

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ITEM 1A: RISK FACTORS

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

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

We have substantial exposure to unexpected losses resulting from natural disasters, man-made catastrophes and other catastrophe events. Catastrophes can be caused by various events, including hurricanes, typhoons, earthquakes, hailstorms, explosions, severe winter weather, fires, and other natural or man-made disasters. The incidence and severity of catastrophes are inherently unpredictable and our losses from catastrophes could be substantial.

Increases in the values and concentrations of insured property may increase the severity of these occurrences in the future. Also, changes in global climate conditions may further increase the frequency and severity of catastrophe activity and losses in the future. As examples of the impact of catastrophe events, in 2011, we recognized total net losses and loss expenses of \$647 million for the Japanese earthquake and tsunami, the February earthquake near Christchurch, New Zealand and associated June aftershock. In 2010, we recognized net losses and loss expenses of \$256 million as a result of the Chilean and September New Zealand earthquakes and in 2008 we recognized \$408 million of losses and loss expenses in relation to Hurricanes Ike and Gustav. These events materially reduced our net income for those years. Although we attempt to manage our exposure to such events through the use of underwriting controls and the purchase of third-party reinsurance, catastrophe events are inherently unpredictable and the actual nature of such events when they occur could be more frequent or severe than contemplated in our pricing and risk management expectations. As a result, the occurrence of one or more catastrophe events could have a material adverse effect on our results of operations or financial condition.

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

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

In recent years, we experienced a softening market cycle throughout many of our property and liability lines of business, with increased competition, surplus underwriting capacity and deteriorating rates, terms and conditions all having an impact on our ability to write business. While a number of factors, including but not limited to the frequency and severity of recent global catastrophe activity and the current interest rate environment, appear to be contributing to rate hardening in certain business lines, there can be no assurance of a broad cycle turn in the near future.

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Our investment portfolio is exposed to significant capital markets risk related to changes in interest rates, credit spreads and equity prices as well as other investment risks, which may adversely affect our results of operations, financial condition or cash flows.

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

Our investment portfolio is subject to a variety of market risks, including risks relating to general economic conditions, interest rate fluctuations, equity price risk, foreign currency movements, pre-payment or reinvestment risk, liquidity risk and credit risk. Although we attempt to manage market risks through, among other things, stressing diversification and conservation of principal and liquidity in our investment guidelines, it is possible that, in periods of economic weakness or periods of turmoil in capital markets, we may experience significant losses in our portfolio.

Our fixed maturities, which represent 88% of our total investments at December 31, 2011, may be adversely impacted by changes in interest rates. Increases in interest rates could cause the fair value of our investment portfolio to decrease, resulting in a lower book value. Conversely, a low interest rate environment, such as the current environment, can result in reductions in our investment yield as new funds and proceeds from sales and maturities of fixed income securities are invested at lower rates. This reduces our overall profitability. Interest rates are highly sensitive to many factors, including governmental monetary policies, inflation, domestic and international economic and political conditions and other factors beyond our control. Our fixed maturities may also be adversely impacted by fluctuations in credit spreads. A credit spread is the difference between the yield on the fixed maturity security of a particular borrower (or a class of borrowers with a specified credit rating) and risk-free rates (commonly defined as the yield of a U.S. Treasury of similar maturity). Accordingly, as credit spreads widen, the fair value of a non-U.S. Treasury fixed maturity security will underperform a U.S. Treasury security of similar maturity.

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

Global economic conditions could materially and adversely affect our business, results of operations and financial condition.

In recent years, worldwide financial markets experienced unprecedented volatility and disruption including, among other things, dislocation in the mortgage and asset-backed securities markets, deleveraging and decreased liquidity generally, widening of credit spreads, bankruptcies and government intervention in a number of large financial institutions. These events resulted in extraordinary responses by governments worldwide, including the enactment of the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Act in 2009 and Dodd-Frank in 2010 in the U.S. This market turmoil affected (among other aspects of our business) the demand for and claims made under our products, the ability of customers, counterparties and others to establish or maintain their relationships with us, our ability to access and efficiently use internal and external capital resources and our investment performance. Although there were some indications of stability in the financial markets in 2010, the downgrade in the S&P credit rating for U.S. government securities and economic instability in the eurozone during 2011 resulted in additional global financial market turmoil and economic instability. There continues to be significant uncertainty regarding the timeline for a full global economic recovery. As such, evolving market conditions may continue to affect our results of operations, financial position

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and capital resources. In the event that there is further deterioration or volatility in financial markets or general economic conditions, our results of operations, financial position and/or liquidity, and competitive landscape could be materially and adversely affected.

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

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

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

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

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

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

While we believe that our loss reserves at December 31, 2011 are adequate, new information, events or circumstances, unknown at the original valuation date, may lead to future developments in our ultimate losses being significantly greater or less than the reserves currently provided. The actual final cost of settling claims outstanding at December 31, 2011 as well as claims expected to arise from the unexpired period of risk is uncertain. There are many other factors that would cause our reserves to increase or decrease, which include, but are not limited to, changes in claim severity, changes in the expected level of reported claims, judicial action changing the scope and/or liability of coverage, changes in the legislative, regulatory, social and economic environment and unexpected changes in loss inflation.

The inherent potential volatility in a loss reserve estimate is particularly pronounced for a company like ours that has a limited operating history and, therefore, places reliance on industry benchmarks. When establishing our single point best estimate of loss reserves at December 31, 2011, our management applied informed judgment to consider many qualitative factors that may not have been fully captured in actuarial estimates. Such factors included, but were not limited to: the timing of the emergence of claims, volume and complexity of claims, social and judicial trends, potential severity of individual claims and the extent of internal historical loss data versus industry information due to our relatively short operating history.

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

The effects of emerging claim and coverage issues on our business are uncertain.

As industry practices and legal, judicial, social, political and other environmental conditions change, unexpected issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims, such as the effects that recent disruptions in the credit markets could have on the number and size of reported claims under directors and officers and professional liability insurance lines of business. In some instances, these changes may not become apparent until some time after we have issued the insurance or reinsurance contracts that are affected by the changes. In addition, our actual losses may vary materially from our current estimate of the loss based on a number of factors (see *If actual claims exceed our loss reserves, our financial results could be adversely affected* above). As a result, the full extent of liability under an insurance or reinsurance contract may not be known for many years after such contract is issued and a loss occurs.

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

We seek to mitigate our loss exposure by writing a number of our (re)insurance contracts on an excess of loss basis. Excess of loss (re)insurance indemnifies the insured against losses in excess of a specified amount. We generally limit the program size for each client on our insurance business and purchase reinsurance for many of our lines of business. In the case of proportional reinsurance treaties, we seek per occurrence limitations or loss and loss expense ratio caps to limit the impact of losses from any one event. In proportional reinsurance, the reinsurer shares a proportional part of the premiums and losses of the reinsured. We also seek to limit our loss exposure through geographic diversification. Geographic zone limitations involve significant underwriting judgments, including the determination of the area of the zones and the inclusion of a particular policy within a particular zone's limits. In addition, various provisions of our policies, such as limitations or exclusions from

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coverage or choice of forum negotiated to limit our risks may not be enforceable in the manner we intend. We cannot be sure that any of these loss limitation methods will be effective and mitigate our loss exposure. As a result of these risks, one or more catastrophe or other events could result in claims that substantially exceed our expectations, which could have a material adverse effect on our results of operations or financial condition.

We utilize models to estimate our exposures to catastrophe events but there may be substantial differences between the model estimates and our actual experience.

Catastrophe modeling utilizes a mix of historical data, scientific theory and mathematical methods. We believe that there is considerable uncertainty in the data and parameter inputs for the insurance industry catastrophe models. In that regard, there is no universal standard in the preparation of insured data for use in the models and the running of modeling software. In our view, the accuracy of the models depends heavily on the availability of detailed insured loss data from actual recent large catastrophes. Due to the limited number of events, there is significant potential for substantial differences between the modeled loss estimate and actual company experience for a single large catastrophe event. This potential difference could be even greater for perils with limited or no modeled annual frequency, such as U.S. earthquake, or less modeled annual severity, such as European windstorm. We are also reliant upon third-party estimates of industry insured exposures and there is significant variation possible around the relationship between our loss and that of the industry following a catastrophe event. In addition, actual losses may increase if our reinsurers fail to meet their obligations to us or the reinsurance protection we purchase is exhausted or otherwise unavailable.

The risk associated with reinsurance underwriting could adversely affect us.

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

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

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

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

We purchase reinsurance for our (re)insurance operations in order to mitigate the volatility of losses upon our financial results. A reinsurer's insolvency, or inability or refusal to make payments under the terms of its reinsurance agreement with us, could have a material adverse effect on our business because we remain liable to

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the insured. From time to time, market conditions have limited, and in some cases have prevented, (re)insurers from obtaining the types and amounts of reinsurance that they consider adequate for their business needs.

There is no guarantee our desired amounts of reinsurance or retrocessional reinsurance will be available in the marketplace in the future. In addition to capacity risk, the remaining capacity may not be on terms we deem appropriate or acceptable or with companies with whom we want to do business. Finally, we face counterparty risk whenever we purchase reinsurance or retrocessional reinsurance. Consequently, the insolvency, inability or unwillingness of any of our present or future reinsurers to make timely payments to us under the terms of our reinsurance or retrocessional agreements could have an adverse effect on us.

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

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

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

Our operating results may be adversely affected by currency fluctuations.

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

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

Our future capital requirements depend on many factors, including our ability to write new business successfully, the frequency and severity of catastrophe events and our ability to establish premium rates and reserves at levels sufficient to cover losses. We may need to raise additional funds through financings. If we are unable to do so, it

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may curtail our growth and reduce our assets. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. Equity financings could be dilutive to our existing shareholders and could result in the issuance of securities that have rights, preferences and privileges that are senior to those of our other securities. If we cannot obtain adequate capital on favorable terms or at all, our business, operating results and financial condition could be adversely affected.

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

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

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

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

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

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

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

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and could subject us to fines and other sanctions. In addition, changes in the laws or regulations to which our (re)insurance subsidiaries are subject or in the interpretation thereof by enforcement or regulatory agencies could have an adverse effect on our business.

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

Government intervention and the possibility of future government intervention have created uncertainty in the (re)insurance markets. Government regulators are generally concerned with the protection of policyholders to the exclusion of other constituencies, including shareholders of (re)insurers. An example of such intervention was the expansion of the Florida Hurricane Catastrophe Fund in 2007, which increased the capacity of the Fund to compete against commercial providers of catastrophe reinsurance. In addition, in December 2007, the TRIEA of 2007 extended the material provisions of TRIA for an additional seven years to December 31, 2014 and expanded coverage to include domestic acts of terrorism.

In addition, in recent years certain U.S. and non-U.S. judicial and regulatory authorities, including U.S. Attorney's Offices and certain state attorneys general, have commenced investigations into other business practices in the insurance industry. While we cannot predict the exact nature, timing or scope of possible governmental initiatives, such proposals could adversely affect our business by, among other things:

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

Requiring our further participation in industry pools and guaranty associations;

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

Further regulating the terms of (re)insurance contracts; or

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

In addition, although the U.S. federal government has not historically regulated insurance, there have been proposals from time to time, and especially after the recent global financial crisis, to impose federal regulation on the insurance industry. For example, in 2010, Dodd-Frank established a FIO within the U.S. Treasury. This FIO initially has limited regulatory authority and is empowered to gather data and information regarding the insurance industry, including conducting a study for submission to the U.S. Congress on how to modernize and improve insurance regulation in the U.S. Further, Dodd-Frank gives the Federal Reserve supervisory authority over a number of financial services companies, including insurance companies, if they are designated by a two-thirds vote of a Financial Stability Oversight Council as systemically important. While we do not believe that we are systemically important, as defined in Dodd-Frank, Dodd-Frank or additional federal regulation that is adopted in the future could impose significant burdens on us, impact the ways in which we conduct our business, increase compliance costs, duplicate state regulation and/or could result in a competitive disadvantage.

In addition, the transitional provisions of the European Parliament's Solvency II directive will be effective January 1, 2013, with full implementation expected on January 1, 2014. Solvency II will replace the existing European Commission (E.C.) (re)insurance legislation and has three pillars: (i) a risk based capital assessment, including the approval of internal capital models, (ii) a principles-based risk governance framework, and (iii) external regulatory disclosure obligations. Our European subsidiaries AXIS Specialty Europe and AXIS Re Ltd. are working towards becoming Solvency II compliant. The Bermuda Monetary Authority (BMA) is

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seeking equivalence under the Solvency II directive and the E.C. has completed a preliminary equivalence assessment, identifying certain areas for improvement prior to granting full equivalence. AXIS Specialty Limited is working towards meeting the new BMA requirements. Many of the detailed requirements are still being finalized by the E.C. The final implementation of the Solvency II directive may require us to incur considerable expense in order to comply with the requirements and the adoption of new capital modeling rules could impact the levels of capital required to operate our Bermuda and European subsidiaries. Solvency II could also increase our compliance costs and impact the way in which we conduct our business and govern our subsidiaries.

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

We market our (re)insurance worldwide primarily through (re)insurance brokers and derive a significant portion of our business from a limited number of brokers. MMC (Marsh & McLennan Companies, Inc.), including its subsidiary Guy Carpenter & Company, Inc., Aon Corporation and Willis Group Holdings Ltd., provided a total of 63% of our gross premiums written during 2011. Our relationships with these brokers are based on the quality of our underwriting and claim services, as well as our financial strength ratings. Any deterioration in these factors could result in the brokers advising our clients to place their business with other (re)insurers. In addition, these brokers also have, or may in the future acquire, ownership interests in insurance and reinsurance companies that may compete with us and these brokers may favor their own (re)insurers over other companies. Loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our business.

Our reliance on brokers subjects us to their credit risk.

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

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

Certain of our policyholders and intermediaries may not pay premiums owed to us due to bankruptcy or other reasons.

Bankruptcy, liquidity problems, distressed financial condition or the general effects of economic recession may increase the risk that policyholders or intermediaries, such as insurance brokers, may not pay a part of or the full amount of premiums owed to us, despite an obligation to do so. The terms of our contracts may not permit us to cancel our insurance even though we have not received payment. If non-payment becomes widespread, whether as a result of bankruptcy, lack of liquidity, adverse economic conditions, operational failure or otherwise, it could have a material adverse impact on our revenues and results of operations.

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

Developments in accounting practices may require us to incur considerable additional expenses to comply with such developments, particularly if we are required to prepare information relating to prior periods for comparative purposes or to apply the new requirements retroactively. The impact of changes in current accounting practices and future pronouncements cannot be predicted but may affect the calculation of net income, net equity and other relevant financial statement line items. In particular, the U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), and together with the FASB, the Boards) are working jointly on an insurance contract project. The IASB and FASB, respectively, issued a related Exposure Draft and Discussion Paper in 2010 and the Boards are currently redeliberating significant issues based on feedback received. The accounting and reporting guidance for insurance contracts proposed by the Boards would result in a material change from the current insurance accounting models toward more fair value-based models. Additionally, the Boards continue to develop a comprehensive model for accounting for and reporting of financial instruments, which may lead to further recognition of fair value changes through net income. Changes resulting from these two projects could introduce significant volatility in the earnings of insurance industry participants. There remains considerable uncertainty with respect to the final outcome of these two projects.

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

Our success depends on our ability to retain the services of our existing key executives and to attract and retain additional qualified personnel in the future. The loss of the services of any of our key executives or the inability to hire and retain other highly qualified personnel in the future could adversely affect our ability to conduct our business. There can be no assurance that we will be successful in identifying, hiring or retaining successors on terms acceptable to us or on any terms.

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

Competition in the insurance industry could reduce our growth and profitability.

The (re)insurance industry is highly competitive. We compete on an international and regional basis with major U.S., Bermuda, European and other international (re)insurers and with Lloyds underwriting syndicates, some of which have greater financial, marketing and management resources than we do. We also compete with new

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companies that continue to be formed to enter the (re)insurance markets. In addition, capital market participants have recently created alternative products that are intended to compete with reinsurance products. Increased competition could result in fewer submissions, lower premium rates and less favorable policy terms and conditions, which could have a material adverse effect on our growth and profitability.

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

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

Global climate change may have a material adverse effect on our results of operation and financial condition if we are not able to adequately assess and reserve for the increased frequency and severity of catastrophes resulting from these environmental factors.

The frequency and severity of natural catastrophe activity, including hurricanes, tornadoes, floods and droughts, has been greater in recent years. Atmospheric concentrations of carbon dioxide and other greenhouse gases have increased dramatically since the industrial revolution and there is debate as to whether this has caused a gradual increase in global average temperatures. Increasing global average temperatures may continue in the future and could impact our business in the long-term. However, there is no clear consensus in the scientific community regarding the effect of global environmental factors on the frequency and severity of catastrophes. Climatologists concur that heat from the ocean drives hurricanes, but they cannot agree on how much ocean temperature changes alter the annual outlook. In addition, it is unclear whether rising sea temperatures are part of a longer cycle.

We attempt to mitigate the risk of financial exposure from climate change through our underwriting risk management practices. This includes sensitivity to geographic concentrations of risks, the purchase of protective reinsurance and selective underwriting criteria which can include, but is not limited to, higher premiums and deductibles and more specifically excluded policy risks. However, given the scientific uncertainty about the causes of increased frequency and severity of catastrophes and the lack of adequate predictive tools, a continuation and worsening of recent trends may have a material impact on our results of operation or financial condition.

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

AXIS Capital is incorporated pursuant to the laws of Bermuda and our business is based in Bermuda. In addition, some of our directors and officers reside outside the United States, and all or a substantial portion of our assets and the assets of such persons are located in jurisdictions outside the United States. As a result, it may be difficult

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or impossible to effect service of process within the United States upon those persons or to recover against us or them on judgments of U.S. courts, including judgments predicated upon civil liability provisions of the U.S. federal securities laws. Further, it may not be possible to bring a claim in Bermuda against us or our directors and officers for violation of U.S. federal securities laws because these laws may have no extraterritorial application under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability, including the possibility of monetary damages, on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

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

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

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

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

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

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

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

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

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

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

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

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

We may become subject to taxes in Bermuda after March 31, 2035, which may have a material adverse effect on our results of operations.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, has given each of AXIS Capital and AXIS Specialty Bermuda an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to AXIS Capital, AXIS Specialty Bermuda or any of their respective operations, shares, debentures or other obligations until March 31, 2035. Given the limited duration of the Minister of Finance's assurance, we cannot be certain that we will not be subject to any Bermuda tax after March 31, 2035.

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

AXIS Capital, AXIS Specialty Holdings Bermuda Limited and AXIS Specialty Bermuda are Bermuda companies, AXIS Specialty Holdings Ireland Limited (AXIS Ireland Holdings), AXIS Re Ltd., AXIS Specialty

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Europe, and AXIS Specialty Global Holdings Limited are Irish companies, AXIS Specialty U.K. Holdings Limited (AXIS U.K. Holdings) is a U.K. company, Sirius Australia Pty Limited and Dexta are Australian companies, AXIS Re Limited Escritório de Representação No Brasil Ltda. is a Brazilian company and AXIS Specialty Canada Services, ULC is a Canadian company. We intend to manage our business so that each of these companies will operate in such a manner that none of these companies should be subject to U.S. tax (other than U.S. excise tax on (re)insurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on some types of U.S. source investment income), because none of these companies should be treated as engaged in a trade or business within the United States. However, because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the United States, we cannot be certain that the U.S. Internal Revenue Service will not contend successfully that any of AXIS Capital or its non-U.S. subsidiaries is/are engaged in a trade or business in the United States. If AXIS Capital or any of its non-U.S. subsidiaries were considered to be engaged in a trade or business in the United States, it could be subject to U.S. corporate income and additional branch profits taxes on the portion of its earnings effectively connected to such U.S. business. If this were to be the case, our results of operations could be materially adversely affected.

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

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

In addition, there are circumstances in which companies that are neither resident in the United Kingdom, nor entitled to the protection afforded by a double tax treaty between the United Kingdom and the jurisdiction in which they are resident, may be exposed to income tax in the United Kingdom (other than by deduction or withholding) on the profits of a trade carried on there even if that trade is not carried on through a permanent establishment. We intend to operate in such a manner that none of our companies will fall within the charge to United Kingdom income tax in this respect.

If any of our companies, other than AXIS U.K. Holdings, were treated as being resident in the United Kingdom for U.K. corporation tax purposes, or if any of our companies other than AXIS U.K. Holdings, and AXIS Specialty Europe were to be treated as carrying on a trade in the United Kingdom, whether or not through a permanent establishment, our results of operations could be materially adversely affected.

Our U.K. operations may be affected by future changes in U.K. tax law.

AXIS U.K. Holdings should be treated as resident in the United Kingdom (by virtue of its being incorporated and managed there) and accordingly be subject to U.K. tax in respect of its worldwide income and gains. AXIS Specialty Europe is subject to U.K. corporation tax as a result of its having a permanent establishment in the United Kingdom, however the charge to U.K. corporation tax is limited to profits (including revenue profits and capital gains) attributable directly or indirectly to such permanent establishment. Any change in the basis or rate of U.K. corporation tax could materially adversely affect the operations of these companies.

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

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

Accordingly, we expect that none of our companies other than AXIS Ireland Holdings, AXIS Re Ltd., AXIS Specialty Europe and AXIS Specialty Global Holdings Limited should be subject to Irish corporation tax. Nevertheless, since the determination as to whether a company is resident in Ireland is a question of fact to be determined based on a number of different factors and since neither case law nor Irish legislation conclusively defines the activities that constitute trading in Ireland through a branch or agency, the Irish Revenue Commissioners might contend successfully that any of our companies, in addition to AXIS Ireland Holdings, AXIS Re Ltd., AXIS Specialty Europe and AXIS Specialty Global Holdings Limited, is resident in or otherwise trading through a branch or agency in Ireland and therefore subject to Irish corporation tax. If this were the case, our results of operations could be materially adversely affected.

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

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

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

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

Changes in U.S. federal income tax law or the manner in which it is interpreted could materially adversely affect us.

Legislation has been introduced in the U.S. Congress intended to eliminate some perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the United States, but have certain U.S. connections. For example, legislation has been introduced in Congress to limit the deductibility of

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reinsurance premiums paid by U.S. companies to non-U.S. affiliates. A similar provision was included as part of President Obama's proposed budget for fiscal year 2012. It is possible that this or similar legislation could be introduced in and enacted by the current Congress or future Congresses that could have an adverse impact on us. In addition, existing interpretations of U.S. federal income tax laws could change, also resulting in an adverse impact on us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no outstanding, unresolved comments from the SEC staff at December 31, 2011.

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

Except as 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; estimated amounts payable under such proceedings are included in the reserve for losses and loss expenses in our Consolidated Balance Sheets. In our opinion, the eventual outcome of these legal proceedings is not expected to have a material effect on our financial condition, results of operations, cash flows or liquidity.

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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

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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 principal with the plaintiffs during the first quarter of 2011 to settle all claims and causes of action in this matter for an immaterial amount. On June 27, 2011, the District Court preliminarily approved the terms and conditions of the settlement and are awaiting issuance of the final settlement order.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

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

	2011			2010		
	High	Low	Dividends Declared	High	Low	Dividends Declared
1st Quarter	\$ 37.81	\$ 32.07	\$ 0.23	\$ 32.29	\$ 27.22	\$ 0.21
2nd Quarter	\$ 36.63	\$ 30.23	\$ 0.23	\$ 32.47	\$ 28.65	\$ 0.21
3rd Quarter	\$ 32.40	\$ 24.80	\$ 0.23	\$ 33.35	\$ 29.20	\$ 0.21
4th Quarter	\$ 32.99	\$ 25.03	\$ 0.24	\$ 37.15	\$ 32.58	\$ 0.23

On February 2, 2012, the number of holders of record of our common shares was 52. This figure does not represent the actual number of beneficial owners of our common shares because shares are frequently held in street name by securities dealers and others for the benefit of beneficial owners who may vote the shares.

While we expect to continue paying cash dividends in the foreseeable future, the declaration and payment of future dividends will be at the discretion of our Board of Directors and will depend upon many factors, including our earnings, financial condition, business needs, capital and surplus requirements of our operating subsidiaries and regulatory and contractual restrictions, including those set forth in our credit facilities. See Item 7 *Liquidity and Capital Resources* for further information.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table provides information regarding the number of common shares we repurchased in the quarter ended December 31, 2011:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ^(a)	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Announced Plans or Programs ^(b)
October 1-31, 2011	576	\$31.12	-	\$ 593.4 million

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November 1-30, 2011	1,123,858	\$31.22	1,120,354	\$ 558.5 million
December 1-31, 2011	488,402	\$30.71	488,300	\$ 543.5 million
Total	1,612,836		1,608,654	\$ 543.5 million

(a) Share repurchases relating to tax withholdings upon vesting of restricted stock and restricted stock units 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.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

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

	At and For The Year Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per share amounts)				
Selected Statement of Operations Data:					
Gross premiums written	\$ 4,096,153	\$ 3,750,536	\$ 3,587,295	\$ 3,390,388	\$ 3,590,090
Net premiums earned	3,314,961	2,947,410	2,791,764	2,687,181	2,734,410
Net investment income	362,430	406,892	464,478	247,237	482,873
Net realized investment gains (losses) ⁽¹⁾	121,439	195,098	(311,584)	(85,267)	5,230
Net losses and loss expenses	2,675,052	1,677,132	1,423,872	1,712,766	1,370,260
Acquisition costs	587,469	488,712	420,495	366,509	384,497
General and administrative expenses	459,151	449,885	370,157	335,758	303,831
Interest expense and financing costs	62,598	55,876	32,031	31,673	51,153
Preferred share dividends	36,875	36,875	36,875	36,875	36,775
Net income available to common shareholders ⁽¹⁾	\$ 9,430	\$ 819,848	\$ 461,011	\$ 350,501	\$ 1,055,243
Per Common Share Data:					
Basic earnings per common share	\$ 0.08	\$ 6.74	\$ 3.36	\$ 2.50	\$ 7.15
Diluted earnings per common share	\$ 0.07	\$ 6.02	\$ 3.07	\$ 2.26	\$ 6.41
Cash dividends per common share	\$ 0.93	\$ 0.86	\$ 0.81	\$ 0.755	\$ 0.68
Basic weighted average common shares outstanding	122,499	121,728	137,279	140,322	147,524
Diluted weighted average common shares outstanding	128,122	136,199	150,371	155,320	164,515
Operating Ratios:⁽²⁾					
Net loss and loss expense ratio	80.7%	56.9%	51.0%	63.7%	50.1%
Acquisition cost ratio	17.7%	16.6%	15.1%	13.6%	14.1%
General and administrative expense ratio	13.9%	15.2%	13.2%	12.5%	11.1%
Combined ratio	112.3%	88.7%	79.3%	89.8%	75.3%
Selected Balance Sheet Data:					
Investments	\$ 12,466,889	\$ 11,524,166	\$ 10,622,104	\$ 8,611,898	\$ 8,977,653
Cash and cash equivalents	1,082,838	1,045,355	864,054	1,820,673	1,332,921
Reinsurance recoverable balances	1,770,329	1,577,547	1,424,172	1,378,630	1,356,893
Total assets	17,806,059	16,445,731	15,306,524	14,282,834	14,675,309
Reserve for losses and loss expenses	8,425,045	7,032,375	6,564,133	6,244,783	5,587,311
Unearned premiums	2,454,462	2,333,676	2,209,397	2,162,401	2,146,087
Senior notes	994,664	994,110	499,476	499,368	499,261
Total shareholders' equity	5,444,079	5,624,970	5,500,244	4,461,041	5,158,622
Book value per common share ⁽³⁾	\$ 39.37	\$ 45.60	\$ 37.84	\$ 29.08	\$ 32.69
Diluted book value per common share ⁽³⁾	\$ 38.08	\$ 39.37	\$ 33.65	\$ 25.79	\$ 28.79
Common shares outstanding	125,588	112,393	132,140	136,212	142,520
Common shares outstanding - diluted	129,818	130,189	148,596	153,588	161,804

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- (1) Effective April 1, 2009, we adopted new Financial Accounting Standards Board guidance for the recognition and presentation of other-than-temporary impairments for fixed maturities. Refer to Item 8, Note 2 to the Consolidated Financial Statements for further details.
- (2) Operating ratios are calculated by dividing the respective operating expenses by net premiums earned.
- (3) Book value per common share and diluted book value per common share are based on total common shareholders' equity divided by common shares and diluted common share equivalents outstanding, respectively.

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following is a discussion and analysis of our results of operations for the years ended December 31, 2011, 2010 and 2009 and our financial condition at December 31, 2011 and 2010. This should be read in conjunction with the Consolidated Financial Statements and related notes included in Item 8 of this report. Tabular dollars are in thousands, except per share amounts. Amounts in tables may not reconcile due to rounding differences.

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2011 FINANCIAL HIGHLIGHTS

2011 Consolidated Results of Operations

Net income available to common shareholders of \$9 million, or \$0.08 per share basic and \$0.07 per diluted share

Operating loss of \$154 million, or \$1.26 per diluted share⁽¹⁾

Gross premiums written of \$4.1 billion

Net premiums written of \$3.4 billion

Net premiums earned of \$3.3 billion

Net favorable prior year reserve development of \$257 million

Estimated pre-tax net losses (net of reinstatement premiums) of \$420 million for the February New Zealand earthquake and associated June aftershock and \$221 million for the March Japanese earthquake and tsunami

Aggregate estimated pre-tax net losses (net of reinstatement premiums) of \$290 million for other notable catastrophe events (including a series of severe storms in the U.S. during April and May, January Australian floods and Cyclone Yasi, Thai and Danish flooding, Hurricane Irene and Tropical Storm Lee)

Underwriting loss of \$327 million and combined ratio of 112.3%

Net investment income of \$362 million

Net realized investment gains of \$121 million

2011 Consolidated Financial Condition

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Total cash and investments of \$13.5 billion; fixed maturities, cash and short-term securities comprise 90% of total cash and investments and have an average credit rating of AA-

Total assets of \$17.8 billion

Reserve for losses and loss expenses of \$8.4 billion and reinsurance recoverable of \$1.8 billion

Total debt of \$995 million and a debt to total capital ratio of 15.4%

Common shareholders' equity of \$4.9 billion; diluted book value per common share of \$38.08

Repurchased 1.6 million common shares under the repurchase plan authorized by our Board of Directors for total cost of \$50 million; remaining authorization of \$544 million at December 31, 2011

\$9.1 billion, or 67%, of our cash and investment portfolio invested in investment-grade, short-term and intermediate maturity fixed income holdings (excluding restricted investments), where cash proceeds from sales are expected to be available within one to three business days under normal market conditions

(1) Effective April 1, 2011, we amended our definition of operating income (loss) to exclude after-tax foreign exchange losses (gains). Accordingly, we have restated all prior period operating income, diluted operating earnings per share and operating return on average common equity amounts herein to reflect this change. 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 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, Australia and Latin America. Our underwriting operations are organized around our two global underwriting platforms, AXIS Insurance and AXIS Re.

Our strategy is to leverage our expertise, experience and relationships to expand our business globally. We manage a book of business diversified both geographically and by product line. We seek to provide high-quality products and services to our clients, while maintaining profitability and generating superior returns on equity over the underwriting cycle. 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 2011 included:

the continuing growth of our new accident & health line, focused on specialty accident and health products; and

taking advantage of select opportunities for premium growth, including in our newer geographies and business lines.

Results of Operations

Year ended December 31,	2011	% Change	2010	% Change	2009
Underwriting income (loss):					
Insurance	\$ 35,034	(83%)	\$ 210,039	149%	\$ 84,185
Reinsurance	(362,260)	nm	199,164	(55%)	440,450
Net investment income	362,430	(11%)	406,892	(12%)	464,478
Net realized investment gains (losses)	121,439	(38%)	195,098	nm	(311,584)
Other expenses, net	(110,338)	(29%)	(154,470)	(14%)	(179,643)
Net income	46,305	(95%)	856,723	72%	497,886
Preferred share dividends	(36,875)	-	(36,875)	-	(36,875)
Net income available to common shareholders	\$ 9,430	(99%)	\$ 819,848	78%	\$ 461,011
Operating income (loss)	\$ (153,912)	nm	\$ 611,342	(23%)	\$ 796,795

nm not meaningful

Underwriting Results

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2011 versus 2010: A higher frequency and severity of natural catastrophe activity in 2011 impacted the underwriting results of both of our segments and was the primary driver of our total underwriting loss of \$327 million. During 2011, we recognized estimated aggregate pre-tax net losses (net of related reinstatement premiums) of \$931 million, including \$390 million for the first quarter Christchurch, New Zealand earthquake (New Zealand II) and \$221 million for the Japanese earthquake and tsunami; the remainder related to a number of other natural catastrophe events, including the series of severe U.S. storms in April/May, Thai flooding, first quarter Australian weather events, the June Christchurch aftershock (New Zealand III), Danish flooding, Hurricane Irene and Tropical Storm Lee. Natural catastrophe activity also impacted our underwriting results in

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2010, though to a lesser extent and primarily impacting our reinsurance segment; we recognized estimated pre-tax net losses (net of related reinstatement premiums) of \$138 million for the September New Zealand earthquake (New Zealand I) and \$110 million for the Chilean earthquake.

Our insurance segment's 2011 underwriting income included \$157 million in pre-tax net losses (inclusive of related premiums to reinstate reinsurance protection) related to the events noted above; of this amount \$40 million, \$32 million, \$29 million and \$20 million, respectively, related to the series of U.S. storms in April/May, the Thai flooding, the Japanese earthquake and tsunami and New Zealand II. Higher acquisition costs and a \$15 million reduction in net favorable prior period reserve development also contributed to the reduction in underwriting income, while reductions in ceded reinsurance costs and increases in gross premiums written contributed to higher net premiums earned and partially offset these reductions.

The majority of our 2011 natural catastrophe-related losses emanated from our reinsurance segment and drove the underwriting loss for the year. Included in the 2011 underwriting loss are aggregate pre-tax net losses (net of related reinstatement premiums) of \$774 million for the events noted above, with the most significant amounts being \$370 million for New Zealand II, \$192 million for the Japanese earthquake and tsunami and \$74 million for the first quarter Australian weather events. As noted above, substantially all of our natural catastrophe-related pre-tax net losses in 2010 emanated from the reinsurance segment. A \$40 million reduction in net favorable prior period reserve development also contributed to the variance.

2010 versus 2009: Total underwriting income was \$409 million for 2010, a decrease of 22% from 2009.

Underwriting results in our insurance segment benefited from a substantially reduced level of claim activity in our credit and political risk lines, as well as the continued consideration of our own loss experience in establishing our current accident year loss ratios, most notably for professional lines. Reduced ceded reinsurance costs due to the restructuring of certain programs on renewal in the second quarter of 2010 increased net premiums earned. These factors were partially offset by a \$93 million reduction in net favorable prior period reserve development and increases in acquisition costs and general and administrative expenses. In addition, the segment's 2010 underwriting results were not impacted by our indemnity contract exposed to longevity risk. During 2009, we recognized net losses of \$133 million in relation to this contract, which was cancelled during the fourth quarter of that year.

The reduction in underwriting income for our reinsurance segment was primarily the result of the previously discussed net losses incurred as a result of the Chilean earthquake and New Zealand I. In addition, we recognized net losses for a number of other notable 2010 weather-related events, including the first quarter Australian storms and European Windstorm Xynthia, numerous U.S. storms throughout the year, and the fourth quarter Australian floods. In contrast, catastrophe activity was notably less significant in 2009. Partially offsetting this increase in natural catastrophe losses was a lower level of claims activity in our trade credit and bond line of business in 2010.

Net Investment Income

2011 versus 2010: Net investment income decreased \$44 million, largely due to a reduction in income from our alternative investment portfolio (other investments); during 2011, we recognized modest negative returns from our hedge and credit funds, whereas returns were positive for 2010. In addition, income from our fixed maturities was \$15 million lower in 2011. Continued declines in reinvestment yields, primarily due to lower U.S. and European risk-free rates, were the primary driver; however, the impact was partially offset by widening credit spreads and growth in our asset base driven by the investment of net cash flows from operations.

2010 versus 2009: The \$58 million decrease in 2010 primarily resulted from lower reinvestment yields on our fixed maturity portfolio. Our other investments also contributed to the decrease; although these investments performed well in both years, our hedge funds and credit funds generated higher returns in 2009.

Table of Contents***Net Realized Investment Gains (Losses)***

Volatility and turmoil in the global financial markets during 2009 led to a \$337 million impairment charge on our available-for-sale (AFS) investments; this amount included a \$263 million other-than-temporary impairment (OTTI) charge on a portfolio of medium-term notes (MTNs), where we no longer expected to fully recover amortized costs based on updated cash flow projections. The subsequent recovery in global financial market conditions led to improved valuations for fixed maturities and equities, a portion of which we realized in 2010 and 2011. While realized gains in 2010 were driven by credit spread tightening, the corresponding amount in 2011 was largely driven by the reductions in risk-free rates noted above.

Other (Expenses) Revenues, Net

The movements in other revenues and expenses were primarily due to foreign exchange rate movements. Depreciation in the euro and the Sterling against the U.S. dollar resulted in foreign exchange gains of \$45 million and \$16 million, respectively, on the remeasurement of our non-U.S. dollar net insurance-related liabilities during 2011 and 2010; appreciation in these currencies drove a \$29 million loss recognized in 2009.

Our income tax expense for 2011 was \$23 million lower than for 2010, largely due to the reduction in net income driven by catastrophe losses. An increase in interest expense following our March 2010 senior note issuance contributed to the higher expense levels for 2010 when compared with 2009.

Outlook

Following several years of price reductions across many property and casualty lines and a near record year in terms of global catastrophes and amid declining investment yields and an uncertain global economic environment, we believe the industry is in the early stages of a cycle change, where we anticipate that pricing adequacy will improve over the next few years. Currently, however, conditions are mixed, with increases in certain lines and markets while others are stable or still in negative territory. We intend to remain selective in our approach to risk. On the asset side, the persistence of the low interest rate environment continues to pressure our investment returns. We will continue to evaluate the risk and return characteristics of our existing business, as well as emerging opportunities, and focus on lines of business where we find the most attractive opportunities.

Financial Measures

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

Year ended and at December 31,	2011	2010	2009
ROACE ⁽¹⁾	0.2%	16.2%	10.3%
Operating ROACE ⁽²⁾	(3.1%)	12.1%	17.8%
DBV per common share ⁽³⁾	\$ 38.08	\$ 39.37	\$ 33.65
Cash dividends declared per common share	\$ 0.93	\$ 0.86	\$ 0.81

(1) Return on average common equity (ROACE) is calculated by dividing net income 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 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. Operating ROACE is a non-GAAP financial measure, as defined in SEC Regulation G. See *Non-GAAP Financial Measures* for additional information and a 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.

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Return on equity

Our objective is to generate superior returns on capital that appropriately reward our common shareholders for the risks we assume and to grow revenue only when we expect the returns will meet or exceed our requirements. We recognize that the nature of underwriting cycles and the frequency or severity of large loss events in any one year may make it difficult to achieve a profitability target in any specific period and, therefore, established a ROACE target of 15% over the full underwriting cycle. Our average annual ROACE since inception is approximately 14%, tracking closely to our long-term goal.

2011 versus 2010: Our underwriting loss, driven by catastrophe-related losses, was the primary driver of the negative operating ROACE for 2011; reductions in net favorable prior period reserve development and net investment income also contributed to a lower return when compared to 2010.

In addition to the changes noted above for operating ROACE, ROACE also includes net realized gains and foreign exchange gains. Our combined net realized and foreign exchange gains for 2011 were sufficient to recognize net income for the period; as such, our ROACE for the year was marginally positive.

2010 versus 2009: Our 2010 operating income was also adversely impacted by a higher level of catastrophe activity relative to the previous year, as well as reductions in net favorable prior period development and net investment income. However, these factors were partially offset by a comparative absence of charges related to our indemnity contract exposed to longevity risk following the cancellation of that contract in 2009. Our average common equity increased 13%, also contributing to the reduction in the return. The increase in average common equity was driven by a global recovery in financial markets and our net income available to common shareholders; these increases were partially offset by more significant common share repurchases.

As net realized gains and losses (and therefore ROACE) includes the impact of OTTI charges, improvement in our 2010 ROACE relative to 2009 was primarily due to the substantial reduction in OTTI charges.

Diluted book value per common share

We consider DBV per common share to be an appropriate measure of our returns to common shareholders, as we believe growth in our book value on a diluted basis will ultimately translate into appreciation of our stock price.

During 2010, our DBV per share appreciated by 17%, driven by \$820 million in net income available to common shareholders, an overall improvement in valuations for our AFS securities as financial markets improved and the execution of common share repurchases at a discount to book value. The previously described impact of catastrophe loss on our 2011 net income available to common shareholders was the primary driver of the 3% reduction in our DBV per share for the 2011 fiscal year.

Cash dividends per common share

We believe in returning excess capital to our shareholders by way of dividends (as well as stock repurchases) and, accordingly, our dividend policy is an integral part of the value we create for our shareholders. Our cumulatively strong earnings have permitted our Board of Directors to approve eight successive annual increases in quarterly common share dividends.

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.

Year ended December 31,	2011	% Change	2010	% Change	2009
Revenues:					
Gross premiums written	\$ 4,096,153	9%	\$ 3,750,536	5%	\$ 3,587,295
Net premiums written	3,419,434	9%	3,147,540	12%	2,816,429
Net premiums earned	3,314,961	12%	2,947,410	6%	2,791,764
Other insurance related income (loss)	2,396		2,073		(129,681)
Expenses:					
Current year net losses and loss expenses	(2,932,513)		(1,990,187)		(1,847,044)
Prior period reserve development	257,461		313,055		423,172
Acquisition costs	(587,469)		(488,712)		(420,495)
General and administrative expenses	(382,062)		(374,436)		(293,081)
Underwriting income (loss)⁽¹⁾	\$ (327,226)	nm	\$ 409,203	(22%)	\$ 524,635

(1) Refer to Item 8, Note 3 to the Consolidated Financial Statements, for a reconciliation of underwriting income (loss) to Income before income taxes for the periods indicated above.

Table of Contents**UNDERWRITING REVENUES*****Premiums Written:***

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

Year ended December 31,	Gross Premiums Written				
	2011	% Change	2010	% Change	2009
Insurance	\$ 2,121,829	11%	\$ 1,916,116	8%	\$ 1,775,590
Reinsurance	1,974,324	8%	1,834,420	1%	1,811,705
Total	\$ 4,096,153	9%	\$ 3,750,536	5%	\$ 3,587,295
% ceded					
Insurance	31%	1 pts	30%	(12) pts	42%
Reinsurance	1%	- pts	1%	- pts	1%
Total	17%	1 pts	16%	(5) pts	21%

Year ended December 31,	Net Premiums Written				
	2011	% Change	2010	% Change	2009
Insurance	\$ 1,466,134	10%	\$ 1,332,220	30%	\$ 1,025,061
Reinsurance	1,953,300	8%	1,815,320	1%	1,791,368
Total	\$ 3,419,434	9%	\$ 3,147,540	12%	\$ 2,816,429

2011 versus 2010: Our new accident and health line was the primary driver of the 11% increase in gross premiums written in our insurance segment. Geographic expansion and new business initiatives also contributed to the increase. Gross premiums written growth for our reinsurance segment was primarily driven by proportional motor reinsurance business, with the primary contributing factors being increases on renewal and new business. Gross premiums written for trade credit and bond reinsurance business also increased.

2010 versus 2009: The 5% increase in gross written premiums during 2010 was driven by our insurance segment. A number of factors contributed to the increase, including opportunities in the U.S. property market, select new business opportunities in the onshore energy market and rate increases on offshore energy business following the Deepwater Horizon event. In addition, professional lines premiums increased due to select new business opportunities and the continued build-out of our platform in Europe, Australia and Canada.

The twelve percentage point reduction in the ceded premium ratio for our insurance segment primarily reflected changes in reinsurance purchasing; we increased the attachment points on our excess of loss property program and reduced the cession rates on our quota share professional lines program on renewal during the second quarter.

Net Premiums Earned:

Net premiums earned by segment were as follows:

Year ended December 31,	2011	2010	2009	% Change	
				10 to 11	09 to 10

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Insurance	\$ 1,429,687	43%	\$ 1,206,493	41%	\$ 1,157,966	41%	18%	4%
Reinsurance	1,885,274	57%	1,740,917	59%	1,633,798	59%	8%	7%
Total	\$ 3,314,961	100%	\$ 2,947,410	100%	\$ 2,791,764	100%	12%	6%

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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.

2011 versus 2010: Eleven percent growth in gross premiums written and the changes in our reinsurance purchasing effected during the second quarter of 2010 drove the 18% growth in net premiums earned for our insurance segment. The 8% increase in our reinsurance segment is consistent with gross premiums written growth.

2010 versus 2009: The increase in net premiums earned for our insurance segment resulted from the previously discussed changes in our ceded reinsurance programs and an 8% increase in gross premiums written. The increase for our reinsurance segment reflected premium growth for motor and trade credit & bond business.

UNDERWRITING EXPENSES

The following table provides a breakdown of our combined ratio:

Year ended December 31,	2011	% Point Change	2010	% Point Change	2009
Current accident year loss ratio	88.5%	21.0	67.5%	1.3	66.2%
Prior period reserve development	(7.8%)	2.8	(10.6%)	4.6	(15.2%)
Acquisition cost ratio	17.7%	1.1	16.6%	1.5	15.1%
General and administrative expense ratio ⁽¹⁾	13.9%	(1.3)	15.2%	2.0	13.2%
Combined ratio	112.3%	23.6	88.7%	9.4	79.3%

(1) The general and administration expense ratio includes corporate expenses not allocated to underwriting segments of 2.4%, 2.5% and 2.7% for 2011, 2010 and 2009, respectively. These costs are discussed further under *Other Expenses (Revenues), Net* below.

Current Accident Year Loss Ratio:

2011 versus 2010: A higher level of natural catastrophe activity in 2011 was the primary driver of the 21.0 point increase in our current accident year loss ratio, although the ratios for both 2011 and 2010 were notably impacted by natural catastrophe events.

The most notable 2011 events, leading to the recognition of combined pre-tax net losses (net of related reinstatement premiums) of \$931 million, 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 \$75 million in relation to these events, largely exclusive to our reinsurance segment.

New Zealand II, a 6.3-magnitude earthquake on February 21st in the vicinity of Christchurch, which caused significant damage to both commercial and residential property. We recognized estimated pre-tax net losses (net of related reinstatement premiums) of \$390 million in relation to this event. The majority of our estimated net losses for this event emanate from our reinsurance segment. Net losses in our insurance segment are not expected to exceed \$20 million due to ceded reinsurance protection limiting net retentions.

The March 11th 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. Along with the ensuing tsunami, this earthquake caused extensive property damage over a vast area. We recognized estimated pre-tax net losses (net of related reinstatement premiums) of \$221 million in relation to

this event.

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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.

A series of severe storms in several regions of the U.S. during April and May, certain of which spawned tornadoes and caused significant property damage across wide areas. We recognized estimated pre-tax net losses (net of related reinstatement premiums) of \$84 million for these events, with approximately half of this amount recognized in each of our insurance and reinsurance segments.

New Zealand III, a 6.3-magnitude aftershock on June 13th, again in the vicinity of Christchurch. This earthquake both amplified the damage caused by New Zealand II to both commercial and residential property and caused new damage. We recognized estimated pre-tax net losses (net of related reinstatement premiums) of \$30 million in relation to this event, with the full amount recognized in our reinsurance segment.

A July cloudburst in the region of Copenhagen, Denmark that resulted in significant flooding. We recognized estimated pre-tax net losses (net of related reinstatement premiums) of \$29 million for this event, emanating entirely from our reinsurance segment.

Hurricane Irene, which made landfall in August and impacted numerous regions of the Eastern United States causing widespread property damage and flooding. We recognized estimated pre-tax net losses (net of related reinstatement premiums) of \$23 million for this event, with the majority of the amount recognized in our insurance segment.

The landfall of Tropical Storm Lee in September, also affecting numerous regions of the Eastern U.S. and causing property damage and flooding. We recognized estimated pre-tax net losses (net of related reinstatement premiums) of \$16 million for this event, emanating entirely from our insurance segment.

Major flooding across a widespread area of Thailand, including Bangkok, during the fourth quarter; a number of significant industrial complexes were impacted by property damage and business interruption. We recognized estimated pre-tax net losses (net of related reinstatement premiums) of \$64 million for this event with approximately half of this amount recognized in each of our insurance and reinsurance segments.

In comparison, notable natural catastrophe events impacting our 2010 results included major earthquakes in Chile and New Zealand and resulted in the recognition of a combined \$248 million in pre-tax net losses (net of related reinstatement premiums). Of this amount, \$110 million related to the February 27th Chilean earthquake and \$138 million related to New Zealand I (the September 4th event). In addition, there were a number of other weather-related loss events of note during 2010, including Australian and U.S. storms and European Windstorm Xynthia in the first quarter and further Australian storms and flooding and U.S. storms in the fourth quarter.

Our estimated net losses in relation to the catastrophe events outlined above were derived from ground-up assessments of our in-force contracts and treaties providing coverage in the affected 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.

Significant loss adjustment work remains ongoing in New Zealand; this increases the inherent level of management judgment required to arrive at our estimates of net losses and the associated uncertainty for each of New Zealand I, II and III. In addition, it is expected that there will be some difficulty allocating individual losses amongst the three New Zealand events.

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A number of factors also contribute to uncertainty in our estimate for the Japanese earthquake and tsunami 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.

In addition, the proximity of the Thai flooding to our reporting date means that 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 level of uncertainty. The severe flooding spanned several months and had a significant impact on the Thai economy. Due to the size, prolonged duration and complexity of the event, substantial uncertainty remains regarding total insured losses and actual losses will depend, to a great extent, on claims from contingent business interruption coverage.

Given the factors noted above, our actual losses for New Zealand I, II, III, the Japanese earthquake and tsunami and/or the Thai flooding may ultimately differ materially from our current estimates.

2010 versus 2009: The 1.3 percentage point increase in the current accident year loss ratio was primarily driven by a higher level of catastrophe activity, most notably with respect to the Chilean and New Zealand I earthquakes, as described above. In addition, there were a number of other weather-related loss events of note during 2010. In contrast, catastrophe losses were notably lower in 2009.

The following factors partially offset the impact of a higher level of catastrophe activity on the current accident year loss ratio:

Reductions in the current accident year loss ratios for our credit and political risk insurance and trade credit and bond reinsurance from their elevated 2009 levels, when increased loss activity was driven by the global financial crisis;

The continued incorporation of more of our own historical loss experience in establishing the current accident year loss ratios for short-tail lines of business. Given that our loss experience has generally been better than we expected, this resulted in lower current accident year ratios for this business; and

For our medium-tail business, and in particular our professional lines (re)insurance business, our historical loss experience on prior accident years has generally been lower than the loss ratios we initially established. In recognition of the increasing maturity and credibility of our own loss experience, we assigned increased weight to our own loss experience when establishing our current accident year loss ratios for this business in 2010, with a corresponding reduction in the weight assigned to industry data. We also took into account the recovery from the global financial crisis. This, therefore, led to lower current accident year loss ratios on this business for 2010.

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

Prior Period Reserve Development:

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

Year ended December 31,	2011	2010	2009
Insurance	\$ 103,014	\$ 118,336	\$ 210,861
Reinsurance	154,447	194,719	212,311
Total	\$ 257,461	\$ 313,055	\$ 423,172

Overview

Overall, a significant portion of the net favorable prior period reserve development in each of the last three years 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 69%, 58% and 65% of the total net favorable reserve development in 2011, 2010 and 2009, 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 \$105 million, \$117 million and \$143 million of the net favorable reserve development in 2011, 2010 and 2009, respectively, was generated from professional lines (re)insurance business. This favorable development was driven by increased incorporation of our own historical claims experience into our ultimate expected loss ratios for accident years 2007 and prior, with less weighting being given to information derived from industry benchmarks.

Refer to the *Critical Accounting Estimate Reserve for Losses and Loss Expenses* section for further details. We caution that conditions and trends that impacted the development of our reserve for losses and loss expenses in the past may not necessarily recur in the future.

The following sections provide further details on prior year reserve development by segment, line of business and accident year.

Insurance Segment:

Year ended December 31,	2011	2010	2009
Property	\$ 55,779	\$ 51,740	\$ 65,192
Marine	21,910	23,338	39,798
Aviation	9,842	11,995	13,207
Credit and political risk	(13,764)	(18,414)	35,438
Professional lines	49,868	56,993	73,207
Liability	(20,621)	(7,316)	(15,981)
Total	\$ 103,014	\$ 118,336	\$ 210,861

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In 2011, we recognized \$103 million of net favorable prior period reserve development, the principal components of which were:

\$56 million of net favorable prior period reserve development on our property business, the majority of which related to the 2010 (\$27 million), 2009 (\$9 million) and 2008 (\$10 million) accident years. While the 2010 and 2009 amounts primarily related to better than expected loss emergence, the 2008 amount largely related to updated information from our client with respect to one large loss event.

\$22 million of net favorable prior period reserve development on marine business, spanning a number of accident years and related to better than expected loss emergence. The majority of this, \$21 million, related to offshore energy business.

\$10 million of net favorable prior period reserve development on aviation business, spanning a number of accident years and driven by better than expected loss emergence.

\$14 million of net adverse prior period reserve development on credit and political risk business, primarily driven by \$21 million in adverse development on the 2009 accident year as we reduced our recovery estimates based on the latest available information. Partially offsetting this amount was \$8 million in net favorable development on the 2007 and 2008 accident years.

\$50 million of net favorable prior period reserve development on professional lines business. We recognized a total of \$60 million of net favorable development for 2004 through 2007 accident years, largely due to the reasons discussed in the overview. This amount included \$19 million reallocated from the 2007 accident year to the 2008 accident year, recognized after consideration of our claims history and other available information and data for accident years impacted by the global financial crisis; in the aggregate, our estimate for global financial crisis remained unchanged. Partially offsetting this was the recognition of \$8 million of net adverse development on the 2010 accident year.

\$21 million of net adverse prior period reserve development on liability business, primarily emanating from the 2010 accident year and related to the receipt of two notable claims.

In 2010, we recognized \$118 million of net favorable prior period reserve development, the principal components of which were:

\$52 million of net favorable prior period reserve development on our property business, the majority of which emanated from the 2005 through 2009 accident years and related to better than expected loss emergence.

\$23 million of net favorable prior period reserve development on marine business, largely related to the 2007 through 2009 accident years and driven by better than expected loss emergence. This included net favorable development on offshore energy business of \$20 million.

\$12 million of net favorable prior period reserve development on aviation business, spanning several accident years and largely related to better than expected loss emergence.

\$18 million of net adverse prior period reserve development on credit and political risk business. This balance consisted of net adverse development of \$54 million on the 2009 accident year, as we finalized settlements for certain loss events and reduced our recovery estimates for the latest available information. Partially offsetting this amount was \$36 million in net favorable prior period reserve development on the 2006 through 2008 accident years, in recognition of better than anticipated loss emergence on our CEND and credit business.

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\$57 million of net favorable prior period reserve development on professional lines business, primarily generated from the 2004 through 2006 accident years, for the reasons discussed in the overview.

\$7 million of net adverse development on liability business, primarily related to the 2007 through 2009 accident years and reflecting earlier than expected loss emergence on Excess & Surplus (E&S) umbrella business for those accident years during the year. In 2009, we recognized \$211 million of net favorable prior period reserve development, the principal components of which were:

\$65 million of net favorable prior period reserve development on property business, the majority of which emanated from the 2008 accident year and related to better than expected loss emergence. This amount included a \$9 million reduction in our estimate for Hurricanes Ike and Gustav due to a reduction in reported losses.

\$40 million of net favorable prior period reserve development on marine business, driven by better than expected loss emergence. This included favorable development on energy offshore business of \$21 million, the largest component of which related to a \$7 million reduction in a specific case reserve on the 2006 accident year.

\$13 million of net favorable prior period reserve development on aviation business, spanning several accident years and resulting from better than expected loss emergence.

\$35 million of net favorable prior period reserve development on credit and political risk business, driven by better than expected loss emergence on the 2005 through 2007 accident years.

\$73 million of net favorable prior period reserve development on professional lines business. This was driven by net favorable development on the 2005 accident year, as well as the 2004 and 2006 accident years to a lesser extent, for the reasons discussed in the overview above. This was partially offset by net adverse development of \$44 million on the 2008 accident year, primarily reflecting higher than expected loss activity on financial institutions business as a result of the global financial crisis.

\$16 million of net adverse prior period reserve development on liability lines of business. This was driven by \$24 million of net adverse development on E&S liability business, primarily impacting the 2007 accident year, as well as the 2008 accident year to a lesser extent. We adjusted our loss development profiles for these accident years, having observed higher than expected frequency and severity of claims emergence on this business during the previous twelve months. This was partially offset by net favorable development on E&S umbrella business, predominately from the 2004 and 2005 accident years, reflecting the incorporation of more of our own actual experience with respect to reinsurance recoveries.

Reinsurance Segment:

Year ended December 31,	2011	2010	2009
Catastrophe and property	\$ 90,437	\$ 93,534	\$ 154,755
Credit and bond	39,806	37,793	(17,939)
Professional lines	55,628	60,067	69,399
Motor	(31,802)	1,225	4,358
Liability	378	2,100	1,738
Total	\$ 154,447	\$ 194,719	\$ 212,311

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In 2011, we recognized \$154 million of net favorable prior period reserve development, the principal components of which were:

\$90 million of net favorable prior period reserve development on catastrophe and property business largely consisting of:

\$38 million of net favorable prior period reserve development on property business, primarily related to per risk business. This development primarily related to the 2007 through 2009 accident years and reflected better than expected loss emergence.

\$33 million of net favorable prior period reserve development on catastrophe business, emanating from property-related catastrophe business (\$24 million) and workers compensation catastrophe business (\$9 million). This development primarily related to the 2009 accident year due to better than expected loss emergence.

\$11 million of net favorable prior period reserve development on crop business, largely related to the 2010 accident year and due to better than expected loss emergence.

\$8 million in net favorable prior period reserve development on engineering business, primarily related to the 2007 through 2009 accident years and due to better than expected loss emergence.

\$40 million of net favorable prior period reserve development on trade credit and bond reinsurance business, largely related to the 2009 and 2010 accident years, in recognition of better than expected loss emergence and updated information from our cedants.

\$56 million of net favorable prior period reserve development on professional lines reinsurance business, primarily on the 2005 through 2007 accident years for the reasons discussed in the overview.

\$32 million of net adverse prior period reserve development on motor reinsurance business, primarily related to 2008 through 2010 accident year non-proportional business and due to changes in assumptions relating to settlement practices in the U.K. motor market (namely, Periodical Payment Orders, or PPOs).

In 2010, we recognized \$195 million of net favorable prior period reserve development, the principal components of which were:

\$94 million of net favorable prior period reserve development on catastrophe and property business largely consisting of:

\$65 million of net favorable prior period reserve development on property business, with \$54 million relating to per risk business and \$11 million relating to pro-rata business. Of the total amount, \$43 million emanated from the 2007 through 2009 accident years and resulted from better than expected loss emergence and a further \$16 million emanated from the 2005 accident year and was largely due to a favorable court judgment associated with one particular claim.

\$21 million of net favorable prior period reserve development on crop reserves, principally related to the 2009 accident year and largely resulting from the reduction in reserves for Canadian crop losses following updated information from the cedant.

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\$11 million of net favorable prior period reserve development on catastrophe business, primarily related to the 2009 and 2005 accident years. Development on the 2009 accident year was primarily driven by

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better than expected loss emergence, while the development on the 2005 accident year largely related to a reduction in our reserve for one particular claim following receipt of updated information. Partially offsetting this, we recognized net adverse development of \$33 million on the 2008 accident year, largely related to updated information with respect to Hurricane Ike losses.

\$38 million of net favorable prior period reserve development on trade credit and bond reinsurance lines of business, largely related to the 2009 accident year and, to a lesser extent the 2007 and 2008 accident years, in recognition of better than expected loss emergence and updated information from our cedants.

\$60 million of net favorable prior period reserve development on professional lines reinsurance business, primarily on the 2006 accident year and, to a lesser extent the 2007, 2005 and 2004 accident years, for the reasons discussed in the overview above. In 2009, we recognized \$212 million of net favorable prior period reserve development, the principal components of which were:

\$155 million of net favorable prior period reserve development on catastrophe and property business largely consisting of:

\$68 million of net favorable prior period reserve development on catastrophe business, primarily related to the 2008 and 2007 accident years and emanating from property-related catastrophe business (\$63 million) and workers compensation catastrophe business (\$5 million). This development was primarily driven by better than expected loss emergence, including a \$7 million reduction in our estimate for Hurricanes Ike and Gustav due to a reduction in reported losses.

\$65 million of net favorable prior period reserve development on property business, primarily related to the 2008 and 2007 accident years and emanating from per risk business (\$42 million) and pro-rata business (\$23 million). This development was largely the result of better than expected loss emergence. In addition, we accelerated the loss development profile for our per risk business, based on our review of historical data. The development on the 2008 accident year included a \$6 million reduction in our estimate for Hurricanes Ike and Gustav, due to a reduction in reported losses.

\$19 million of net favorable prior period reserve development on crop business, primarily relating to the 2008 accident year and reflecting better than expected loss emergence.

\$18 million of net adverse prior period reserve development on our trade credit and bond reinsurance lines of business, driven by adverse development of \$40 million on the 2008 accident year, reflecting updated loss information received from our cedants. This was partially offset by net favorable development on earlier accident years, in recognition of better than expected loss emergence.

\$69 million of net favorable prior period reserve development on our professional lines reinsurance business, predominantly in relation to the 2005 and 2004 accident years for the reasons discussed in the overview. This was partially offset by \$7 million of net adverse development on the 2008 accident year, reflecting claims activity associated with the global financial crisis.

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Results from our insurance segment were as follows:

Year ended December 31,	2011	% Change	2010	% Change	2009
Revenues:					
Gross premiums written	\$ 2,121,829	11%	\$ 1,916,116	8%	\$ 1,775,590
Net premiums written	1,466,134	10%	1,332,220	30%	1,025,061
Net premiums earned	1,429,687	18%	1,206,493	4%	1,157,966
Other insurance related income (loss)	2,396		2,073		(130,946)
Expenses:					
Current year net losses and loss expenses	(1,022,333)		(688,205)		(823,555)
Prior period reserve development	103,014		118,336		210,861
Acquisition costs	(199,583)		(152,223)		(113,187)
General and administrative expenses	(278,147)		(276,435)		(216,954)
Underwriting income	\$ 35,034	(83%)	\$ 210,039	149%	\$ 84,185
Ratios:					
		% Point Change		% Point Change	
Current year loss ratio	71.5%	14.5	57.0%	(14.1)	71.1%
Prior period reserve development	(7.2%)	2.6	(9.8%)	8.4	(18.2%)
Acquisition cost ratio	14.0%	1.4	12.6%	2.8	9.8%
General and administrative ratio	19.4%	(3.6)	23.0%	4.3	18.7%
Combined ratio	97.7%	14.9	82.8%	1.4	81.4%

Table of Contents**Gross Premiums Written:**

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

Year ended December 31,	2011		2010		2009		% Change	
							10 to 11	09 to 10
Property	\$ 635,278	30%	\$ 600,806	31%	\$ 551,536	31%	6%	9%
Marine	240,481	11%	224,814	12%	200,867	11%	7%	12%
Terrorism	34,313	2%	37,246	2%	36,023	2%	(8%)	3%
Aviation	70,792	3%	75,794	4%	76,198	4%	(7%)	(1%)
Credit and political risk	35,734	2%	30,669	2%	19,450	1%	17%	58%
Professional lines	764,205	36%	712,053	37%	671,618	38%	7%	6%
Liability	213,256	10%	228,247	12%	219,898	13%	(7%)	4%
Accident & health	127,770	6%	6,487	-	-	-	nm	nm
Total	\$ 2,121,829	100%	\$ 1,916,116	100%	\$ 1,775,590	100%	11%	8%

nm not meaningful

2011 versus 2010: Our new accident & health line led the 11% growth in gross premiums written, with the increase being reflective of our investment in that platform over the past two years. A large portion of this growth was due to accident & health reinsurance business assumed.

Excluding accident & health, gross premiums written growth was 4% and was largely attributable to geographic expansion and certain newer business lines, including renewable energy and design professionals & environmental liability. Geographic expansion (including our Australian and Canadian operations) contributed to the increases in property and professional lines, with the design professionals & environmental liability initiative also contributing to growth in professional lines. Our renewable energy business relates to both onshore and offshore exposures, with growth thus pertaining to the property and marine lines, respectively.

2010 versus 2009: Gross premiums written growth was led by opportunities in the U.S. property market and select new business opportunities in the onshore energy market. The increase in professional lines premiums largely reflected select new business opportunities and the continued build-out of our platform in Europe, Australia and Canada. Rate increases on offshore energy business resulting from the Deepwater Horizon event, as well as increases in our share of certain policies and select new business opportunities resulted in increased marine premiums.

Premiums Ceded:

2011 versus 2010: Our cession rates for 2011 and 2010 were comparable at 31% and 30% of gross premiums written, respectively.

2010 versus 2009: Premiums ceded in 2010 were \$584 million, or 30% of gross premiums written, compared to \$751 million, or 42%, in the same period of 2009. These reductions were primarily attributable to changes in our reinsurance purchasing, including higher attachment points on our excess of loss property program and reduced cession rates on our quota share professional lines reinsurance programs on renewal during the second quarter.

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

Year ended December 31,	2011		2010		2009		% Change	
							10 to 11	09 to 10
Property	\$ 385,291	27%	\$ 337,525	28%	\$ 268,469	23%	14%	26%
Marine	152,123	11%	145,356	12%	139,196	12%	5%	4%
Terrorism	35,213	2%	32,486	3%	34,001	3%	8%	(4%)
Aviation	70,681	5%	66,636	6%	64,245	6%	6%	4%
Credit and political risk	97,680	7%	89,773	7%	188,311	16%	9%	(52%)
Professional lines	536,238	38%	444,663	37%	381,364	33%	21%	17%
Liability	89,555	6%	87,481	7%	82,380	7%	2%	6%
Accident & health	62,906	4%	2,573	-	-	-	nm	nm
Total	\$ 1,429,687	100%	\$ 1,206,493	100%	\$ 1,157,966	100%	18%	4%

nm not meaningful

2011 versus 2010: The 18% growth in net premiums earned is primarily reflective of the 11% growth in gross premiums written, as well as the aforementioned changes in our reinsurance purchasing effected during the second quarter of 2010.

2010 versus 2009: Net premiums earned on our credit and political risk line for 2010 included a \$12 million reduction in connection with the settlement of prior accident year claims, while the comparative 2009 figure included the accelerated recognition of \$50 million of premium due to the actual and anticipated exhaustion of exposure on certain loss impacted policies. Excluding the impact of these adjustments in both periods, net premiums earned for the segment increased 10% during 2010. This increase was primarily reflective of the reinsurance purchasing change, though the impact was somewhat muted due to the change being effective midway through the year. Gross premiums written growth also contributed to the higher net premiums earned.

Loss Ratio:

The table below shows the components of our loss ratio:

Year ended December 31,	2011	% Point Change	2010	% Point Change	2009
Current accident year	71.5%	14.5	57.0%	(14.1)	71.1%
Prior period reserve development	(7.2%)	2.6	(9.8%)	8.4	(18.2%)
Loss ratio	64.3%	17.1	47.2%	(5.7)	52.9%

Current Accident Year Loss Ratio***2011 versus 2010:***

Natural catastrophe activity was the primary driver of the 14.5 point increase in our current accident year loss ratio. During 2011, we recognized estimated pre-tax net losses (inclusive of related premiums to reinstate our reinsurance protection) for the following natural catastrophe events:

\$40 million in relation to the series of severe U.S. storms in April and May;

\$32 million in relation to Thai flooding;

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\$29 million in relation to the Japanese earthquake and tsunami;

\$20 million for New Zealand II;

\$19 million for Hurricane Irene; and

\$16 million for Tropical Storm Lee.

In contrast, catastrophe-related pre-tax net losses in 2010 were insignificant.

Rate reductions, changes in business mix and an increased level of loss activity in our energy and property lines of business also contributed to a higher ratio in 2011.

2010 versus 2009:

The 14.1 percentage point reduction in our current accident year loss ratio primarily resulted from a lower level of claims activity in our credit and political risk business relative to 2009. Loss activity on this line was elevated in 2009 due to the global financial crisis, resulting in a 133% current accident year loss ratio. In 2010, we considered the recovery in global economic conditions and established a 70% current accident year loss ratio for this line. In addition, the lower current accident year loss ratio for the segment was driven by business mix changes and the previously discussed consideration of our own loss experience in establishing loss ratios for our medium-tail business in 2010, most notably for professional lines. We also considered the global economic recovery when establishing our 2010 current accident year loss ratio for our professional lines business. As a result of these factors, our current accident year loss ratio on professional lines business declined from 72% in 2009 to 61% in 2010.

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

Acquisition Cost Ratio: Growth in accident & health gross premiums written during 2011 introduced some upward movement in the acquisition cost ratio for the segment; excluding this business, the 2011 acquisition cost ratio was 13.2%. The changes in our reinsurance purchasing effected during the second quarter of 2010, previously discussed, were the primary driver of the acquisition cost ratio increase in 2010.

General and Administrative Expense Ratio: General and administrative expenses were greater in 2011 and 2010, when compared to 2009, largely due to additional staffing and IT costs associated with the build-out of the segment's platform. However, the general and administrative expense ratio for 2011 declined in comparison to 2010 due to the increase in net premiums earned.

Other Insurance Related Income/Loss: During 2009, we recognized \$133 million in net losses associated with our indemnity contract exposed to longevity risk. This was the only contract of its kind in our portfolio and we negotiated its cancellation during the fourth quarter of 2009; thus, there were no comparative amounts for 2010 and 2011.

Table of Contents**REINSURANCE SEGMENT**

Results from our reinsurance segment were as follows:

Year ended December 31,	2011	% Change	2010	% Change	2009
Revenues:					
Gross premiums written	\$ 1,974,324	8%	\$ 1,834,420	1%	\$ 1,811,705
Net premiums written	1,953,300	8%	1,815,320	1%	1,791,368
Net premiums earned	1,885,274	8%	1,740,917	7%	1,633,798
Other insurance related income	-		-		1,265
Expenses:					
Current year net losses and loss expenses	(1,910,180)		(1,301,982)		(1,023,489)
Prior period reserve development	154,447		194,719		212,311