

AXIS CAPITAL HOLDINGS LTD
Form 10-Q
April 29, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2008

Commission file number 001-31721

AXIS CAPITAL HOLDINGS LIMITED

(Exact name of registrant as specified in its charter)

BERMUDA

(State or other jurisdiction of incorporation or organization)

98-0395986

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

92 Pitts Bay Road, Pembroke, Bermuda HM 08

(Address of principal executive offices and zip code)

(441) 496-2600

(Registrant's telephone number, including area code)

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

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

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

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

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

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AXIS CAPITAL HOLDINGS LIMITED

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PART I FINANCIAL INFORMATION

Cautionary Statement Regarding Forward-looking Statements

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

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

the occurrence of natural and man-made disasters,

actual claims exceeding our loss reserves,

the failure of any of the loss limitation methods we employ,

the effects of emerging claims and coverage issues,

the failure of our cedants to adequately evaluate risks,

the loss of one or more key executives,

a decline in our ratings with rating agencies,

loss of business provided to us by our major brokers,

changes in accounting policies or practices,

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changes in governmental regulations,

increased competition,

changes in the political environment of certain countries in which we operate or underwrite business,

interest rate and/or currency value fluctuations,

general economic conditions, and

the other matters set forth under Item 1A, Risk Factors and Item 7, Management's Discussion and Analysis of Financial Conditions and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2007.

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

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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****CONSOLIDATED BALANCE SHEETS****MARCH 31, 2008 (UNAUDITED) AND DECEMBER 31, 2007**

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

See accompanying notes to Consolidated Financial Statements

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**

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

See accompanying notes to Consolidated Financial Statements.

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AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

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

See accompanying notes to Consolidated Financial Statements

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AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2008 AND 2007

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

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Treasury shares, at cost

| | | |
|---------------------------------|------------------|----------|
| Balance at beginning of period | (204,606) | - |
| Shares repurchased for treasury | (4,733) | - |
| Balance at end of period | (209,339) | - |

Total shareholders' equity \$ 5,371,422 \$ 4,641,747

See accompanying notes to consolidated financial statements.

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AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2008 AND 2007

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

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See accompanying notes to Consolidated Financial Statements

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Adoption of New Accounting Standards

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

(a) Fair Value Measurement

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

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

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

Level 2 Valuations based on quoted prices in markets that are not active or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data. Assets and liabilities utilizing Level 2 inputs include: exchange-traded equity securities and listed derivatives that are not actively traded; U.S. government and agency securities; non-U.S. government obligations; corporate and municipal bonds; mortgage-backed securities (MBS) and asset-backed securities (ABS); and over-the-counter (OTC) derivatives (e.g. foreign currency options and forward contracts).

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

(b) Fair value option

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

Accounting Standards Not Yet Adopted**(a) Business Combinations and Non-controlling Interests**

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

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

(b) *Derivative Instruments and Hedging Activities*

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

2. SEGMENT INFORMATION

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

Insurance

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

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

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

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

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

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

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

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

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

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2. SEGMENT INFORMATION (CONTINUED)

Reinsurance

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

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

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

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

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

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

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

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

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

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****2. SEGMENT INFORMATION (CONTINUED)**

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

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

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

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

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

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

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

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

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

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

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

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

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

c) Net Investment Income

Net investment income was derived from the following sources:

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

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****4. RESERVE FOR LOSSES AND LOSS EXPENSES**

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

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

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

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

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

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

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****5. STOCK-BASED COMPENSATION****Stock Options**

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

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

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

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

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

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

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****5. STOCK-BASED COMPENSATION (CONTINUED)****Restricted stock**

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

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

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

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

6. EARNINGS PER COMMON SHARE

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

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

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

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AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

6. EARNINGS PER COMMON SHARE (CONTINUED)

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

7. COMMITMENTS AND CONTINGENCIES

a) Legal Proceedings

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

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

b) Dividends for Common Shares and Preferred Shares

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

Table of Contents**AXIS CAPITAL HOLDINGS LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****8. DERIVATIVE INSTRUMENTS**

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

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

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

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

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

FINANCIAL MEASURES

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

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

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

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

RESULTS OF OPERATIONS

OVERVIEW

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

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

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

Underwriting results

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

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

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

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

Investment results

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

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

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

Other Items

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

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

Table of Contents**UNDERWRITING REVENUES**

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

| | Gross Premiums Written | | |
|--------------|------------------------|-------------|---------------------|
| | 2008 | Change | 2007 |
| Insurance | \$ 434,857 | - | \$ 436,488 |
| Reinsurance | 829,324 | (4%) | 866,134 |
| Total | \$ 1,264,181 | (3%) | \$ 1,302,622 |

| % ceded | | | |
|--------------|--------------|-------------|--------------|
| Insurance | 37.5% | 2.1% | 35.4% |
| Reinsurance | 1.1% | 0.1% | 1.0% |
| Total | 13.6% | 1.1% | 12.5% |

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

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

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

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

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

Changes in net premiums earned reflect period to period changes in net premiums written and business mix, together with normal variability in premium earning patterns. In our reinsurance segment, where a significant portion of our business is written in the first quarter, the 3% reduction

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in net premiums earned largely reflects the 4% decrease in gross premiums written this quarter, as discussed above. In our insurance segment, where premiums are written more evenly throughout the year, the 5% reduction in net premiums earned largely reflects changes in our mix of business and exposure reduction primarily achieved through increased reinsurance coverage. Refer to the segment sections below for further discussion.

Table of Contents**UNDERWRITING EXPENSES**

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

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

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

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

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

Current Year:

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

Prior Year:

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

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

| | | | | |
|--------------|-----------|---------------|-----------|---------------|
| Total | \$ | 88,111 | \$ | 65,963 |
|--------------|-----------|---------------|-----------|---------------|

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

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

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

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

General and Administrative ratio:

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

NET INVESTMENT INCOME AND NET REALIZED INVESTMENT GAINS

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

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

nm- not meaningful

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

Net investment income:***Fixed Maturities and cash:***

Investment income on our cash and fixed maturity investments increased 20%, primarily reflecting the impact of positive operating cash flows on our average investment balances over the last year. Our annualized effective yield on invested assets (assets under management by external

investment managers) was 4.9% this quarter, largely unchanged from the first quarter of 2007.

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Other investments: Net investment income from other investments by category was as follows:

| Three months ended March 31, | 2008 | 2007 | Change |
|---------------------------------|--------------------|------------------|--------------------|
| Hedge funds | \$ (12,704) | \$ 9,997 | \$ (22,701) |
| Credit funds | (29,435) | 8,032 | (37,467) |
| Collateralized loan obligations | 6,337 | 9,185 | (2,848) |
| Short duration high yield fund | 7 | 1,554 | (1,547) |
| Other | 105 | - | 105 |
| Life settlement contracts | - | (3,458) | 3,458 |
| Total | \$ (35,690) | \$ 25,310 | \$ (61,000) |

The performance of other investments has been negatively impacted by the illiquidity in the market resulting in generally depressed prices across most sectors during the first quarter of 2008. Our hedge funds have significant exposure to equity strategies with net long positions that were impacted by the negative returns in this sector. The deteriorating performance of our credit and short duration high yield funds resulted from the significant declines in market prices of the securities that form the collateral of these funds. This was related to the ongoing technical imbalances and illiquidity proliferating throughout the credit markets rather than from a fundamental deterioration of the underlying collateral.

Net realized investment gains:

Our investment strategy is to take a long-term view by actively managing our investment portfolio to maximize total return (see below) within specific guidelines, designed to minimize risk. Our fixed maturities portfolio is considered available for sale and reported at fair value. The effect of market movements on our available for sale investment portfolio impacts net income (through net realized gains/losses) when securities are sold or when other than temporary impairments are recorded on invested assets. Additionally, net income is impacted (through net realized gains/losses) by changes in the fair value of investment derivatives, mainly forward contracts. Changes in unrealized appreciation and depreciation on available for sale securities, which result from the revaluation of securities held, are reported as a separate component of accumulated other comprehensive income in shareholders' equity. The following table provides a breakdown of our net realized investment gains/losses:

| Three months ended March 31, | 2008 | 2007 | Change |
|--|------------------|---------------|------------------|
| On sale of fixed maturities | \$ 50,969 | \$ (1,452) | \$ 52,421 |
| Other than temporary impairments | (15,120) | - | (15,120) |
| Change in fair value of investment derivatives | (164) | 1,753 | (1,917) |
| Net realized investment gains | \$ 35,685 | \$ 301 | \$ 35,384 |

Realized gains on the sale of fixed maturities this quarter largely reflect the repositioning of our high grade fixed income portfolio in order to take advantage of dislocations in certain sectors of the fixed income markets. The other than temporary impairment charge in the first quarter of 2008 related to the write down of 26 securities, some of which were downgraded or placed on negative watch by rating agencies. The charge included \$3 million in relation to one of our sub-prime ABS securities, as discussed further in the *Cash and Investments* section below.

Table of Contents**Total Return:**

The following table provides a breakdown of our total return:

| Three months ended March 31, | 2008 | | 2007 | |
|---|-------------|-------------------|-------------|------------------|
| Net investment income | \$ | 85,651 | \$ | 125,280 |
| Net realized investments gains | | 35,685 | | 301 |
| Change in unrealized gains / losses | | (28,148) | | 22,713 |
| Total | \$ | 93,188 | \$ | 148,294 |
| Average cash and investments | \$ | 10,647,785 | \$ | 9,837,176 |
| Total return on average cash and investments | | 0.88% | | 1.51% |

Our portfolio is managed to maximize total return within certain guidelines and constraints. In assessing returns under this approach, we include net investment income, net realized investment gains and losses and the change in unrealized gains and losses generated by our investment portfolio. The decrease in our total return reflects the underperformance of our other investments this quarter and a reduction in unrealized gains from our fixed income portfolio. This was partially offset by higher realized investments gains, as discussed above.

OTHER REVENUES AND EXPENSES

The following tables set forth our other revenues and expenses:

| Three months ended March 31, | 2008 | | Percentage Change | | 2007 | |
|-------------------------------------|-------------|-----------------|--------------------------|-----------|---------------|--|
| Corporate expenses | \$ | 13,561 | 10% | \$ | 12,340 | |
| Foreign exchange gains | | (20,297) | 749% | | (2,391) | |
| Interest expense | | 7,958 | (47%) | | 15,144 | |
| Income tax expense | | 12,459 | 28% | | 9,747 | |
| Total | \$ | 13,681 | (61%) | \$ | 34,840 | |

Corporate expenses: Our corporate expenses include holding company costs necessary to support our worldwide insurance and reinsurance operations and costs associated with operating as a publicly-traded company. As a percentage of net premiums earned corporate expenses were 2.1% for the first quarter of 2008 compared to 1.8% in the same period of 2007.

Foreign exchange gains: Some of our business is written in currencies other than U.S. dollars. The gains in both the first quarter of 2008 and 2007 were principally made on the remeasurement of net asset balances denominated in Euro, following an appreciation of the Euro against the U.S. dollar of 7.3% and 1.2% in each respective quarter.

Interest expense: Interest expense in the first quarter of 2007 included interest costs of \$7 million on a \$400 million repurchase agreement we entered into in 2006 to finance a life settlements investment. We terminated the repurchase agreement in September 2007, following the sale of

this investment.

Income tax expense: Income tax expense is generated primarily through our foreign operations in the United States and Europe. Our effective tax rate on net income, which we calculate as income tax expense divided by income before income tax, was 4.8% for the first quarter of 2008 compared with 3.9% in the first quarter of 2007. Our effective tax rate may vary between periods depending on the distribution of net income or losses among our various taxable jurisdictions.

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

Results from our insurance segment were as follows:

| Three months ended March 31, | 2008 | Percentage Change | 2007 |
|---|------------------|----------------------|------------------|
| Revenues: | | | |
| Gross premiums written | \$ 434,857 | - | \$ 436,488 |
| Net premiums written | 271,732 | (4%) | 282,046 |
| Net premiums earned | 299,557 | (5%) | 314,932 |
| Other insurance related income | 1,187 | 55% | 767 |
| Expenses: | | | |
| Current year net losses and loss expenses | (214,030) | - | (214,679) |
| Prior period reserve development | 54,580 | 90% | 28,727 |
| Acquisition costs | (31,714) | (10%) | (35,348) |
| General and administrative expenses | (47,819) | 35% | (35,523) |
| Underwriting income | \$ 61,761 | 5% | \$ 58,876 |
| Ratios: | | | |
| | | Point Change | |
| Current year loss ratio | 71.4% | 3.3% | 68.1% |
| Prior period reserve development | (18.2%) | (9.1%) | (9.1%) |
| Acquisition cost ratio | 10.6% | (0.6%) | 11.2% |
| General and administrative ratio | 16.0% | 4.7% | 11.3% |
| Combined ratio | 79.8% | (1.7%) | 81.5% |

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

| Three months ended March 31, | 2008 | | 2007 | | Percentage Change |
|------------------------------|------------|-----|------------|-----|----------------------|
| Property | \$ 127,291 | 29% | \$ 138,396 | 32% | (8%) |
| Marine | 64,887 | 15% | 77,892 | 18% | (17%) |
| Terrorism | 8,349 | 2% | 12,787 | 3% | (35%) |
| Aviation | 17,486 | 4% | 16,140 | 4% | 8% |
| Political risk | 54,576 | 13% | 28,977 | 7% | 88% |
| Professional lines | 108,177 | 25% | 97,325 | 22% | 11% |
| Liability | 49,923 | 11% | 53,483 | 12% | (7%) |
| Accident and Health | 4,168 | 1% | 11,488 | 3% | (64%) |

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| | | | | | | | |
|--------------|----|----------------|-------------|----|---------|------|---|
| Total | \$ | 434,857 | 100% | \$ | 436,488 | 100% | - |
|--------------|----|----------------|-------------|----|---------|------|---|

Insurance markets globally continued to be highly competitive during the first quarter of 2008 with surplus capacity and price deterioration remaining prevalent. Gross premiums written declined in several of our lines of business, reflecting declining rates for new and renewal business, as well as the non-renewal of business that did not meet our underwriting requirements. Offsetting this, we grew the emerging market sovereign and corporate credit lines of our political risk book this quarter. Premiums on this line can vary considerably between periods depending on the timing of major transactions and pricing is not correlated to the property and casualty cycle. Gross premiums written also increased in our professional lines book this quarter, reflecting additional renewal rights acquired in conjunction with our purchase of the Media Pro business in the second quarter of 2007.

Table of Contents*Ceded premiums:*

Premiums ceded in the first quarter of 2008 were \$163 million, or 37% of gross premiums written, compared with \$154 million, or 35% of gross premiums written in the comparative period of 2007. The increase in premiums ceded primarily reflects additional reinsurance coverage purchased on several of our lines of business this quarter. In addition, we recorded ceded premiums of \$4 million, to reinstate coverage exhausted by several individual property per risk losses in our insurance segment this quarter, discussed below.

Net premiums earned:

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

| Three months ended March 31, | 2008 | | 2007 | | Percentage Change |
|------------------------------|-------------------|-------------|-------------------|-------------|-------------------|
| Property | \$ 76,104 | 25% | \$ 82,605 | 26% | (8%) |
| Marine | 44,547 | 15% | 46,009 | 15% | (3%) |
| Terrorism | 11,854 | 4% | 19,312 | 6% | (39%) |
| Aviation | 17,472 | 6% | 25,919 | 8% | (33%) |
| Political risk | 33,234 | 11% | 25,320 | 8% | 31% |
| Professional lines | 82,217 | 27% | 82,196 | 26% | - |
| Liability | 29,043 | 10% | 25,447 | 8% | 14% |
| Accident and Health | 5,086 | 2% | 8,124 | 3% | (37%) |
| Total | \$ 299,557 | 100% | \$ 314,932 | 100% | (5%) |

The 5% decrease in net premiums earned reflects a change in our mix of business and exposure reduction primarily achieved through increased reinsurance coverage. In the rolling twelve months to March 31, 2008, we substantially reduced our participation for aviation and terrorism business compared to the comparative twelve months, given the continued unfavorable market conditions. This has been offset by growth of our political risk, property and professional lines of business over the same period. However, because we historically purchase more reinsurance coverage on our property and professional lines business relative to our aviation and terrorism lines, and because we have further expanded this reinsurance coverage over the last year, our net premiums written and net premiums earned overall have been declining. We expect this trend to continue throughout 2008, particularly given the level of pricing deterioration currently impacting many of our lines.

Insurance Losses

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

| Three months ended 31, | Point | | |
|----------------------------------|--------------|---------------|--------------|
| | 2008 | Change | 2007 |
| Current year | 71.4% | 3.3% | 68.1% |
| Prior period reserve development | (18.2%) | (9.1%) | (9.1%) |
| Loss ratio | 53.2% | (5.8%) | 59.0% |

Current year

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The increase in our current year loss ratio primarily reflects an unusually high level of individual property risk losses this quarter. We incurred an estimated \$25 million, or 8.2 ratio points, of net losses on mining losses in Australia and other property risk losses worldwide. In addition, our initial expected loss ratios in 2008 were generally higher than in 2007, reflecting the impact of pricing deterioration in many of our lines, as discussed above. These factors were partially offset by favorable loss experience in our marine line of business relative to the prior-year quarter and by the favorable impact of incorporating more of our own historical loss experience, rather than industry benchmarks, in establishing our initial expected loss ratios.

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Prior years

We experienced net favorable prior period reserve development of \$55 million and \$29 million in the first quarter of 2008 and 2007, respectively. The first quarter of 2008 included favorable development of \$33 million from our political risk line of business to recognize both the absence of reported losses on the sovereign and corporate credit products within the line and the lower likelihood of future reported losses emanating from our traditional political risk coverages from accident years 2004 and prior.

The balance of the favorable reserve development in the first quarter of 2008 was predominately generated from our property lines of business in accident years 2006 and 2007, and was in recognition of limited late reporting of losses as well as minimal deterioration on previously reported claims in these lines. This positive claims experience was partially offset by adverse development of \$8 million, or 2.6 ratio points, from our accident year 2007 property line of business, relating to an individual property risk loss. Net favorable development in the first quarter of 2007 was largely generated from our accident year 2006 property line of business, recognizing lower than expected claims emergence on these lines.

Insurance Outlook

We expect the insurance markets to remain highly competitive throughout the remainder of 2008 with pricing pressures continuing to prevail. For property and energy business, although current rate levels are generally within our profitability targets, given the significant surplus of capacity within most of these lines, we expect to see further erosion of pricing during the year. On most lines of business we are beginning to witness pressure on terms and conditions, including increased sub limits and lower deductibles, and we continue to maintain a cautious posture on those lines where this is most prevalent. Our aviation and terrorism lines continue to be under significant pricing pressure and we expect to reduce our participation on this business further in 2008.

In our liability business, we continue to witness increasing competitive pricing pressure, particularly on our larger U.S. excess and surplus and umbrella accounts. In our professional lines business, there remain some pricing pressures, although we are witnessing some moderation in competition in our financial institutions business, driven by exposure to sub-prime. We believe our areas of focus in both our liability and professional lines business still contain good profit potential, but risk selection and overall execution strategy have become more critical.

Table of Contents**REINSURANCE SEGMENT****Overview**

Results in our reinsurance segment were as follows:

| Three months ended March 31, | 2008 | Percentage Change | 2007 |
|---|------------------|---------------------|------------------|
| Revenues: | | | |
| Gross premiums written | \$ 829,324 | (4%) | \$ 866,134 |
| Net premiums written | 820,043 | (4%) | 857,311 |
| Net premiums earned | 359,077 | (3%) | 370,372 |
| Other insurance related income | 815 | (31%) | 1,173 |
| Expenses: | | | |
| Current year net losses and loss expenses | (235,762) | (3%) | (244,081) |
| Prior period reserve development | 33,531 | (10%) | 37,236 |
| Acquisition costs | (62,766) | - | (62,791) |
| General and administrative expenses | (17,370) | 18% | (14,743) |
| Underwriting income | \$ 77,525 | (11%) | \$ 87,166 |
| Ratios: | | | |
| | | Point Change | |
| Current year loss ratio | 65.6% | (0.3%) | 65.9% |
| Prior period reserve development | (9.3%) | 0.8% | (10.1%) |
| Acquisition cost ratio | 17.5% | 0.5% | 17.0% |
| General and administrative ratio | 4.8% | 0.8% | 4.0% |
| Combined ratio | 78.6% | 1.8% | 76.8% |

Gross Premiums Written: The following tables provide gross premiums written by line of business for the periods indicated:

| Three months ended March 31, | 2008 | | 2007 | | Percentage Change | Excluding FX Impact |
|------------------------------|-------------------|-------------|-------------------|-------------|-------------------|---------------------|
| Catastrophe | \$ 212,948 | 26% | \$ 244,125 | 28% | (13%) | (17%) |
| Property | 141,408 | 17% | 147,159 | 17% | (4%) | (10%) |
| Professional Lines | 87,376 | 11% | 88,426 | 10% | (1%) | (1%) |
| Credit and bond | 134,574 | 16% | 104,119 | 12% | 29% | 19% |
| Motor | 75,526 | 9% | 81,131 | 10% | (7%) | (15%) |
| Liability | 108,759 | 13% | 145,929 | 17% | (25%) | (26%) |
| Engineering | 53,224 | 6% | 38,351 | 4% | 39% | 33% |
| Other | 15,509 | 2% | 16,894 | 2% | (8%) | (16%) |
| Total | \$ 829,324 | 100% | \$ 866,134 | 100% | (4%) | (9%) |

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Gross premiums written in the first quarter of 2008 benefited from a weakened U.S dollar, most significantly against the Euro, relative to the first quarter of 2007. The impact of foreign exchange rate movements is highlighted in the table above. Gross premiums written otherwise decreased 9% this quarter, reflecting our underwriting discipline in the face of increased competition and rate deterioration across most of our lines. In addition, there was a continued trend towards clients increasing their retention of business, particularly in our liability line of business. Notwithstanding these factors, we still identified business which met our pricing threshold. In our catastrophe line of business, this was generally at higher attachment points and therefore at lower premium rates compared to last year.

Changes to prior year pro rata premium estimates and adjustment premium on prior year excess of loss contracts negatively impacted gross premiums written on our professional lines business this quarter. In the first quarter of 2008, we recorded negative premium adjustments of \$10 million on prior underwriting year business, compared to positive adjustments of \$11 million in the first quarter of 2007.

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Partially offsetting the factors above, we increased our market penetration in the engineering reinsurance market, a line relatively new to our portfolio, and also increased our participation for pro rata credit and bond business, where margins were generally more favorable. Our property line of business benefited from the renewal of a significant 16-month pro rata contract this quarter, previously renewed in the fourth quarter of 2006. Our professional lines business included the positive impact of increasing our line size on a large pro rata contract this quarter.

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

| Three months ended March 31, | 2008 | | 2007 | | Percentage Change |
|------------------------------|-------------------|-------------|-------------------|-------------|-------------------|
| Catastrophe | \$ 105,411 | 30% | \$ 114,553 | 31% | (8%) |
| Property | 71,359 | 20% | 81,539 | 22% | (12%) |
| Professional Lines | 54,928 | 15% | 64,135 | 17% | (14%) |
| Credit and bond | 33,513 | 9% | 24,320 | 6% | 38% |
| Motor | 22,569 | 6% | 24,916 | 7% | (9%) |
| Liability | 52,776 | 15% | 47,454 | 13% | 11% |
| Engineering | 12,026 | 3% | 6,420 | 2% | 87% |
| Other | 6,495 | 2% | 7,035 | 2% | (8%) |
| Total | \$ 359,077 | 100% | \$ 370,372 | 100% | (3%) |

Given a significant portion of our reinsurance premium is written in the first quarter of the year, the 3% reduction in net premiums earned largely reflects the 4% decrease in gross premiums written this quarter, as discussed above. Net premiums earned on our professional lines and property lines of business were negatively impacted this quarter by premium adjustments on prior underwriting years, as discussed above. However, growth of our liability business over the last few years, which includes a large level of pro rata business, had a positive impact on our net premiums earned this quarter. We expect our total net premiums earned to continue to decline throughout 2008, given the level of pricing deterioration currently impacting many of our lines.

Reinsurance Losses

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

| Three months ended March 31, | 2008 | Point Change | 2007 |
|----------------------------------|--------------|--------------|--------------|
| Current year | 65.6% | (0.3%) | 65.9% |
| Prior period reserve development | (9.3%) | 0.8% | (10.1%) |
| Loss ratio | 56.3% | 0.5% | 55.8% |

Current Year Loss Ratios:

The first quarter of 2008 included net losses incurred of \$12 million, or 3.5 ratio points, from several large individual property per risk losses, and \$9 million, or 2.5 ratio points, from several worldwide catastrophe losses. The only significant loss in the first quarter of 2007 was Windstorm Kyrill, for which we incurred losses of \$29 million, or 7.8 ratio points. Our initial expected loss ratios in 2008 were generally higher than those in 2007, reflecting the impact of pricing deterioration in many of our lines of business, as discussed above. Offsetting this, our initial loss ratios were favorably impacted by the incorporation of more of our own historical loss experience, rather than industry benchmarks, relative to the prior year quarter.

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Prior period reserve development:

We recognized net favorable prior period reserve development of \$34 million and \$37 million in the first quarter of 2008 and 2007, respectively. In 2008, favorable reserve development principally emanated from our accident year 2007 and 2006 property and catastrophe lines of business, in recognition of lower-than-expected claims emergence on these lines. Similarly, in 2007, favorable reserve development was predominately generated from our accident year 2006 property and catastrophe lines. Accident years 2007 and 2006 have both largely proven to be benign with respect to large catastrophe events.

Reinsurance Outlook

Although reinsurance markets remain relatively disciplined, we are observing increased competition and rate deterioration across most of our lines. The balance of our reinsurance writing in 2008 will largely emanate from our U.S. property, catastrophe, professional lines and casualty lines given the main renewal date for our other lines was January 1. On the property front, non-proportional property business, which is our focus, will be dominated by U.S. exposure. We expect reductions for this business through the balance of the year to be consistent with the 5-10% decreases experienced at the January 1st renewal. On our non-property lines, although we are faced with increasingly challenging market conditions, including higher cedant retentions in our U.S. casualty lines, we continue to identify opportunities within our areas of focus.

Table of Contents**CASH AND INVESTMENTS**

At March 31, 2008 and December 31, 2007, total cash and investments, including accrued interest receivable and net payable for investments purchased were \$10.8 billion and \$10.5 billion, respectively. Our investment strategy seeks to preserve principal and maintain liquidity while trying to maximize investment return through a high quality, diversified portfolio. In this regard, at March 31, 2008 and December 31, 2007, our investment portfolio consisted primarily of fixed maturity investments and cash and cash equivalents. The composition of our investment portfolio is summarized as follows:

| | March 31, 2008 | | December 31, 2007 | |
|--|----------------------|-------------|----------------------|-------------|
| U.S. government and agency | \$ 1,211,872 | 11% | \$ 1,058,926 | 10% |
| Non U.S. government | 274,231 | 3% | 280,577 | 3% |
| Corporate debt | 2,283,827 | 21% | 2,149,666 | 21% |
| Mortgage-backed | 3,581,046 | 33% | 3,482,215 | 33% |
| Asset-backed | 447,051 | 4% | 532,780 | 5% |
| Municipals | 625,767 | 6% | 827,502 | 8% |
| Total Fixed Maturities | 8,423,794 | 78% | 8,331,666 | 80% |
| Cash at investment managers, net of unsettled trades | 601,210 | 6% | 572,897 | 5% |
| Total Invested Assets | 9,025,004 | 84% | 8,904,563 | 85% |
| Other cash and cash equivalents | 995,677 | 9% | 846,380 | 8% |
| Total Cash and Fixed Maturities | 10,020,681 | 93% | 9,750,943 | 93% |
| Other Investments | 652,111 | 6% | 645,987 | 6% |
| Accrued interest receivable | 80,990 | 1% | 87,338 | 1% |
| Total Cash and Investments | \$ 10,753,782 | 100% | \$ 10,484,268 | 100% |

Fixed Maturity Investments:

At March 31, 2008 and December 31, 2007, all of the fixed maturity securities were investment grade with 81.5% and 78.6%, respectively, rated AA- or better, with an overall weighted average rating of AA+, based on ratings assigned by Standard & Poor's. At March 31, 2008 and December 31, 2007, we did not have an aggregate exposure to any single issuer of 10% or more of shareholders' equity, other than in respect to U.S. government and agency securities.

At March 31, 2008 and December 31, 2007, our invested assets had an approximate average duration of 2.9 and 2.7 years, respectively. When incorporating our other cash and cash equivalents into this calculation, the average duration at March 31, 2008 and December 31, 2007, is reduced to 2.6 and 2.5 years, respectively.

The amortized cost and fair values of our fixed maturity investments was as follows:

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| At March 31, 2008 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---------------------|------------------------------|-------------------------------|---------------------|
| Type of Investment | | | | |
| U.S. government and agency | \$ 1,181,483 | \$ 30,491 | \$ (103) | \$ 1,211,871 |
| Non-U.S. government | 253,721 | 20,867 | (357) | 274,231 |
| Corporate debt | 2,344,857 | 45,498 | (106,527) | 2,283,828 |
| Mortgage-backed | 3,569,513 | 46,591 | (35,058) | 3,581,046 |
| Asset-backed | 450,740 | 3,387 | (7,076) | 447,051 |
| Municipals | 619,573 | 7,713 | (1,519) | 625,767 |
| Total fixed maturity investments | \$ 8,419,887 | \$ 154,547 | \$ (150,640) | \$ 8,423,794 |

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| At December 31, 2007 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---------------------|------------------------------|-------------------------------|---------------------|
| Type of Investment | | | | |
| U.S. government and agency | \$ 1,032,441 | \$ 26,672 | \$ (187) | \$ 1,058,926 |
| Non-U.S. government | 264,109 | 20,712 | (4,244) | 280,577 |
| Corporate debt | 2,174,333 | 36,020 | (60,687) | 2,149,666 |
| Mortgage-backed | 3,467,573 | 29,946 | (15,304) | 3,482,215 |
| Asset-backed | 539,125 | 1,800 | (8,145) | 532,780 |
| Municipals | 823,947 | 3,792 | (237) | 827,502 |
| Total fixed maturity investments | \$ 8,301,528 | \$ 118,942 | \$ (88,804) | \$ 8,331,666 |

The change in unrealized losses in the first quarter of 2008 was primarily related to our corporate securities, following a widening of credit spreads in this sector. Concurrently there was an improvement in pricing of foreign corporate securities due the weakening of the U.S. dollar, particularly against the Euro, which positively impacted unrealized gains in this sector.

The following table summarizes our asset-backed securities by rating and class at March 31, 2008:

| | Asset-Backed Securities By Rating | | | | | Total |
|--------------------|-----------------------------------|---------------|------------------|------------------|-------------------|-------|
| | AAA | AA | A | BBB | | |
| Auto | \$ 252,513 | \$ - | \$ - | \$ 704 | \$ 253,217 | |
| CLO ^(a) | - | - | 35,091 | 18,019 | 53,110 | |
| CDO ^(b) | 8,971 | 346 | 455 | 167 | 9,939 | |
| Credit card | 61,187 | - | - | - | 61,187 | |
| Equipment | 11,605 | - | - | - | 11,605 | |
| Home equity | 51,647 | 350 | - | 1,536 | 53,533 | |
| Other | 4,460 | - | - | - | 4,460 | |
| Total | \$ 390,383 | \$ 696 | \$ 35,546 | \$ 20,426 | \$ 447,051 | |

(a) Collateralized loan obligation debt tranche securities

(b) Collateralized debt obligation

At March 31, 2008 and December 31, 2007, we held asset-backed securities of \$447 million and \$533 million, respectively. At March 31, 2008, all our asset-backed securities were investment grade, with 87% having a credit rating of AAA. Approximately 57% of our asset-backed securities were related to the auto loans, with the remainder of our portfolio diversified across economic sectors and geographical areas.

The following tables summarize our mortgage-backed securities by rating and class at March 31, 2008:

| Agency ^(a) | Mortgage-Backed Securities By Rating and Class | | | | Total |
|-----------------------|--|----|---|-----|-------|
| | AAA | AA | A | BBB | |

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| | | | | | | |
|--------------|---------------------|---------------------|------------------|-----------------|-----------------|---------------------|
| Residential | \$ 2,144,368 | \$ 455,222 | \$ 3,993 | \$ - | \$ 2,591 | \$ 2,606,174 |
| Commercial | 24,886 | 928,383 | 12,255 | 9,348 | - | 974,872 |
| Total | \$ 2,169,254 | \$ 1,383,605 | \$ 16,248 | \$ 9,348 | \$ 2,591 | \$ 3,581,046 |

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

At March 31, 2008 and December 31, 2007, we held mortgage-backed securities of \$3,581 million and \$3,482 million, respectively. At March 31, 2008, \$2,169 million of these securities, or the loans backing such securities, contain guarantees by the U.S. Government or a government-sponsored enterprise. Of the remaining securities held at March 31, 2008, 98% had a credit rating of AAA. Our mortgage-backed portfolio is supported by loans that are diversified across economic sectors and geographical areas.

Table of Contents*Other Investments:*

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

| | March 31, 2008 | | December 31, 2007 | |
|--------------------------------|-------------------|-------------|-------------------|-------------|
| Hedge funds | \$ 305,438 | 47% | \$ 277,757 | 43% |
| Credit funds | 177,812 | 27% | 194,241 | 30% |
| CLO - equity tranches | 117,648 | 18% | 120,596 | 19% |
| Short duration high yield fund | 45,655 | 7% | 45,648 | 7% |
| Other | 5,558 | 1% | 7,745 | 1% |
| Total other investments | \$ 652,111 | 100% | \$ 645,987 | 100% |

The increase in our hedge funds reflects net subscriptions of \$40 million, partially offset by the negative performance of these funds during the quarter. Similarly, the reduction in our credit fund balances was related to a decline in the value of these securities during the first quarter of 2008, partially offset by net subscriptions of \$14 million. Refer to *Net Investment Income and Net Realized Investment Gains* above.

Impact of Credit market movements:

During 2007, increasing delinquencies in the U.S. sub-prime residential mortgage collateral triggered increased volatility and decreased liquidity across financial markets as a whole, particularly in the area of structured credit assets. We define sub-prime related risk as any security that is backed by or contains sub-prime collateral even if that sub-prime component is incidental. We do not invest directly in sub-prime loans nor do we have any direct sub-prime investment commitments. Our exposure to the sub-prime sector is within our fixed maturity portfolio as part of the collateral in our mortgage-backed and asset-backed securities. We also have exposure to Alternative-A mortgages which are considered to present more risk than prime but less risk than sub-prime.

The following tables summarize our holdings with exposure to these investment types at March 31, 2008 and December 31, 2007, including net realized investment losses and impairments recorded in the first quarter of 2008 and year ended December 31, 2007, respectively:

| | Holdings at Fair Value | % of Total Shareholders Equity | Net Unrealized Gain/(Loss) | Realized Losses and Impairments |
|---|---------------------------|--------------------------------------|-------------------------------|---------------------------------------|
| At March 31, 2008 | | | | |
| Subprime Agency MBS ^(a) | \$ 14,903 | 0.28% | \$ 50 | \$ - |
| Subprime Non-Agency MBS | 1,168 | 0.02% | (41) | - |
| Subprime ABS ^(b) | 44,359 | 0.83% | (2,808) | (2,741) |
| Total Subprime | 60,430 | 1.13% | (2,799) | (2,741) |
| Alternative-A Agency MBS | 551 | 0.01% | (9) | - |
| Alternative-A Non-Agency MBS | 141,090 | 2.63% | (5,009) | - |
| Total Alternative-A | 141,641 | 2.64% | (5,018) | - |
| Total Subprime and Alternative-A | \$ 202,071 | 3.77% | \$ (7,817) | \$ (2,741) |

(a) Mortgage-backed securities

(b) Asset-backed securities

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| At December 31, 2007 | Holdings at Fair Value | % of Total Shareholders Equity | Net Unrealized Gain/(Loss) | Realized Losses and Impairments |
|---|-----------------------------------|---|---------------------------------------|--|
| Subprime Agency MBS | \$ 26,398 | 0.51% | \$ 38 | \$ - |
| Subprime Non-Agency MBS | 1,892 | 0.04% | (26) | - |
| Subprime ABS | 47,874 | 0.93% | (3,456) | (427) |
| Total Subprime | 76,164 | 1.48% | (3,444) | (427) |
| Alternative-A Agency MBS | 604 | 0.01% | 1 | - |
| Alternative-A Non-Agency MBS | 127,845 | 2.48% | 56 | (730) |
| Alternative-A ABS | 6,611 | 0.13% | (283) | - |
| Total Alternative-A | 135,060 | 2.62% | (226) | (730) |
| Total Subprime and Alternative-A | \$ 211,224 | 4.10% | \$ (3,670) | \$ (1,157) |

Our sub-prime and Alternative-A portfolio at March 31, 2008 is relatively unchanged from December 31, 2007. There was, however, a continued deterioration of valuations throughout the quarter emanating from a lack of liquidity and rating pressures in this sector. As a result, we recognized an impairment charge of \$3 million, relating to one security that was downgraded. At March 31, 2008, all our investments in this sector were investment grade, with 94% rated Agency or AAA (December 31, 2007: 98%). The duration and weighted average life of these investments at March 31, 2008 was 1.08 years and 2.25 years, respectively, compared to 1.61 years and 2.39 years, respectively at December 31, 2007. At March 31, 2008, 69% of our sub-prime securities originated in 2006 and 2007, compared to 73% at December 31, 2007. At March 31, 2008, 21% of our Alternative-A securities originated in 2006 and 2007, compared to 12% at December 31, 2007.

With respect to the rest of our investment portfolio, our exposure to credit risk is broadly diversified by industry, concentration and geography through our investments in high grade fixed maturities and our other investments. As discussed above, the credit and hedge funds, within our other investment portfolio, have continued to experience increased volatility this quarter, in line with the financial markets. All securities, including those with sub-prime exposure, are reviewed as part of our ongoing other-than-temporary-impairment monitoring process. We continue to monitor our exposures, and to the extent market disruptions continue, our financial position may be negatively impacted.

Fair Value Measurements

On January 1, 2008, we adopted FAS 157, Fair Value Measurements (FAS 157), which defines fair value as the price that would be received to sell an asset or paid in transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the measurement date. Refer to Note 1 of our Consolidated Financial Statements for a further discussion on this new standard.

The following is a summary of valuation techniques or models we used to measure fair value by asset and liability classes, which have not changed significantly since December 31, 2007.

Fixed Maturity Investments

We outsource investment accounting services for our fixed maturity portfolios to a third party. Through this third party, we use nationally recognized pricing services, including pricing vendors, index providers and broker-dealers to estimate fair value measurements for all of our fixed maturity investments. These pricing services include Lehman Index, Reuters Pricing Service, FT Interactive Data and others.

The pricing service uses market quotations for securities (e.g., public common and preferred securities) that have quoted prices in active markets. When quoted market prices are unavailable, the pricing service prepares estimates of fair value measurements for these securities using its proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Additionally, the pricing service uses an Option Adjusted Spread model to develop prepayment and interest rate scenarios, a model commonly used to estimate fair value for mortgage-backed and asset-backed securities. In all cases, we use the bid price for estimating fair value for our fixed maturity investments.

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Except for the preferred shares, as the fair value estimates of our fixed maturity investments are based on observable market data we have included these as Level 2 within the fair value hierarchy. The preferred shares are classified as Level 1 as they are actively traded on an exchange.

To validate the techniques or models used by the pricing services, we compare the fair value estimates to our knowledge of the current market and will challenge any prices deemed not to be representative of fair value. Our review process includes, but not limited to: (i) a review of the third party models for the highest risk securities within our portfolio; (ii) quantitative analysis e.g. compare the quarterly return for each managed portfolio to target benchmark and perform attribution analysis e.g. overweight / underweight by industry sector and duration; and (iii) select randomly purchased or sold securities and compare the executed prices to the fair value estimates from the pricing service.

Further, on a quarterly basis, we evaluate whether the fair value of a fixed maturity securities is other-than-temporarily impaired when its fair value is below amortized cost. To make this assessment we consider several factors including (i) the time period during which there has been a decline below cost, (ii) the extent of the decline below cost, (iii) our intent and ability to hold the security, (iv) the potential for the security to recover in value, (v) an analysis of the financial condition of the issuer, and (vi) an analysis of the collateral structure and credit support of the security, if applicable. If we conclude a security is other-than-temporarily impaired, we write down the amortized cost of the security to fair value, with a charge to net realized investment gains (losses) in the Consolidated Statement of Operations. During the quarter ended March 31, 2008 and 2007, we have recorded a total other-than-temporary impairment charge of \$15 million and \$nil, respectively.

Other Investments

For hedge and credit funds, we measure fair value by obtaining the most recently published net asset value as advised by the external fund manager or third party administrator, which involves little management judgment. The financial statements of each fund generally are audited annually, using fair value measurement for the underlying investments. Certain of these funds have lock-up and other redemption provisions which limit our ability to liquidate these funds in the short term. As these provisions are common in the investment industry, we do not believe a market participant would apply a significant discount, if any, to the published net asset value and accordingly we have not reflected such adjustment in the fair value of the above funds. We have classified the hedge and credit funds as Level 3 within the fair value hierarchy as for most of these funds we do not have full access to the underlying investment holdings to enable us to corroborate the fair value measurement used by the fund managers. However, we regularly review performance directly with the fund managers and perform qualitative analysis to corroborate the reasonableness of the published net asset values. For the three months ended March 31, 2008, we incurred a \$42 million loss in fair value on these funds due to market conditions as previously noted. This unrealized loss was included in our net investment income.

For collateralized loan obligation securities (CLOs), we invest in both the debt and equity tranches. The debt tranches are included in our fixed maturity securities portfolio (refer to the asset-backed securities tabular disclosure above); whereas the equity tranches are reported under other investments in our Consolidated Balance Sheets. For the latter, the initial purchase price is amortized, on a straight-line basis, over the expected life of the equity tranche CLO investment with interest income being recognized using the effective yield method. The effective yield method is calculated using market assumptions such as industry default and recovery rates, collateral spreads, and prepayments. At the end of each reporting period, we review the performance of the overall CLO structure and make an adjustment to the carrying value if it does not reflect a reasonable estimate of fair value. In conjunction with this review, we also evaluate whether the estimated fair value of the CLO is other-than-temporarily impaired when its fair value is below amortized cost.

Due to the current technical imbalances and illiquidity proliferating through the credit markets, observable CLO trades in the secondary markets are infrequent. These market conditions have increased the reliance on management judgments in determining the estimated fair value of these equity tranche CLOs. The most significant market assumption used in estimating fair value for this investment type is the default rate. As the current default experience in the underlying loans has not changed significantly, there was no significant change in our estimated fair value of these CLOs at March 31, 2008, from December 31, 2007. Due to the significant management judgment in establishing this fair value, we have classified the equity tranche CLOs as Level 3 within the fair value hierarchy.

We also have one open-end short-duration high yield fund with daily liquidity that is measured using a published net asset value. For this fund, we have classified it as Level 2 within the fair value hierarchy.

Table of ContentsDerivative Instruments

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

For our outstanding insurance derivative contract we have developed a valuation model to measure its fair value. This model incorporates all of the significant cash flows relating to the structure underlying the insurance contract as well as market inputs such as yield curve and default rates. The most significant assumption used in this model is the longevity of the insured individuals underlying the insurance policy. The estimation of life expectancy of an individual is a complex process and accordingly significant judgment is applied in establishing a fair value for the above contract. We have classified this contract as Level 3 within the fair value hierarchy. For more details on this insurance-related derivative contract, refer to Item 8, Note 8(c) included in our Annual Report on Form 10K for our year ended December 31, 2007 of the Consolidated Financial Statements.

The following table summarizes all of our financial assets and liabilities measured at fair value at March 31, 2008, by FAS 157 hierarchy:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|--|--|---------------------|
| Assets | | | | |
| Fixed maturity investments | \$ 93,681 | \$ 8,330,113 | \$ - | \$ 8,423,794 |
| Other investments | 5,558 | 45,656 | 600,897 | 652,111 |
| Total | \$ 99,239 | \$ 8,375,769 | \$ 600,897 | \$ 9,075,905 |
| As a percentage of total assets | 0.6% | 53.6% | 3.8% | 58.0% |
| Liabilities | | | | |
| Foreign currency derivatives | \$ - | \$ 361 | \$ - | \$ 361 |
| Insurance-related derivative | - | - | 16,346 | 16,346 |
| Total | \$ - | \$ 361 | \$ 16,346 | \$ 16,707 |
| As a percentage of total liabilities | - | n/m | 0.2% | 0.2% |

For fair value sensitivity analysis on our investments portfolio, refer to Item 3 Quantitative and Qualitative Disclosure About Market Risk .

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES**

There has been no material change in our liquidity and capital resource requirements since December 31, 2007. For more information refer to *Liquidity and Capital Resources* included under Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2007. At March 31, 2008, our common shareholders' equity was \$4.9 million compared to \$4.7 billion at December 31, 2007. The following is a summary reconciliation of those balances:

| | |
|--|---------------------|
| Common equity - December 31, 2007 | \$ 4,658,622 |
| Net income | 246,941 |
| Change in accumulated other comprehensive income | (22,772) |
| Common share dividends | (29,968) |
| Preferred share dividends | (9,219) |
| Share-based compensation and other | 27,818 |
| Common equity - March 31, 2008 | \$ 4,871,422 |

COMMITMENTS AND CONTINGENCIES

There have been no other material changes in our commitments or contingencies since December 31, 2007. Refer to Item 7 included in our Annual Report on Form 10-K for the year ended December 31, 2007.

CRITICAL ACCOUNTING ESTIMATES

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

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believe the following critical accounting policies affect significant estimates used in the preparation of our consolidated financial statements:

Reserve for losses and loss expenses

Reinsurance recoverable balances

Premiums

We discuss our Critical Accounting Estimates in Item 7, *Management's Discussion and Analysis of Results of Operations and Financial Condition* in our Annual Report on Form 10-K for the year ended December 31, 2007.

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NEW ACCOUNTING STANDARDS

See Item 1, Note 1 to the Consolidated Financial Statements for a discussion of new accounting standards we have recently adopted and recently issued accounting pronouncements we have not yet adopted.

OFF-BALANCE SHEET AND SPECIAL PURPOSE ENTITY ARRANGEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our Balance Sheets include a substantial amount of assets and to a lesser extent liabilities whose fair values are subject to market risks. Market risk represents the potential for an economic loss due to adverse changes in the fair value of a financial instrument. Our most significant market risks are primarily associated with changes in interest rates and foreign currency exchange rates. The following provides a sensitivity analysis on the potential effects that these market risk exposures could have on the future earnings, fair values or cash flows of our material financial instruments.

INTEREST RATE RISK

Fluctuations in interest rates have a direct impact on the market valuation of our fixed income investments. As interest rates rise, the market value of our fixed income portfolio falls, and the converse is also true. We have calculated the effect that an immediate parallel shift in the U.S. interest rate yield curve would have on our total cash and fixed maturity investments at March 31, 2008. The modeling of this effect was performed on each security individually using the security's effective duration and changes in prepayment expectations for mortgage-backed and asset-backed securities. The results of this analysis are summarized in the table below. The hypothetical changes in interest rate risk do not reflect what could be deemed the best or worst case scenarios.

Interest Rate Movement Analysis on Market Value of Total Cash and Fixed Maturity Investments

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Interest Rate Shift in Basis Points

| | -100 | -50 | 0 | +50 | +100 |
|-------------------------------|---------------|---------------|---------------|--------------|--------------|
| Total Market Value | \$ 10,262,799 | \$ 10,144,608 | \$ 10,020,681 | \$ 9,891,136 | \$ 9,756,122 |
| Market Value Change from Base | 2.42% | 1.24% | 0.00% | (1.29%) | (2.64%) |
| Change in Unrealized Value | \$ 242,118 | \$ 123,927 | \$ - | \$ (129,545) | \$ (264,559) |

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

Table of Contents**FOREIGN CURRENCY RISK**

Fluctuations in foreign currency exchange rates have a direct impact on the valuation of our assets and liabilities denominated in those currencies. Therefore, we attempt to manage our foreign currency risk by seeking to match our liabilities under insurance and reinsurance policies that are payable in foreign currencies with cash and investments that are denominated in such currencies. We may use derivatives to hedge un-matched foreign currency exposures, specifically forward contracts and currency options. Additionally, we may also enter into foreign currency forward contracts to manage portfolio risk and enhance our investment returns. Currency derivatives do not eliminate fluctuations in the value of our assets and liabilities denominated in foreign currencies but rather allow us to establish a base rate of exchange for a future point in time. Foreign currency forward contracts and options are not specifically identified against cash, any single security or any groups of securities and, therefore, do not qualify and are not designated as a hedge for financial reporting purposes. All realized gains and losses and unrealized gains and losses on foreign currency derivatives are recognized in our Consolidated Statements of Operations. The principal currencies creating foreign exchange risk to the Company are the Sterling, the Euro, the Australian dollar, the Canadian dollar and the Japanese Yen. The following table provides a hypothetical analysis on our exposure to foreign exchange rate risk at March 31, 2008 and December 31, 2007:

| | March 31 2008 | December 31 2007 |
|--|--------------------------|---------------------|
| Fair value of net assets denominated in foreign currencies | \$1,199,303 | \$862,664 |
| As a percentage of total shareholders' equity | 22% | 17% |
| Pre-tax impact on equity of hypothetical 10% movement of the U.S. dollar | \$109,028 | \$78,424 |

VALUE AT RISK

Value at Risk: Our management uses Value-at-Risk (VaR) as one of its tools to measure potential losses in the fair values of our cash and investments. The VaR calculation is calculated using a Monte Carlo simulation to project many different prices of fixed income securities, derivatives and currencies taking into account, among other things, the volatility and the correlation between security price changes over various forecast horizons. The VaR of our cash and investments at March 31, 2008 was approximately \$469 million, or 4.4%, compared to \$276 million, or 2.6% at December 31, 2007, which represents the potential loss in fair value of our cash and investments over a one year time horizon within a 95% confidence level. The increase in our VaR was primarily related to increased market volatilities across substantially all asset classes that our investment portfolio is exposed to. The VaR computation is a risk analysis tool and does not purport to represent actual losses in fair value. We cannot predict actual future movements in market rates and do not present these results to be indicative of future movements in such market rates or to be representative of any actual impact that future changes in market rates may have on our future results of operations or financial position. During the first quarter of 2008 actual changes in fair value did not exceed the VaR amount.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management has performed an evaluation, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)) as of March 31, 2008. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and is accumulated and communicated to management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

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The Company's management has performed an evaluation, with the participation of the Company's Chief Executive Officer and Chief Financial Officer of changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2008. Based upon that evaluation, there have been no changes to the Company's internal control over financial reporting during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Except as set forth below, we are not currently a party to any material legal proceedings. From time to time, we are subject to routine legal proceedings, including arbitrations, arising in the ordinary course of business. These legal proceedings generally relate to claims asserted by or against us in the ordinary course of our insurance or reinsurance operations.

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

ITEM 1A. RISK FACTORS

There were no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007.

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

The following table sets forth information regarding the number of shares we repurchased during each month in the first three months of 2008.

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number Of Shares Purchased as Part Of Publicly Announced Plans or Programs | Maximum Number |
|---------------------|---|---|---|---|
| | | | | (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Announced Plans or Programs ^(a) |
| January 1-31, 2008 | 117,189 ^(b) | \$40.12 | - | \$494.9 million |
| February 1-29, 2008 | - | - | - | \$494.9 million |
| March 1-31, 2008 | 2,050 ^(b) | \$36.87 | - | \$494.9 million |
| Total | 119,239 | \$40.06 | - | \$494.9 million |

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

(b) Comprises shares withheld to satisfy tax liabilities upon the vesting of restricted stocks awarded under our 2003 Long Term Equity Compensation Plan. These shares are not included in our repurchase program.

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ITEM 6. EXHIBITS

- (a) Exhibits
 - 3.1 Certificate of Incorporation and Memorandum of Association (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1/A (Registration No. 333-103620) filed on April 16, 2003).
 - 3.2 Amended and Restated Bye-Laws (incorporated by reference to Appendix B to the Definitive Proxy Statement for the 2007 Annual General Meeting of Shareholders filed on March 28, 2007).
 - 4.1 Specimen Common Share Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 3) (No. 333-103620) filed on June 10, 2003).
 - 4.2 Certificate of Designations setting forth the specific rights, preferences, limitations and other terms of the Series A Preferred Shares (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 4, 2005).
 - 4.3 Certificate of Designations setting forth the specific rights, preferences, limitations and other terms of the Series B Preferred Shares (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on November 23, 2005).
 - 10.1 2008 Directors Annual Compensation Program.
 - 10.2 AXIS Capital Holdings Limited 2007 Long-Term Equity Compensation Plan, as amended.
 - 10.3 Amendment No. 2 to Employment Agreement between John R. Charman and AXIS Specialty Limited, dated February 19, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 19, 2008).
 - 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
 - 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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ITEM 7. SIGNATURES

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

Dated: April 29, 2008

AXIS CAPITAL HOLDINGS LIMITED

By:

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

/s/ DAVID B. GREENFIELD
David B. Greenfield
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)