S&P Global
Market Intelligence

AXIS Capital Holdings Limited NYSE:AXS

FY 2007 Earnings Call Transcripts

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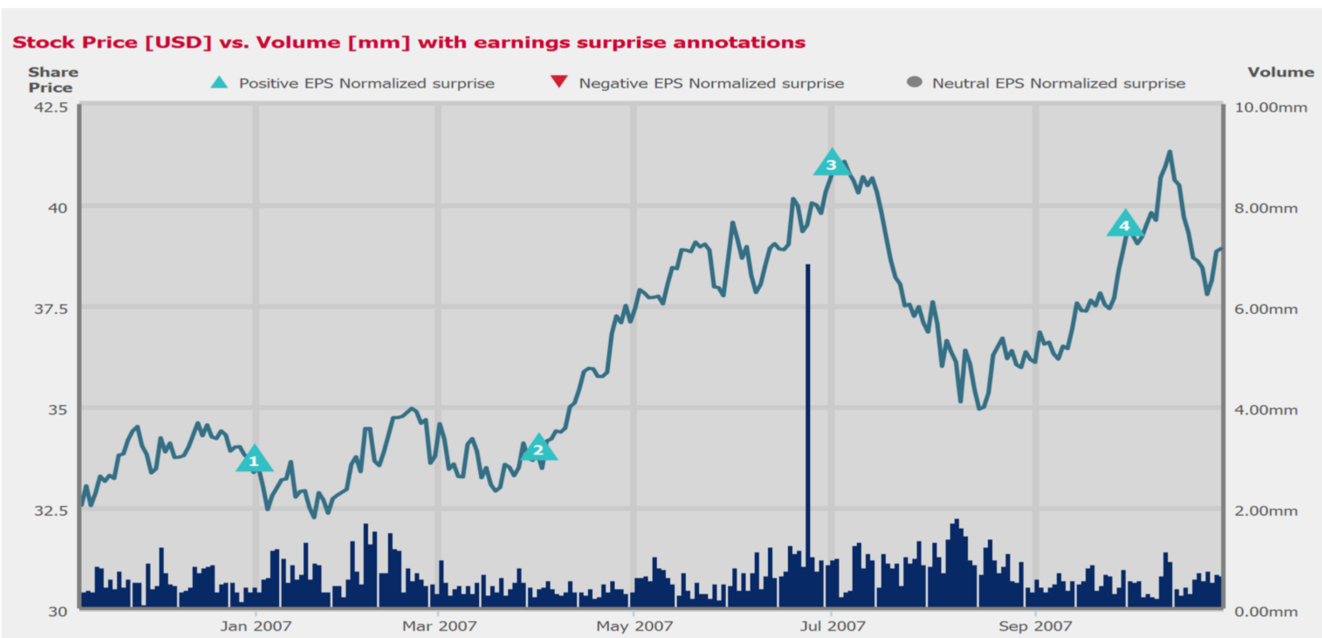
S&P Global Market Intelligence Estimates

	-FQ4 2007-			-FQ1 2008-		
	CONSENSUS	**ACTUAL**	**SURPRISE**	**CONSENSUS**	**SURPRISE**	**CONSENSUS**
EPS Normalized	1.53	1.83	▲19.61	1.45	▲(7.91 %)	6.09
Revenue	-	-	▲(29.06 %)	-	▲(0.22 %)	-
Revenue (mm)	542.94	385.16	-	1106.20	-	3021.54

Currency: USD
Consensus as of Feb-05-2008 10:50 AM GMT



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Call Participants

EXECUTIVES

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

John R. Charman

Linda Ventresca

ANALYSTS

Alain Karaoglan
Bank of America

Josh Smith
TIAA-CREF

Matthew G. Heimermann
J.P. Morgan

Susan P. Spivak
Wachovia Securities

Vinay Misquith
CS First Boston

Presentation

Operator

Good day ladies and gentlemen and welcome to the Fourth Quarter 2007 AXIS Capital Holdings Ltd. Earnings Conference Call. My name is Lacey and I'll be your coordinator for today. At this time all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of this conference. [Operator Instructions].

I would now like to turn the call over to our host for today's call, Ms. Linda Ventresca, Investor Relations, Please proceed.

Linda Ventresca

Thank you Lacey. Good morning ladies and gentlemen. I am happy to welcome you to our conference call to discuss the financial results for AXIS Capital for the quarter and year ended December 31, 2007.

Our fourth quarter and full year earnings press release and financial supplement were issued yesterday evening after the market closed. If you would like copies, please visit the Investor Information section of our website www.axiscapital.com. We set aside an hour for today's call which is also available as an audio webcast through the Investor Information section of our website till Friday, February 29, 2008. An audio replay will also be available till Friday, February 15, 2008. The toll free dial-in number for the replay is 888-286-8010, the international number is 617-801-6888. The passcode for both replay dial-in numbers is 83338412.

With me on today's call are Michael Butt our Chairman; John Charman our CEO and President; and David Greenfield our CFO.

Before I turn the call over to John, I will remind everyone that statements made during this call, including the Q&A session which are not historical facts maybe forward-looking statements within the meaning of the U.S. Federal Securities Laws. Forward-looking statements contained in this presentation include but are not necessarily limited to, information regarding our estimate of losses related to catastrophes and other loss events, future growth prospects and financial results, evaluation of losses and loss reserves, investment strategies, investment portfolio and market performance, impact to the marketplace with respect to changes in pricing models and our expectations regarding pricing and other market conditions. These statements involve risks, uncertainties and assumptions which could cause actual results to differ materially from our expectations.

For a discussion of these matters, please refer to the Risk Factor section in our most recent Form 10-K on file with the Securities and Exchange Commission. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In addition this presentation contains information regarding operating income which is a non-GAAP financial measure within the meaning of the U.S. Federal Securities Laws. For a reconciliation of this item to the most directly comparable GAAP financial measure, please refer to our press release and Form 8-K issued last night which can be found on our website.

With that, I would now like to turn the call over to John.

John R. Charman

Thank you Linda and good morning to you all. We are extremely pleased to report record results for the quarter and the year end... year ended December 31, 2007. I'm proud that our established high-quality global franchise in both the insurance and reinsurance markets has delivered over $1 billion in annual earnings in the 6th year since our inception. We believe this achievement is unparalleled in our sector.

For 2007, our overall gross premiums written was stable, relative to the prior year. However, underlining these overall top line results were continuing, important underwriting portfolio management changes. These portfolio changes and our acknowledged company expertise in managing them real-time become even more critical during soft market cycles. Our return on average common shareholders' equity was 24.6%, diluted book value per common share increased 23% in the last year to $28.79. At the same time AXIS returned over $400 million of capital to shareholders through share repurchases and dividends. I believe these quality-based results are a significant achievement during a year characterized by being highly competitive and increasingly rational in our global insurance business.

With that, I would like to turn the call over to David to discuss our financial results in more detail.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Thank you John and good morning every one. As John mentioned, we are extremely pleased with the quality of our results for the fourth quarter as well as for the year. 2007 marks a record year for AXIS. Our fourth quarter results produced record net income against the comparable prior year period. The 9th quarter in a row, of such performance.

Our full year net income which was more than $1 billion is also the highest in our history. On almost every measure, 2007 produced exceptionally positive results for us. This consistent and record-breaking performance throughout 2007, demonstrates the powerful earnings potential of the global AXIS franchise.

For the quarter, net income was $306 million, a 9% increase over the fourth quarter of 2006. Earnings per diluted share for the quarter of $1.89, compared to $1.69 per diluted share for the fourth quarter of 2006. After-tax operating income which excludes the impact of realized gains and losses on investments was $296 million, a 4% increase from the prior year quarter. Operating earnings per diluted share increased to $1.83 from a $1.71 in the prior year quarter.

For the full of 2007, net income reached nearly $1.1 billion, a 14% increase over 2006. Earnings per diluted share of $6.41 compared... for 2007, compared to $5.63 per diluted share for the prior year. After-tax operating income was also nearly $1.1 billion, an 11% increase from 2006. Operating earnings per diluted share in 2007 was $6.38, compared to $5.78 in 2006. These results translate to an impressive annualize return on average common equity for the quarter of 26.9%, and 24.6% for the full year.

Our year end diluted book value per share of $28.79, increased 23% over the last 12 months. Given the conditions in the financial markets affecting the financial services sector, it is worth noting that at AXIS our usual disciplined approach to risk is expected to result in minimal adverse experience from issues related to sub-prime and broader credit deteriorations. This is the case on both the asset side and liability side of our balance sheet and we will further discuss these topics later on in the call.

Turning to premiums, our consolidated gross premiums written for the fourth quarter was $573 million, compared with $714 million in last year's fourth quarter. For the full year consolidated gross premiums written were $3.6 billion, similar to the prior year. Gross premiums written in our Insurance segment this quarter were $509 million and compared with $551 million in the fourth quarter of last year. This 8% reduction reflects substantially increased competition and rate pressures across the majority of our insurance lines.

For the full year, gross premiums written in our Insurance segment of $2 billion were comparable with 2006. Although market conditions in 2007 were increasingly competitive we balanced the impact of this with the further broadening of our underwriting distribution operations this year.

Gross premiums written in our Reinsurance segment were $64 million in the quarter, down 61% from the fourth quarter of last year. The vast majority of the reduction in gross premiums written in this quarter was primarily due to a continuing trend towards cedants retaining more business and a property proportional treaty written in the fourth quarter of 2006, with a 16-month term. For the full year gross premiums written in our Reinsurance segment were $1.6 billion, which was approximately 1% higher than the prior year.

Consolidated net premiums written decreased 32% in the quarter. This decrease was due to the reduction in gross premiums written in the quarter, the purchase of additional reinsurance coverage on a number of business lines within our Insurance segment and the change in the mix of business towards lines with higher levels of seeded premium. Year-to-date net premiums written were down 4%, with the same seeded premium trends in the quarter also impacting the full year. In line with our period-to-period changes in net premiums written and mix, consolidated net premiums earned were down approximately 3% in the quarter, and up 1% year-over-year.

Moving to our underwriting results, our consolidated underwriting income for the quarter of $207 million was up 5%, relative to the same quarter last year. Consolidated underwriting income was evenly spilt with $105 million from our Insurance segment and $302 million from our Reinsurance segment. Our combined ratio for the quarter was 70.8%, a 2.9 point reduction from the prior year quarter.

Our consolidated underwriting income for the full year of $738 million was up 9% over 2006. Again, our two underwriting platforms produced equal shares of underwriting income, $374 million from our Insurance segment and $364 million from our Reinsurance segment.

Our combined ratio for 2007 full year of 75.3% was also down two points when compared to 2006. Our underwriting income in the fourth quarter and for the full year of 2007 benefited from strong current year underwriting results, low levels of major loss events and continued favorable loss development from prior periods. These underwriting results are even more credible when you consider the solidity of our current year loss picks and the strength of our internal price monitoring system against the market conditions we faced.

Our net favorable prior period reserve development in the fourth quarter of 2007 was $92 million or 13.7 points. Of this amount, $71 million was from our Insurance segment representing a positive impact of 24.2 points on the segment's fourth quarter loss ratio. Our Reinsurance segment posted $21 million in favorable loss development, representing a positive impact of 5.6 points on the segment's fourth quarter loss ratio. All of the favorable reserve development in this period is related only to short-tail lines.

As always, we caution against comparing the level of reserve development amongst periods. I'd like to remind you that our approach to quarterly reserving, remains disciplined and conservative. This has been consistent since our inception.

Turning to our current accident year loss ratios; our overall accident year loss ratio for the fourth quarter of 57.1% compares to 52.8% in the same quarter last year. This brings our overall 2007 accident year loss ratio to 62.4%, compared with 61% in 2006. Our loss ratios in both years reflect below average catastrophe activity and low levels of attritional loss experience.

Our Insurance segment, current accident year loss ratio for the quarter was 58.8%, 8.8 points higher than the fourth quarter of 2006. As I discussed during our third quarter call, we modified our development trends on catastrophe exposed short-tail lines to incorporate some of our favorable loss experience at an earlier stage than we had in prior years. This modification which impacts the comparability of both the third and fourth quarter standalone ratios does not impact the comparison of our 2007 full year accident year loss ratios with the prior year's ratios.

Our Reinsurance segment, current accident loss ratio for the quarter was 55.9%, compared to 55.4% in the fourth quarter of 2006. Our 2007 accident year loss ratio in our Reinsurance segment was 62.8%, a slight increase from 16.3% in 2006. The increase was mainly a function of changes in business mix with more longer-tail reinsurance lines in the mix, which generally have a higher expected loss ratio, compared to our other lines.

Turning to our G&A expenses, our total G&A ratio for the full year was 11.1% an increase of 1.1 points from 2006. The increase was primarily due to cost of additional staff over the past year.

Turning now to our investment portfolio, our total cash and investments increased to $10.5 billion at December 31, 2007, up 2% for the quarter and 8% from the previous year end. Net cash generated from operations was $295 million for the quarter and $1.6 billion for the entire year. Our fixed income portfolio remains of high quality with weighted average rating of AA plus, and 91% of our securities are rated A minus or better.

The amount for which collateral comprises sub-prime or Alt-A mortgages is a negligible portion of our overall investment portfolio, at $211 million or only 2%. The significant majority of these securities are rated AAA, or are U.S. government agency backed. As a result of the higher interest in this area, we added increased disclosure in our financial supplement, as it relates to mortgage and asset-backed holdings including further detail on sub-prime and Alt-A exposure. I encourage you to review this disclosure for further detail.

As you will see our exposure to structured credit, remains a very high quality. This is further evidenced by the relatively small unrealized and realized losses we have experienced in this area. Our exposure to traditional mono-line insurers, primarily emanates from our municipal bond holdings. We have securities with credit enhancement from the traditional mono-line insurers that total $381 million at December 31, 2007. This amount represents approximately 4% of our portfolio. The estimated underlying credit quality of these holdings without the guarantee is a plus. We do not believe the insurance is necessary to own these securities.

The unrealized losses associated with these securities at year-end were $2.4 million. Our net investment income for the quarter was $125 million, a 2% increase over the 2006 quarter. We generated net investment income of $483 million in 2007, up 19% year-over-year. These increases were due to the larger investment balances and higher yields on cash and fixed maturities. We expect that 2008 will represent a challenging year for investments, but we remain optimistic that our strong positive cash flow will continue to be the main driver of growth in investment income.

During the quarter, our net investment income from alternatives or other investments declined by $20 million from the same period last year. Primarily, as a result of the challenging quarter for credit-related strategies. This decline was due to continued repricing of risk in the capital markets and the lack of liquidity in virtually all fixed income market. This negatively impacted the performance in the quarter for our credit funds and to a lesser extent our hedge funds. We believe this repricing of risk will provide us with significant opportunities in a number of areas in the upcoming months. Our high level of cash balances will allow us the flexibility to opportunistically invest where we continue to believe we will be more than adequately compensated for the risks we are taking.

Moving on, net realized gains for the quarter were $11 million as compared with the net realized losses of $3 million in the fourth quarter of 2006. Net realized gains for the year were $5 million as compared with $26 million in net realized losses for 2006.

With respect to foreign exchange, strength in the Euro offset by weakness in Sterling exchange rates resulted in a slight foreign exchange gain in the fourth quarter. This compares with $7 million in foreign exchange gains in the prior year quarter. For the year, we had $17 million in foreign exchange gains, compared to $33 million in gains during 2006.

Our interest expense for the quarter was $8 million, which was similar to the expense in the prior year quarter. Our interest expense for the fourth quarter of this year, as compared with each of the previous three quarters in 2007 was significantly lower. This reduction reflects the termination of the $400 million repurchase agreement which was in place through the first three quarters of 2007. Interest expense for 2007 was $51 million compared to $33 million in 2006. The year-over-year increase also primarily reflects the impact of the repurchase agreement which I mentioned is now terminated.

Turning now to our balance sheet, it's as strong as it has been in our history. At year end, our total net loss reserves stand at $4.2 billion and 71% of these net reserves are IBNR reserves. We finished the year with $5.2 billion in total shareholders' equity, an increase of 17% over December 31, 2006.

[Technical Difficulty]

With respect to capital management.

We announced in December that our Board of Directors approved a 10% increase in our quarterly dividend. We have increased our dividend every year since we begin paying dividends in 2003. Also during the fourth quarter, we were able to repurchase 3.2 million of our common shares at a total cost of $125 million. For all of 2007 we were able to repurchase 8.2 million shares for $305 million.

In December, our board approved a new share repurchase authorization of up to $400 million of our common shares which is set to expire on December 31, 2009. We also have $95 million of authorized share repurchases left from our 2006 plan which will expire at the end of 2008.

We will continue to actively manage our capital position and evaluate opportunities as they arise. Total capital to deploy in our globally diversified franchise now stands at $5.7 billion. We believe, our return on average common equity for the year of 24.6% more than demonstrates our ongoing ability to effectively deploy shareholders' capital.

Now I'll turn the call back to John.

John R. Charman

Thank you, David. And I would now like to spend some time discussing market conditions. I will start with the reinsurance market, 2008 treaty reinsurance renewals are progressing as expected and we are pleased with the quality, diversity and the balance of the portfolio that we reassembled at the 1st of January.

Typically, approximately one half of our treaty reinsurance premium is expected to renew during our first quarter. We have not yet finalized all the treaty reinsurance business, we expect to buy in this quarter. However, we can provide some preliminary indications based on what we have quoted and bound since the 1st of January. It is currently our expectation that the first quarter treaty reinsurance renewals will represent a modest decline in premium, as measured against premium expiring during the quarter.

Generally, the reinsurance market could be characterized as remaining stable with small pockets of irrational behavior. This behavior tends to be demonstrated by relatively new entrants to the marketplace, they appear to be desperate to make their premium budgets regardless of margin. Our reinsurance portfolio continues to be impacted by cedants retaining more business.

Importantly, we demonstrated strong leadership through our non-renewals and declinatures of new business, because of either pricing concerns or underlying portfolio concerns. We have worked hard at maintaining a balanced high quality portfolio.

I will begin my more specific commentary on the reinsurance market with the discussion of various areas of the global property reinsurance market, and then move on to the other areas of reinsurance. As expected modest catastrophe claims to the reinsurance market led to decreases in the margins for property reinsurance in most if not all geographic regions. However, overall returns were above acceptable levels with major U.S. perils at the high end.

Generally speaking, capacity purchases net of any exposure changes were flat. However in Europe, the premium savings there led to increased capacity purchasing by cedants. Retentions increased in the fair risk market for regional and super regional companies in the U.S. and there was some retention increases in the catastrophe business in Europe.

Programs involving smaller companies as well as the more discreet peril zones throughout the world, were characterized by more aggressive competition. Europe, Latin America, South America and Asia felt the influence of the direct reinsurance market as those companies sought to expand their market shares almost regardless of cost, in these already competitively priced areas.

Overall proportional property treaty margins were under pressure. We have reacted accordingly by reducing dramatically our activity in this area over the last year or so. In the U.S. non-proportional property market lower layers with more relative premium suffered greater price competition. Softening in terms and conditions was pressed by brokers early on, but at the end of the day, only resulted in the slight broadening in the hours clauses, from 72 hours to 96 hours, the hurricane activity.

California wildfires were unfortunately seen as a non-event despite some attritional Cat losses being presented. Non-proportional property placements in Continental Europe suffered more competition than the U.K. market, were reductions were curbed by the impact of the UK floods. Many regional German companies with poor experience from the Kyrill windstorm faced increased pricing to reflect their loss experience.

Competition increased significantly in other lines of business in Continental Europe. But the focus on renewals was price and not terms and conditions. On an exposure adjusted basis, rates were down 5% to 10%. While we witnessed many more aggressive quotes than before, we do not believe any single competitor demonstrated consistently foolish behavior across the broad spectrum or product lines. In Continental Europe, we are continuing to grow in the specialty lines, credit and bond and engineering, as we see better opportunities in these lines than we do in catastrophe, property and motor reinsurance lines.

In our U.S. general and specialty casualty lines, pricing pressure continues and increased seeding commissions are continuing to be sort on most accounts. Rate increases are still achievable on accounts with unfavorable loss experience. But even these accounts are now under greater competitive pressure.

As we have noted for some time, we are witnessing much more aggressive competition in the primary insurance marketplace than we are in the reinsurance marketplace. Despite large attritional loss experience in the last few months. The aviation market has not yet moved on pricing and continues with premium reductions on exposure adjusted basis of 20% to 30%. Against the backdrop of spiraling exposure to increases, the aviation market defies logic, underwriters recognize that 2007 was unprofitable, but they appear unwilling or unable to either stabilize or increase pricing in that sector. Aviation, war and terrorism business also continue to be under significant irrational, and unmonitored pricing pressure. As you know, we have already substantially reduced our activity in these areas.

Pricing is under increased pressure in the global property insurance marketplace, with California earthquake pricing softer than wind pricing. In the U.S., surplus lines property... in the U.S. surplus lines property segment, we are witnessing aggressive pricing in all property market segments, with larger accounts attracting a broader audience of carriers.

In general accounts are still meeting our pricing threshold, despite the severe market downswing at this time. This pricing pressure is of course against historically high price levels in this area. In the U.S. retail property marketplace, we're seeing even greater pressure on terms and conditions including increased sub-limits and lower deductibles. This increasing trend will continue to drive us into a even more market defensive position. We will also increase our purchasing of equally competitive facultative reinsurance opportunities to defend our margins.

In offshore energy, we are witnessing modest reductions in rates, terms and conditions. Business interruption, waiting period and wind sub-limits are importantly holding firm. Price pressure is greater for non Gulf of Mexico exposed business. In the casualty areas, competition is continuing unabated. In the excess and surplus casualty market, large accounts are experiencing intense rate pressure. The admitted [ph] market is now generally pricing this business at 40% to 50% less than the surplus lines market.

In the surplus lines umbrella market, we are also witnessing some softening but nowhere near the extent that we are seeing in the primary casualty segment. Rate declines on our umbrella portfolio are running in the range of 10% to 12.5%. However, it is not uncommon to see rate reductions in the broader market of greater than 15%. Again, we are proactively managing this segment and have been very defensive in this area over the last six months and we expect to remain so for the foreseeable future.

Moving to our highly diversified professional lines insurance business and by that I mean by range of product weighted towards the SME businesses and located globally. In the commercial segment, we continue to see rate deterioration that not at the rates seen in early 2007. Primary rate decreases are averaging under 10% and excess carriers are seeing 10% to 15% rate decreases depending on the class. Domestic carriers are becoming more aggressive in their offerings of capacity and rate even attacking capacity driven placements typically written in the Bermuda market. The financial institutions business we have witnessed some moderation and competition driven by credit market turbulence.

For our European professional lines portfolio, larger D&O accounts are exhibiting modest reductions in the 5% to 10% range. The small to mid-size commercial D&O here is under more pressure due to the historically favorable claims experience in this segment. Regarding the impacts of the recent crisis in the financial markets, we continue to closely monitor potential exposures across our enterprise and we believe these remain limited. On the underwriting front, particularly in the financial institutions area, we are comfortable at this time that any exposure we have will be more than manageable.

As we have seen with other market events total limits purchase will be a key driver of insured losses. Sub-prime lenders typically did not purchase large limits. This group is expected to bear the brunt of litigation. But companies that have substantial balance sheet exposure to sub-prime mortgages are also at risk. The large money center banks we primarily participate on a side A only basis with significantly higher attachment points.

With the capital infusions over the last few weeks, we believe risk associated with these side A policies have been significantly mitigated. Another area of interest has been companies that have sub-prime exposure in their investment portfolios. With respect to this area, we believe that the sub-prime event will represent the defense cost issues and therefore mostly impact primary and lower layers of account. We are not meaningfully involved in these areas.

Lastly it is premature to comment on E&O exposure related to creditor lending. We do feel comfortable that this is manageable. Large money center banks generally self insure E&O and smaller lenders and intermediaries typically purchase low single digit net limits. With regards to our professional lines for insurance business, we also do not believe the sub-prime issues will materially effect our D&O portfolio, or other professional liability book of business in an adverse way. We base this on the following reasons, we do not currently have significant exposure to large complex financial institutions business and we have very limited exposure to primary D&O or E&O writers of Fortune 500 accounts.

However, given the uncertainty, and premature stage of loss emergence for some areas of professional lines expected to be affected by the sub-prime event, our 2007, loss picks for our insurance and reinsurance professional lines contain extra provisions but potential exposure. These reserves were establishing follow... established following a thorough review of all of our contracts.

As discussed by David, on the asset side of our balance sheet our current assessment of our investment portfolio indicates that we have minimal exposure to sub-prime or credit issues. Including those associated with insurance enhancement from traditional mono-line insurers.

At this time, we do not have liquidity issues, we do not have write-downs and we are generating significantly positive cash flows. This powerful representation of financial strength and stability is rare at the moment in the broader financial services sector. And it is a backdrop against which we believe AXIS can continue to outperform. AXIS is and will continue to be a risk taking business. Our success relies on smart diligent people, operating in a relatively flat hierarchy that encourages all AXIS professionals to proactively challenge one another. As a result, we execute early and quickly on good opportunities and we retrench quickly from business when the landscape gets too crowded. This may mean pulling back from business that appears profitable, but where we consider the risk reward balances moved away from our targets.

AXIS will continue to differentiate itself from our competitors over the next year, regardless of market conditions. For example, just look at our seven senior underwriters, we have over 200 years of embedded experience and high quality consistent track records. This distinguishing feature of the AXIS underwriting team has been successfully tried and tested through industry cycle, after industry cycle. These embedded cultural attributes lie at the very heart of our landmark $1 billion year, despite a continued softening environment, we remain fully committed to continue on our path of out-performance.

At this time, I would like to open the line for questions.
Question And Answer

Question and Answer

Operator

[Operator Instructions]. And our first question will come from the line of Susan Spivak with Wachovia. Please proceed.

Susan P. Spivak
Wachovia Securities

Good morning, John. I was hoping you could ...

John R. Charman

Good morning Susan.

Susan P. Spivak
Wachovia Securities

Give us an idea of what you think the Berkshire Hathaway Swiss Re deal will mean for the reinsurance market? Does that take available premium out of the market? And then second if you could just follow-up on how much higher are your loss picks going to be in 2008 for that financial institution business? That would be great.

John R. Charman

Well I think, I can't really comment on the details of the Berkshire Hathaway Swiss Re deal... Swiss Re deal, but it will be interesting to see whether both end up on the winning side or somebody has overstated the quality and the earnings against the result from that, but I don't see it to be detrimental to the reinsurance business. It's helpful to Swiss Re at this moment in time to free out capital and it's helpful to Berkshire to access that high quality portfolio, but I don't see it detrimental to the reinsurance business globally at all. With regards to our loss picks, David do you want to...?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Yes, Susan on a D&O tech coverage, a lot of that is claims made business. So we don't anticipate a large increase in '08 loss picks for things that are occurring in '07, but in effect we will monitor our loss picks throughout the year and continue the reserve conservatively as I've said.

John R. Charman

And Susan that... as I've said in my comments that we have a very diversified professional lines portfolio which is weighted more towards the SME areas and so that has actually performed pretty well.

Susan P. Spivak
Wachovia Securities

Okay. John it just seems that every call we are on there is no one with any major exposure to the sub-prime D&O crisis and so in your opinion where do you think all the exposure lies?

John R. Charman

Well I think Susan you've been around about quite as well as I have and you will have to understand there are some businesses that are little bit better at understanding their true exposures and others, let alone managing them and I leave that to the audience to decide and differentiate between the companies that are involved in these businesses.

Susan P. Spivak
Wachovia Securities

Well, thank you and also thanks for the great detail on the market, it's very helpful.

John R. Charman

Thank you Susan.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Thank you.

Operator

And our next question will come from the line of Vinay Misquith with Credit Suisse. Please proceed.

Vinay Misquith
CS First Boston

Hi good morning.

John R. Charman

Good morning Vinay.

Vinay Misquith
CS First Boston

You've clearly made a decision to pull back on some of your lines of business, which I think is a good one. Could you provide us with some idea as to what your return holders are, when you are writing new and existing business and how you look at the trade-off between writing existing business with slightly lower margins, those that are still profitable versus buying back your stock?

John R. Charman

Yes, I didn't catch the very early part of your first question but Vinay, I think, we are the most diversified of the class of 01 in Bermuda and we deliberately setup from the onset of the foundation of our company to create that diversification throughout, by product and by geographic location globally. That stands us in extremely good state during soft market plays and because of the way that we have constructed our company and our people and the way that we've made sure that we are an integrated business, we already able to be a lot more efficient and focused in our underwriting activity than a lot of the more cumbersome businesses in our industry.

And I have said time and time again, there is not another senior management team in the industry that is as deeply embedded in the day-to-day underwriting activity of the company and portfolio managers throughout the company on a daily basis. And we are not jumping into new lines of business, what we are doing is using our expertise, but may be moving around, moving away from the big ticket premium numbers where there seems to be the senseless competition. And having to dig lower and deeper within those business activities, to find places where we can make our earnings that takes a lot of energy, it takes a lot of experience. It takes a lot of extra blood but that's what I think we've achieve during 2007, because if you remember I started saying from the early part of the second quarter that the competition was increasing a pace and it was becoming irrational in the insurance markets and that's what we have witnessed.

But I think if there is one thing we are good at, we are acknowledged as being able to ride these soft market cycles, protect our earnings, protect our portfolios. We are equipped if you would have said this to me six years ago, about the sort of soft market cycle, we would have collapsed underwriting activity by 20% or 30%. I think because of the diversity and the technology we have and the experience we have and the global position we occupy.

Our soft market play is pretty well flat to down 10%, as suppose to what if would have been six years ago. Now, it means to say that the difference between where we would have been six years ago on our income and where we are today, it may be that, that balance is not quite as profitable as the core business, but its still, we expect it to be extremely profitable. And that's a unique feature that I think of the changes occurred over the last 5 or 6 years at Axis.

Vinay Misquith
CS First Boston

Sure that's fair, are you still finding some small niche growth opportunities like the Media/Pro acquisition that you can, use to grow your business in the future.

John R. Charman

Absolutely and we are investing heavily in the technology that allows us to take maximum advantage of those opportunities. But as I said, we are not getting into businesses that we don't already have the experience and capability of. What we are doing is looking at a broader activity within them.

Vinay Misquith
CS First Boston

Sure, one last clarification, I saw that you had growth in the professional lines and casualty insurance would that have been from the Media/Pro acquisition?

John R. Charman

Yes.

Vinay Misquith
CS First Boston

Thank you.

John R. Charman

As I said we have been pretty defense... we have been defensive on all the other stuff through 2007.

Vinay Misquith
CS First Boston

Sure, that's great, thank you.

John R. Charman

Thank you, Vinay.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Thank you.

Operator

[Operator Instructions]. And our next question will come from the line of Matthew Heimermann with J. P. Morgan. Please proceed.

Matthew G. Heimermann
J.P. Morgan

Hi, good morning everyone.

John R. Charman

Good morning Matt.

Matthew G. Heimermann

J.P. Morgan

Thanks. Couple of questions, first, were there... was there any incentive comp impact on the G&A in the quarter and if so how much?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

There was some impact on it Matt, we normally don't disclose the actual amount.

Matthew G. Heimermann
J.P. Morgan

Just in thinking about it year-over-year was it... was it comparable with the year ago quarter?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Yes it was.

Matthew G. Heimermann
J.P. Morgan

Okay. The other question I had was it look liked your pay to incurred ratios arose both on a gross and net basis in 4Q, and I just was curious as to what on the paid side was driving that?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

It just... we are just continuing to settle the KRW claims, I think, I know rough over 80% now of settled on the KRW claims and we did settle some in the fourth quarter that droves that number up a bit.

Matthew G. Heimermann
J.P. Morgan

Okay, and that was on the insurance side, correct?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Yes.

Matthew G. Heimermann
J.P. Morgan

Okay. And then I guess just with respect John, on the reinsurance purchasing, can you talk a little bit about kind of... it clearly looks like short-term lines where you are buying most of this back, but are you basically just tying to at this point limit the volatility of the outcome, is that the right way to think about what you are doing?

John R. Charman

Well, I think we are buying not only on the short-tail side but that's where the bulk of the spend is, because that's where the most of the activity is. But we are continuing to buy using facultative markets on top of our quota share arrangements on the cash to decide as well. But as I said in the last quarter, I can never understand companies that retain a lot more business during sub-market cycles because historically, I don't think that's been a very good idea. What we do is to use the reinsurance market more effectively and more efficiently to defend our margins and to make sure all that, we have a balance... as balance of portfolio going into 2008, as we can. It is part of that portfolio management.

Matthew G. Heimermann
J.P. Morgan

I guess, just is there... just in terms of thinking about on the property side at least your Cat exposure whether we talked in PML or maybe standard deviation of expected loss, is the net effect of these purchases that year-on-year reduction be increasing it's relatively stable, or you buying enough that actually on the margin the risk in your portfolio is actually falling.

John R. Charman

I think that... and our reinsurance, main reinsurance program protecting our property portfolio, attached in May of last year and I think that whilst we were combating the competitive nature of property insurance business, we also maintained margin, by actually demanding that re-insurers recognize the quality of our underlying portfolio and the strength of our underwriting procedures and gave us sufficient recognition that we could underwrite through the rest of '07 and into 2008, protecting our margins

Matthew G. Heimermann
J.P. Morgan

Okay, that's fair. And then I guess just one last numbers question, the 16-month reinsurance contract that incepted a year ago was that a one-off deal or is that something that potentially is going to come up for renewal either in the first quarter or second quarter, I guess depending on when it is accepted?

John R. Charman

That's a renewable contract, Matt.

Matthew G. Heimermann
J.P. Morgan

Okay and what's the dollar number in what quarter will that renew, or is it up for renewal?

John R. Charman

It was reasonable, and it will come up shortly.

Matthew G. Heimermann
J.P. Morgan

Okay, I appreciate it. Thank you.

John R. Charman

Matt take care.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Thank you Matt.

Operator

And at this time, we have a question from the line of Alain Karaoglan from Bank of America. Please proceed.

Alain Karaoglan
Bank of America

Good morning.

John R. Charman

Good morning Alain.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Good morning.

Alain Karaoglan
Bank of America

A couple of questions, in terms of the reserve releases and I may have missed it but could you... I know you mentioned short-tail lines of business, could you tell us which year's they are related to and you mentioned something about the comparability of this third and fourth quarter and full year to last year. Could you clarify what you meant by that? And I assume on causality lines, you are still... have the policy of not releasing reserves at least five years after you've written the business?

John R. Charman

Yes, well let me answer that second question first most emphatically, because people tend to forget when they are comparing us with our competitors or our peer group, that we have only released short-tail lines since our inception, but David do you want to...?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Yes, on your earlier questions Alain, the releases come from a number of different years on the insurance side, they come from earlier years of 2003, 2004 period and on the reinsurance side they came from more recent years. But the areas that we are releasing reserves are where we... we just haven't seen the claim development that we anticipated, particularly in lines like property, aviation and marine.

John R. Charman

And Alain you were right, it came back to the casualty reserving but we said that we would not review our casualty reserves until they were five years after we have underwritten the business because it was a new line of business for us and so that's a correct statement.

Alain Karaoglan
Bank of America

Okay.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

And the other comment on your question was related to the current year at... current accident year, what I was explaining is that, if you recall from the third quarter, we indicated that we had given more weight to the current accident year experience in the third quarter than we had on in previous years. So what's not comparable is that third and fourth quarters to the prior year on a stand-alone basis but when you look at the full year, essentially they are comparable.

Alain Karaoglan
Bank of America

Okay. And the other question relates to the G&A expenses which as a percentage of premiums have spiked up significantly this quarter, how should we think about it on a percentage basis? Will the full year amount be more relevant or even the full year amount because of Media/Pro is a little bit overstated. In this quarter for example in your insurance business your G&A was 19.7% of premiums.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Right if you... well as I said earlier when you look at the quarter on a stand-alone basis there are some additional compensation costs in this quarter that don't come in earlier quarters during the year. We don't necessarily look it on a percentage basis, we do have increased costs as I have mentioned in my remarks for staff that has been added, that comes from Media/Pro as well as other staff we have added over the course of the year.

So the G&A line will go up because of those things and will carry into 2008. If you are looking at it on a dollars basis, I would just have look more as a third quarter figure in terms of the run rate that I think we will see in '08 for our G&A costs.

John R. Charman

Alain you know that we acquired a large number of people through the acquisition of Media/Pro but also as a company we have invested deliberately and heavily in senior people over the last 12 to 18 months as well as increased technology spend and it's a substantial investment which we believe is a sound investment which we will see returns off in the future.

Alain Karaoglan
Bank of America

Great. Thank you very much and congratulations on a great year.

John R. Charman

I appreciate it.

Operator

[Operator Instructions]. Our next question will come from the line Josh Smith with TIAA-CREF. Please proceed.

Josh Smith
TIAA-CREF

Morning, thanks for taking the call.

John R. Charman

Good morning Josh.

Josh Smith
TIAA-CREF

Good morning. I'm not sure if you guys had a chance to see Travelers' presentation, which I thought was very effective with respect to the professional liability, exposures, they gave us and notices of potential claims. They referenced a reinsurance cover that would limit the aggregates for a given year. Would you consider exposures like that in the future?

John R. Charman

Well I think if you don't mind us saying so, Josh, they have a completely different portfolio than ours. And I think you have to be mindful of that. I'm not necessary sure it's relevant to us and I'm not ducking the issue. I'm just telling you about the relevance of it to our financials.

Josh Smith
TIAA-CREF

Right.

John R. Charman

I don't think it is relevant to us. If you take out U.S. financial institutions book for instance, our average gross underwriting limit was $9 million and our average attachment point was over $75 million.

Josh Smith
TIAA-CREF

And are there any aggregate reinsurance covers on that book?

John R. Charman

Sorry.

Josh Smith
TIAA-CREF

Are there any...?

John R. Charman

No.

Josh Smith
TIAA-CREF

Okay. Well that ...

John R. Charman

I think you are dealing with completely different portfolios.

Josh Smith
TIAA-CREF

Those two numbers.

John R. Charman

And different exposures.

Josh Smith
TIAA-CREF

Those two numbers you gave were very helpful, thank you.

John R. Charman

That's okay.

Operator

This concludes the Q&A session of today's call. I will now turn the call back over to John Charman for closing remarks.

John R. Charman

Well that's very kind and once again thank you, ladies and gentlemen. As I said that this is a landmark in the history of the company and that we have unable to produce during some very challenging market conditions, over $1 billion worth of net income. And we look forward to continuing to outperform the market in 2008 and thank you for your attention.

Operator
Thank you for your participation in today's conference. This concludes your presentation. You may now disconnect. Good day.