S&P Global
Market Intelligence

AXIS Capital Holdings Limited NYSE:AXS

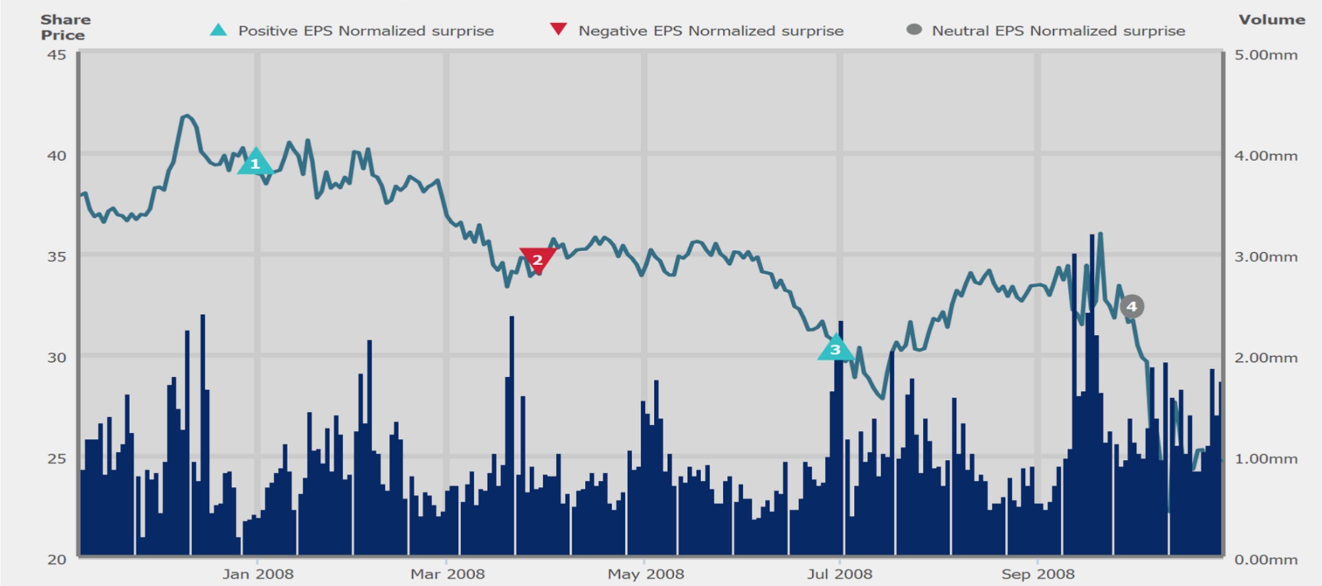
FQ4 2008 Earnings Call Transcripts

Tuesday, February 10, 2009 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2008-			-FQ1 2009-	-FY 2008-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.99	1.09	▲10.10	1.17	2.71	2.81
Revenue	-	-	▲(5.83 %)	-	-	-
Revenue (mm)	360.48	339.47	-	1090.10	2683.98	2666.88

Currency: USD
Consensus as of Feb-10-2009 12:35 PM GMT



- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FQ4 2007	1.53	1.83	▲19.61 %
FQ1 2008	1.39	1.28	▼(7.91 %)
FQ2 2008	1.36	1.45	▲6.62 %
FQ3 2008	(0.97)	(1.22)	NM

Table of Contents

Call Participants 3

Presentation 4

Question and Answer 15

Call Participants

EXECUTIVES

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

John R. Charman
Chairman & CEO

Linda Ventresca

ANALYSTS

Ian Gutterman
Adage Capital

Josh Shanker
Citi

Josh Smith
TIAA-CREF

Vinay Misquith
Credit Suisse

Presentation

Operator

(Operator Instructions) Welcome to the Fourth Quarter 2008 AXIS Capital Holdings Limited Earnings Conference Call. Now I would like to turn the conference over to Ms. Linda Ventresca, Investor Relations Director.

Linda Ventresca

I am happy to welcome you to our conference call to discuss the financial results for AXIS Capital for the year ended December 31, 2008. Our fourth quarter and full year 2008 earnings press release, our financial supplement and a new separate year end investment 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. An audio replay will also be available through February 20th. The toll free dial in number for the replay is 877-344-7529 and the international number is 412-317-0088. The conference code for both replay dial in numbers is 426761.

With me on today's call are 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 question and answer session which are not historical facts, may be forward looking statements within the meaning of the US 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, general economic, capital and credit market conditions, future growth prospects and financial results, evaluation of losses and loss reserves, investment strategies, investment portfolio and market performance, impact of the marketplace with respect to changes and 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 US 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'd like to turn the call over to John.

John R. Charman
Chairman & CEO

We are pleased and proud of our fourth quarter operating results. Both our insurance and reinsurance segments contributed to the strong underwriting results in the quarter. These results benefited from continued favorable prior period loss development and strong current accident year results. The 2008 net income was $351 million or $2.26 per diluted share. Return on average common equity for the year was 8.1%. We believe that this result is a good one for a company with our business makes which is oriented toward short and medium tail severity exposed lines.

In 2008 we estimate that the insurance and reinsurance markets will digest over $60 billion that insured catastrophe, property and energy losses worldwide for which we estimate AXIS market share less than

1%. This was also a period that presented the most competitive market conditions we have experienced since the formation of AXIS and importantly throughout 2008.

We have maintained our overall defensive underwriting posture. We are comfortable that any expected loss activity related to the global credit crisis as manageable and well within acceptable loss parameters for us in stress conditions. We took proactive reserving actions throughout this year including the fourth quarter which we believe are prudent, in light of the deteriorating financial market conditions and economic environment. The results of our investment portfolio in 2008 were not immune to the unprecedented and rapid decline in asset values globally.

The overall conservative nature of our investment portfolio and liquidity position has held us in good stead. Through the last several months we have seen strong signals that our view regarding our reinsurance led hard market is coming to fruition. To summarize, the most capital intensive lines in both the insurance and reinsurance markets often cat expose lines are responding first and most significantly. Further, as we anticipated the generally weaker managed insurance markets are lagging the reinsurance market.

We continue to believe the insurance markets will begin to respond positively from the middle of this year onwards. The least responsive areas of the insurance markets tend to be less capital intensive and are constantly challenged by the competitive behavior of distressed market participants. We have not, cannot, and will not abandon our underwriting and operational standards which in some areas mean that we will continue to shrink our underwriting activity and our exposures.

In most areas of our underwriting portfolio we are in a very strong position to take advantage of any dislocations and ensuing opportunities and a continuing flight to quality.

Against the backdrop of these unprecedented adverse events our fundamentals remain strong. Last Monday, S&P upgraded our financial strength ratings to A+ in recognition of the outstanding performance AXIS has delivered since the formation of our company. In its commentary, S&P noted our excellent insurance risk practices and strong overall enterprise risk management practices. These are the fundamentals of performance and capital preservation in our business.

Against the backdrop of a world which is increasingly more discerning with respect to counterparty financial strength the timing of this recognition is more than opportune. This positions us even more strongly to capitalize on opportunities which will crystallize as this transitional period progresses. We do, however, continue to emphasize the transitional nature of 2009. We believe it will take some time for rates harden across the board and for such change to materially impact our bottom line in a number of lines.

Another factor to consider in 2009 is the adverse impact of substantially lower yields on investment income. Whilst this is a near term negative it ultimately supports the need for the industry to continue to focus on pure underwriting profitability. Our market leading diversification by product and geography together with our strong risk management framework will continue to serve us well in driving our profitability forward.

I have heard some of the commentary suggesting a contraction of insurance and reinsurance markets as a result of the global recession. On balance I do not see this as a limiting factor for AXIS and I don't see this hurting margins for our mix of business, in particular our excessive loss account. Despite a decline in overall industry premium volume I believe that in the medium term the reinsurance marketplace will represent a larger proportion of global insurance related premium volume.

The consistency and strength of capital we have demonstrated should serve us well in capturing the benefits of this trend in our reinsurance business. This market penetration thesis for AXIS is not limited to our reinsurance business. We have diligently built a global and diversified platform in both our insurance and reinsurance segments which has been fine tuned over the last seven years.

We are better positioned today, especially in light of changing market conditions to secure a much greater share throughout a broader spectrum of product, geography, distributional target market whether it be small commercial, middle market or large account. We expect to do this with significantly less execution risk than companies which have only recently added lines of business to their mix and are really only equipped to provide capacity.

Our strategic initiatives over the last several years enhance our earnings quality by further mitigating volatility. As an example, volatility associated with large account business. We expect all of this to result in a significant positive repositioning of our global franchise, as market conditions and changes unfold over the next couple of years.

Since our last earnings call we announced the acquisition of Dexta, an MGA in Australia focused on professional lines, and the recruitment of an industry leader for our recently established International Accident & Health Insurance business. We welcome to AXIS our new colleagues in Australia led by Tony Wheatley and Chris DiSipio, the leader of our new NH business.

Now I would like to turn the call over to David, who will discuss the financial results for the quarter. Following David's review of our financial results I will discuss some underwriting portfolio items and market conditions in a little bit more detail.

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

Despite the challenging industry market conditions experienced for much of 2008, a rise in the frequency of large losses, the third most costly catastrophe in recorded history and the extreme volatility of the financial markets, we generated underwriting profits and produced an annualized return on average common equity of 13% for the fourth quarter and 8% for the year.

This result continues to reflect the diversity and strength of our global underwriting operations but has also been significantly and adversely impacted by the extreme volatility of the global financial markets in the second half of 2008.

At the end of it we demonstrated our strength, stability, and profitability in one of the most difficult years in history. Net income for the quarter was $131 million or $0.88 per diluted share compared with $306 million or $1.89 per diluted share for the fourth quarter of 2007. After tax, operating income which excludes the impact of realized gains and losses on investments was $163 million or $1.09 per diluted share, compared with $296 million or $1.83 per diluted share for the fourth quarter of 2007.

The decline in net income this quarter is primarily related to $138 million of mark to market losses coming from our investments in credit funds and to a lesser extent, hedge funds.

For the full year, net income was $351 million or $2.26 per diluted share compared with $1.1 billion or $6.41 per diluted share for 2007. After tax operating income was $436 million or $2.81 per diluted share compared with $1.1 billion or $6.38 per diluted common share for 2007. The reduction in our net income this year was primarily due to estimated net losses from hurricanes Ike and Gustav of $408 million together with $221 million of mark to market losses from the previously mentioned investments in credit and hedge funds.

Diluted book value per share declined 10% over the year to $25.79 at December 31, 2008. This was primarily driven by the global decline in asset values in the second half of 2008.

Let me turn to underwriting results for the quarter beginning with our top line. Consolidated gross premiums written were $527 million for the fourth quarter, down 8% from the prior year quarter while for the full year, gross premiums written were $3.4 billion down 6% from last year. These reductions primarily emanate from our insurance segment where gross premiums written this quarter were down 12% to $449 million over the prior year quarter.

Disciplined and focused underwriting amidst competitive market conditions, continue to drive down exposure in a number of our property and casualty lines. In addition, our credit and political risk premiums were down this quarter, reflecting a reduction in available transactions as capital flow slowed in the midst of the ongoing global financial crisis. These reductions were partially offset by growth in our professional lines of business arising from new and attractive opportunities in the financial institutions sector and improved pricing on renewal business.

Gross premiums written in our insurance segment for the full year 2008 were $1.8 billion down 10% from 2007. Gross premiums written in our reinsurance segment was $78 million this quarter compared with $64 million in the prior year quarter. The fourth quarter is not a major renewal period in our reinsurance segment. For the full year, gross premiums written in our reinsurance segment were $1.5 billion, similar to the prior year.

Consolidated net premiums written decreased 12% in the quarter and 7% for the full year due to reductions in gross premiums written, the purchase of additional reinsurance coverage and changes in business mix. Consolidated net premiums earned were down 2% for the quarter and for the full year reflecting period to period changes in net premiums written and business mix.

Total underwriting income for the quarter was $216 million up 4% over the same quarter of last year and included $97 million from our insurance segment and $119 million from our reinsurance segment. Our combined ratio for the quarter was 67.6% down 3.2 points from the prior year quarter. The reduction primarily stems from a lower loss ratio in our reinsurance segment this quarter driven by a higher level of prior period net favorable reserve development.

Total underwriting income for the full year of 2008 was $307 million down $431 million or 58% from prior year. This reduction was driven by estimated net losses from hurricanes Ike and Gustav of $408 million. I would like to emphasize that our overall estimate for these cat events is unchanged from the third quarter.

Our consolidated current accident year loss ratio for 2008 was 77.7% or 62.5% excluding hurricanes Ike and Gustav, compared to 62.4% for 2007. Our business continued to generate strong underwriting profitability this year even against the backdrop of these cats and increased loss activity on our property lines which primarily occurred in the first half of the year.

Our loss ratios continue to be favorably impacted by the incorporation of more of our own loss experience relative to the prior year. This introduces some complexities in comparable period analysis. However, the bottom line is that we remain prudent and consistent in our approach to reserving and our embedded process systematically captured the impact of the deteriorating price environment as well as changes in exposure and loss trends.

Net favorable prior period reserve development in the fourth quarter of 2008 was $125 million or 19 points. Of this amount, $60 million was from our insurance segment representing a positive impact of 20.5 points on the fourth quarter's loss ratio. Our reinsurance segment posted $65 million in net favorable prior period loss development representing a positive impact of 17.8 points on the segments fourth quarter loss ratio.

The majority of the favorable loss reserve development in this period was generated from our short tail lines. The balance was primarily from the 2003 and 2004 accident years for our professional lines reinsurance business. As I discussed last quarter, we are now prudently incorporating our own loss experience into our reserving analysis for certain of our claims made professional lines of business which have the shortest tail of the long tail lines we write at AXIS.

Our insurance segments current accident year loss ratio for the quarter was 58.1% comparable with 58.8% in the fourth quarter of 2007. Our reinsurance segments current accident year loss ratio increased 6.7 points to 62.6% compared with the fourth quarter of 2007. The increase reflects higher attritional loss activity from our property lines this quarter, together with reserving actions taken to address the impact of the deteriorating global credit environment in our trade credit and bond reinsurance business.

Finally, during the quarter we recorded a $20 million reduction in the fair value of an insurance derivative contract related to a life settlement portfolio. This is recorded as part of other insurance related income in our insurance segment.

Turning to our G&A expenses, our G&A ratio was 13.3% compared to 13.9% in the fourth quarter of 2007. Our G&A costs of $87 million this quarter were in line with our expectations as noted during our last earnings call.

Moving on to investment results, in the quarter we recorded net investment losses of $26 million compared to net investment income of $125 million in the fourth quarter 2007. Our fixed maturity investment portfolio produced $110 million of investment income this quarter, an increase of 5% over the prior year quarter. However, this was more than offset by an increase in mark to market losses of $142 million from our other investment portfolio primarily related to investments in credit funds and hedge funds.

Total net investment income declined $236 million year over year also primarily due to mark to market losses from our credit and hedge funds. We are invested in credit funds that primarily focus on the bank loan market which was under extreme pressure during the last half of 2008. The funds investments are primarily in senior secured obligations which we believe have significant return potential from current depressed valuations.

We view our hedge fund exposure as an equity alternative with less volatility then direct equity investments. Our hedge fund investments have in fact outperformed equity indices for 2008.

Net realized losses totaled $33 million in the quarter and $85 million for the year. Net realized losses for the year included other than temporary impairment charges of $78 million. Our impairment review process is a rigorous, qualitative, and quantitative approach. We identified securities for review based on credit quality, relative health of industry sector, yield analysis, security performance, and topical issues. We also identified securities through an aging and severity review.

For identified securities we prepare a fundamental analysis at the security level. For 2008 our OTTI charge includes $46 million on securities that have what we view as true credit impairment issues and $32 million from securities that we judge to be unlikely to recover to cost.

In aggregate our investment portfolio’s experienced a negative 5.4% total return for the year. The component parts of our total return for 2008 were net investment income of $247 million, net realized losses of $85 million and the change in net unrealized losses of $743 million. The increase in unrealized losses is primarily related to the dramatic increase in credit spreads where most sectors of the fixed income markets during the second half of 2008.

Despite the decline in US Treasury rates during the quarter and the positive benefit to our holdings of Government debt, these benefits were eclipsed by the historic spread widening which occurred particularly in the US and Euro credit markets. This is best illustrated by reference to index spreads on corporate securities which have risen to all time highs.

In many cases these credit spreads were two to three times higher then what we saw in 2002. Also, CMBS and ABS spreads have widened the levels five to six time’s historical averages. Approximately 15% of the increase in net unrealized losses this year was foreign exchange related following the strengthening of the US dollar against our major foreign denominated investments.

We continue to undertake actions to de-risk our investment portfolio specifically, we increased our cash and cash equivalents balance by over $400 million in the quarter while substantially reducing our exposure to municipal securities within our fixed maturity investment portfolio. We have reduced exposure to financials and emphasized issues within this sector with Government support. We will continue to maintain a conservative and appropriate overall investment portfolio and monitor opportunities to take advantage of depressed valuations in select areas of the market.

As I mentioned last quarter, we’re currently winding down our securities lending program with securities s on loan at December 31, 2008, of $406 million, compared to $848 million at the same time last year. To assist in your analysis of our investment portfolio we are providing a separate year end investment supplement which you can find in the investor information section of our website.

This additional supplement provides further detail for each of the major asset classes in our investment portfolio. Our overall portfolio remains well diversified, liquid, high quality and of short duration. Our investment grades fixed maturity investment portfolio has a current duration of 2.5 years with an average quality of AA+.

I would like to briefly discuss exposures to hybrid securities of European financial institutions which have recently received attention. The current market value of this type of security which is primarily found underlying medium term notes we own, is approximately $151 million. In order of rank in the capital structure with the highest first, almost one half of these are in lower Tier 2 securities and the other half are in upper Tier 2 and Tier 1 securities.

The exposure is diversified amongst countries with $55 million in current market value from UK financial institutions. The largest individual issuer in our portfolio is HSBC with a current market value of $11 million. All issuers were current on principal and interest payments as of year end.

Going forward we are continuing to shift our fixed maturity portfolio towards US agency mortgage backed securities and corporate issues with government backing. We are also maintaining higher cash levels in view of the continued deterioration of global economic fundamentals. Although we will forego some yield in maintaining higher cash balances, we protect the portfolio from increases in interest rates and expect to be able to take advantage of attractive investment opportunities in hedge funds and long equity strategies as the year unfolds.

With respect to foreign exchange, during the fourth quarter changes in exchange rates and changes in net currency exposure resulted in foreign exchange gains of $22 million compared to negligible gains in the prior year quarter. The gain in the quarter was driven by the revaluation of our Euro and Sterling foreign denominated net loss reserves. In terms of book value impact, foreign exchange was largely neutral in the quarter with unrealized foreign exchange losses on our investment portfolio which are recorded through our other comprehensive income offsetting the income statement gains.

We continued to generate strong operating cash flows of $297 million in the quarter and $1.5 billion for the year. In fact, we've generated this level of operating cash flows for each of the last five years. Market and liquidity persisting throughout the US and other financial markets this year has had minimal impact on the liquidity of our own investment portfolio which includes over $5.5 billion of cash, cash equivalents and US Government and Agency backed securities.

Most of our securities are traded in highly liquid markets so there is significant liquidity available to us from our investment portfolio. We actively manage and monitor the liquidity and asset duration of our portfolio to meet anticipated cash flow needs.

Our debt to capital ratios compare favorably with those of our peer group and are significantly below thresholds indicated by all of our rating agencies. Our business is supported by a $1.5 billion credit facility, the terms of which provide for direct borrowings of up to $500 million on an unsecured basis. As of December 31, 2008, there was no debt outstanding under this facility and we were in compliance with all covenants.

Our operating companies can provide over $1 billion of additional dividends to our holding company if needed. Our capital resources and liquidity remain very strong. We are well capitalized relative to rating agency requirements and as John noted earlier S&P raised our financial strength rating to A+ just last week.

This quarter we have added a page in our financial supplement to provide PMLs for the AXIS group at various return periods for peak industry, natural peril, cat zones and natural perils as well as estimates of industry losses at these return periods. We set limits on the levels of cat exposure the company may underwrite in a number of ways. The most important way is by monitoring and controlling our PMLs at multiple points along the loss distribution curve.

In summary, we believe that we are extremely well positioned to address the opportunities and challenges that will be presented over the coming year.

With that I will turn the call back to John.

John R. Charman
Chairman & CEO

As you know, during 2008 the worlds financial markets, our industry and we at AXIS have all experienced an unprecedented confluence of events. All of these events were adverse with respect to financial results for the year. Our long held views regarding correlation of risk were torn apart and the global financial markets were faced with a stark reality in this brave new world that at the extreme everything is correlated.

Even in the face of this unprecedented confluence of events our industry has demonstrated remarkable resilience and I expect we'll continue to perform well relative to other sectors within the broader financial services industry.

While this is true for the industry there are still points of differentiation. AXIS has once again differentiated itself as having a very well managed and well understood portfolio of underwriting risks. Our estimates of net losses from hurricanes Gustav and Ike remain unchanged relative to our estimates at the end of the third quarter. This is the direct result of deliberate risk management decisions and actions taken well in advance of the onset of the hurricane season.

Our diversified business model is equipped to absorb losses in stress conditions. The current global credit crisis and deteriorating economic environment represents a stress scenario for some areas of our underwriting portfolio. David has already discussed our investment portfolio as well as liquidity and capital resources.

Before I move on to my forward looking comments, I would like to briefly discuss elements of our underwriting portfolio affected by the credit crisis and the deteriorating economic environment. We have continuously and thoroughly reviewed our professional lines credit and bond reinsurance and credit and political risk insurance lines in light of these events and believe that our exposure to the credit crisis in all of these lines has been prudently addressed in our financial results.

As we have pointed out in previous earning call discussions we began addressing the credit crisis through our reserving in early 2007. Our overall professional liability business in our insurance segment which is diversified well beyond financial institutions business is reserved to an estimated combined ratio of 113% for accident year 2007 and 103% for accident year 2008. Our professional lines reinsurance business also diversified well beyond financial institutions is reserved to an estimated combined ratio of 108% for accident years 2007 and 2008.

These are prudent combined ratios not only in the light of a notification and claims we have received as well as accounts identified with potential exposure but also in light of the high attachment points and relatively low net limits typically for our portfolio areas of exposure.

For our exposed D&O insurance coverage's our average net limit is approximately $6 million and our average attachment point is $117 million. For our exposed side coverage's our average net limit is approximately $7 million and our average attachment point is $164 million. Similarly we have reviewed exposure in our reinsurance segment and believe that we are prudently reserved given that our average individual reinsured exposures or our share of a full limit reinsured loss for one client are under $1 million.

I also want to provide some preliminary information with respect to the highly publicized Madoff Ponzi Scheme. Based on information receive to date in our insurance segment which includes 11 precautionary notifications, our assessment is that any claims that do flow to AXIS from this event will be limited in number and contained within our loss base. Personally, we do not insure any Madoff entities.

D&O risk would appear to be limited unless there are third party insolvencies resulting from this issue. The majority of claims from the event are likely to fall under year low policies and are likely to come from investors who relied on the due diligence and recommendations of advisors including commercial banks, asset managers, private banks, and fund to funds.

These E&O limits are generally smaller than D&O limits and these E&O matters will be very complex and difficult to unravel with respect to the duties of the various advisors duties. We expect crime risk to be limited unless employees of our insured's are found to have benefited for example illegally in the form of kick backs instead of management fees.

Finally, we have generally avoided fund to fund and private banking business in Europe which have been impacted rather more significantly. Our preliminary review of our professional lines reinsurance exposure also reveals that exposure to Madoff is likely to be contained within our loss base.

Moving on from professional line to credit exposures in our underwriting portfolio I will start with a discussion of our trade credit and bond business in Europe. We have been taking prudent reserving actions with respect to this business since early 2008 in recognition of an increase in insolvencies. Our estimated combined ratio for this reinsurance line now stands at the prudent 107% for 2007 and 113% for 2008.

I have heard some of the commentary around this line of business and do want to highlight that there are points of differentiation amongst reinsurance portfolios particularly in terms of breadth of product, spectrum, and geography. First on the product front, we don't specifically reinsure products closer to the financial markets like political risk and bank trade finance. We underwrite some of these risks on a risk by risk basis in our insurance segment so our trade credit reinsurance book is focused on covering trade credit insurers who can turn over their risk portfolios in around 60 days on average.

Second, our credit reinsurance portfolio is dominated by reinsurance of the three largest trade credit insurers who have diversified exposures predominantly in western economies and are underweight in Spain. Because of this diversification and our view of the outlook for the Spanish credit and bond insurance marketplace we had only a small share of the heavy loss activity in Spain that occurred in 2007 and 2008.

Finally, I want to spend some time on our political risk and credit exposures in AXIS insurance. I am aware that questions have been asked about the specific products that we offer here. I am going to share brief overview of these lines and discuss activity in 2008 which should give you a flavor for the risk here and at the same time highlight the principals over our underwriting.

In our insurance segment we provide traditional political risk insurance coverage's, sovereign default insurance coverage and credit insurance. Sovereign default insurance is a relatively straightforward concept and the traditional political risk coverage's basically provide protection against sovereign actions resulting in impairment of cross border investments for banks and corporations known as CEND coverage's.

Our credit coverage is primarily for lenders seeking to mitigate the risk of non-payment from their borrowers in emerging markets. This product represents more than 50% of our enforced portfolio of traditional political risk, sovereign default insurance and emerging market credit insurance. For the credit insurance contracts it is necessary for the buyer of the insurance, most often a bank, to hold an insured asset, most often an underlying loan, in order to claim compensation under the insurance contract.

The vast majority of the credit insurance provided is for single name illiquid risks primarily in the form of senior and secured bank loans that can be individually analyzed and underwritten. As part of this underwriting process our rigorous evaluation of the credit worthiness and reputation of the obligor is critical and forms the cornerstone of the underwriting process, in addition, of course, for the viability of the use of the loan.

We insist that our clients retain a significant share of each transaction that we insure. A key driver of the underwriting analysis is the assessment of recovery in the event of default. So, the strength of the collateral and the enforceability of rights to the collateral are paramount. Again, I will want to emphasize that our products are insurance products. Our contracts normally contain warranties, representations, exclusions, and waiting periods.

We strictly avoid insurance for structured finance products defined by pools of risk and insurance for synthetic products that would expose us to mark to market losses. Our portfolio is subject to the usual concentration and aggregation limits. Our senior management regularly reviews credit related insured exposures at an aggregate level as well as by country, region, industry segment, and counterparty. Analysis by region allows to address and understand our potential exposure to cross border contusion which is generally seen as the cat scenario in this line of business.

As a general comment, our experience in 2008 has been within our expectations for traditional political risk, sovereign default insurance and credit insurance. I will now share with you some additional information about our experience in 2008.

The notices received in 2008 number eight in all. Seven notices of default and one political risk notice. Of these, only three are expected to result in net losses to AXIS and we are fully reserved for these expected net losses. To give you an indication of our net exposure from these three losses the average net case reserve for these three is $9.5 million. These net case reserves reflect conservative estimates of recovery and if there are higher recoveries the ultimate net losses could be lower.

The other notices for which we do not expect a net loss reflect the strength of our underwriting principals. They were either entirely result due to receipt of collateral or restructuring or are well on their way to being resolved.

Whilst we are obviously at heightened risk because of the global financial crisis our portfolio continues to perform well and within expectations but could deteriorate if the global economy experiences a further substantial decline. Our current levels of general IB&R for political risk, sovereign default insurance and credit insurance portfolio make up approximately 75% of total reserves for these lines.

Now I will move on to a brief discussion of our experience at the first of January renewals and our reinsurance segment and the market conditions facing both our insurance and reinsurance businesses. Starting with reinsurance, with the exception of the most capital intensive reinsurance lines like property cat there was a tendency globally to renew programs with good underwriting experience that expiring structures with little to marginal change in terms and conditions.

In most renewals expiring markets maintain market share with some exceptions involving concerns over the financial strength of certain reinsurers. We expect this trend to continue in 2009 and we expect to continue to strategically benefit from it. For the first of January renewal we estimate our AXIS re-underwriting near premiums were up 11% over the expiring amounts. Overall, we were up 16% in terms of currency adjusted premium with margins up on balance year over year.

We expect some other activity in the quarter that will impact top line for this segment. The first of January gives a good indication of our competitive positioning. Driving the growth for us were our credit and bond reinsurance business in continental Europe and our US professional liability and general casualty reinsurance business. We were able to gain strategic share on attractive treaties due to concerns over the financial strength of distress reinsurers particularly for US casualty reinsurance business.

The credit and bond reinsurance market in continental Europe experienced significant dislocation at renewal and we were able to consolidate our position at pricing and terms we believe to be fair and advantageous give the market conditions. These sedans have a proven track record of being able to detach from the economic environment and as you have seen from global press reports they have been executing on all of the top measures to mitigate loss potential in a deteriorating economic environment.

We believe that their globalization and increasing technological sophistication positions their portfolios with an acceptable loss parameters. They have substantially increased their retentions over the last several years which strongly support financial alignment with reinsurers. We believe that we’re in a particularly good position to address the dislocation as we had a relatively small book going into renewal as opposed to the leading market difference and importantly we were not heavily exposed to geographic areas like Spain which have been hit the hardest by losses.

Outside of the US, European and Caribbean property cat placements were up approximately 5% but all other non-US geographies were down. The US property cat market however showed strong increases that gained significant momentum as the renewal season wore on. Small regional covers with low loss experience renew flat to modestly up. Larger regional and super regional placements saw increases closer to 10% and more if loss effective.

Nationwide placements or placements with heavier southeast exposures were up 15% to 20% and even more in some cases. We believe several of these major placements were not fully subscribed. The number of shortfall covers and private placements that seem to have bound in the market was a very good indication of relative market discipline and a lack of new capacity. We firmly believe that rates will continue to strengthen in peak zones as we head into the spring.

Since the first of January we have seen upward movement on US earthquake driven property cat treaties. This is an encouraging sign that the upward bias in price is not limited to the wind peril. Continued dislocations in the Florida market are likely to add even more upward pressure on pricing for Florida exposed risk.

Overall, AXIS property cat reinsurance premium was relatively stable as at the first of January. However, we've reduced our exposure to European windstorm due to the less attractive risk reward profile relative to other peak zones and to a lesser extent the movement in exchange rates. More broadly we are also attaching higher in a number of programs.

For our insurance segment the first quarter is less significant in terms of production. However, I'd like to share a few observations with you. The market continues to soften in a number of classes, although the rate at which this occurs has slowed considerably. Terms and conditions as well as breadth of coverage generally remain stable with terms of trade holding firm. We continue to see some markets fight for market share with the most aggressive behavior in our view coming from distressed insurers.

Some new markets or markets that have increased our appetite for certain lines of business are also exhibiting aggressive behavior. Clients are focusing intensely on insurer financial strength and we've been able to address this proactively. Cat exposed property lines are seeing more positive change. We started to see the quantum of rate reductions in property reduced through October and November then stabilized through December and now we are beginning to see growing pressure for rate increases.

We expect this momentum increase as we head into the key March 1st and April 1st property renewals. A number of key competitors appear to be reducing critical cat exposure which will add further positive impact on the market.

Offshore energy is also hardening due to the impact of hurricane Ike. Non-Gulf of Mexico exposure is seeing price increases in the range of 15% to 20%. There have not yet been any Gulf of Mexico renewals of note but we are fully expecting significant improvement there. We intend to capitalize on this change with the same laser focus discipline and risk management that delivered our performance for our off shore energy portfolio in hurricane Ike.

In D&O the environment remains competitive; however, we are seeing a fair share of opportunities due to dislocation of business formerly place with certain distressed insurers. In a number of instances we are asked to move down layers to replace questionable security. We are uniquely qualified and positioned to take advantage of these opportunities. In the financial institutions class rates in the fourth quarter continued to increase and we expect this to continue throughout 2009. The bulk of rate increases are in the D&O and E&O lines.

The ancillary lines such as employers practice liability, pension and crime, remain stable. Capacity has been reduced by all insurers of these lines making it difficult for brokers to fill larger programs. Our ability to become more relevant in the D&O and E&O lines affords us increased opportunity to further balance our portfolio with preferred ancillary lines such as financial fidelity.

AXIS is perceived as a leader that is defined by consistency, financial strength and high service capability. This, coupled with the significant dislocation in the marketplace has resulted in a dramatic change in our competitive position in professional lines.

In the casualty lines after brief stabilization in the marketplace in October and November we have seen aggressive competition return driven by distressed insurers. We have not pursued writing new business in these lines for some time unless it has been particularly compelling. We fully expect this competition to abate gradually as the impact of rising reinsurance costs take effect and as clients move business away from distressed insurers.

In conclusion, despite the enormity of the challenges of 2008 and those that we face in 2009 I am happy that inherent strength of AXIS has been confirmed and its relative position in the market thus substantially

improved. I believe our company will benefit strongly from positive differentiation in these demanding times. This will help us to deliver the return our shareholders expect over time.
Now I would like to open the lines for questions.

Question and Answer

Operator

(Operator Instructions) Your first question comes from Josh Shanker - Citi

Josh Shanker
Citi

Your comfort in not being concerned about the recessions impact on the hard market for insurance particularly I was wondering in terms of if you look at most companies renewals they were not as aggressive as your own which might suggest you have some stronger appetite in capital comfort then your competitors. If you could focus a little bit on going into detail about what the market fears about the recession and why you don't think it's going to be a key issue?

John R. Charman
Chairman & CEO

I'm not sure that we've demonstrated that we were aggressive in our insurance lines. We have stated throughout that we've actually been extremely defensive. You only have to look at the reductions in our property lines for instance and areas within our professional lines. I think we've actually been the opposite to being aggressive. I think we've capitalized on opportunities situations. Overall we've been extremely defensive in that quarter. We'll wait and see how the market reacts.

Josh Shanker
Citi

The expiring premium how much you renewed it for its considerably higher then some of your peers.

John R. Charman
Chairman & CEO

If you actually look at our renewal premium we're actually down on a lot of our renewable premium as a portfolio. Let me just be clear about this, our portfolio has been extremely defensive on the insurance underwriting in the last quarter. I'm happy to talk about the recession's impact on the insurance portfolio which is bound to have an impact because the industrial companies are suffering greatly from the recession globally and will be cutting back and descaling their activity.

At the same time as that is the insurance marketplace which is significantly under priced, an awful lot of the specialty insurance products is going to have to move pricing upwards materially to recover some of the ground they've lost over the last three years. Secondly and equally importantly is the fact that there's a material reduction of capital and capacity available by insurers to write this business which again is going to force pricing increase.

Josh Shanker
Citi

Enough to offset the decline in policy count?

John R. Charman
Chairman & CEO

Yes.

Josh Shanker
Citi

In the political risk you gave an example of your case reserves for the few cases that you have at average reserve of $9.5 million. I was wondering if you could give us some equivalency to what the net limits would be for those cases.

John R. Charman
Chairman & CEO

No, I won't. We don't talk about individual policies.

Operator

Your next question comes from Ian Gutterman - Adage Capital

Ian Gutterman
Adage Capital

The banks loans are down to about $100 million; do have what the par is on that, I'm trying to figure out how much the cumulative marks have been over the year.

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

Those are through credit fund investments that we made so I don't have the par. Those are valuations in the funds.

Ian Gutterman
Adage Capital

I'm trying to get a sense of how much that's spun towards the negative on investment income for the year. I'm trying to get a sense of if things recover how much that would unwind.

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

That's a difficult answer and we're not necessarily projecting forward substantial recoveries it's all going to be dependent on how the markets go. I couldn't give you a definitive answer on that.

Ian Gutterman
Adage Capital

On the reinsurance side, the largest reinsurer in the world may very well have a rating downgrade which will put them at the same rating at you guys are given your upgrade. Can you talk about what opportunities that creates to be at the same rating as Swiss Re potentially for you going forward?

John R. Charman
Chairman & CEO

Swiss Re are a fine underwriting company, let me make that point regardless of the near term issues. In any situation where you have a market leader, having those sorts of issues there are bound to be opportunities for quality companies like AXIS. As I tried to say through my commentary there is an increasing flight to quality taking place. People are beginning to be extremely concerned, much more concerned about counterparty credit and we expect to continue to benefit through 2009.

Ian Gutterman
Adage Capital

Do you have any concerns that they might react the way AIG has by cutting prices to keep business or do you think possibly the presence of Buffett?

John R. Charman
Chairman & CEO

My comment about Swiss Re being a fine underwriting reinsurance underwriting business and I expect them to continue to demonstrate that.

Ian Gutterman
Adage Capital

Given that pricing really only improved in the cat areas why grow double digits on the reinsurance so 01/01, why not do a strategy?

John R. Charman
Chairman & CEO

Just look at the numbers. The fourth quarters not a big reinsurance number.

Ian Gutterman
Adage Capital

You said at 01/01 you renewed I think it was up 11%.

John R. Charman
Chairman & CEO

What you're doing is putting together all of the reinsurance marketplace. There were specific opportunities for us with high quality sedans with high quality business for us to increase our market position because of the flight to quality that I just mentioned as well the reallocation that did take place of shares within the marketplace and AXIS materially benefited from it. It wasn't a matter of us being competitive at all. It was us actually getting a much better market share at the highest quality business available in the market.

Ian Gutterman
Adage Capital

Even though pricing didn't necessarily go up you're getting essentially better quality of underwriting for the same price it should produce a better loss ratio over time.

John R. Charman
Chairman & CEO

Yes, we have a much better quality portfolio going into 2009 then we had coming out of 2008.

Ian Gutterman
Adage Capital

I was thinking if this was a broader based turn then the post Katrina turn and therefore it would have a lot more opportunity as the year progressed. I want to make sure you're comfortable that you have plenty of capital to take advantage of that as the year progresses.

John R. Charman
Chairman & CEO

Absolutely.

Operator

Your next question comes from Vinay Misquith - Credit Suisse

Vinay Misquith
Credit Suisse

You've done a great job of explaining in detail the credit insurance book. We keep hearing headlines in the market, what should we be worried about as we hear some news in the market about your primary insurance credit insurance book?

John R. Charman
Chairman & CEO

I gave you comfort. I'm responsible overall for the all these underwriting businesses. I'm comfortable about it. I am deeply involved on a very regular basis along with my senior colleagues in monitoring that portfolio as well as the underwriting of that portfolio which has been the case since we started AXIS. We have seven years of AXIS experience which has been extremely favorable. We have 25 years of previous experience which was extremely favorable.

I'm not sure what else I can say to you apart from the fact that I'm comfortable, the company is comfortable and we're in good shape.

Vinay Misquith
Credit Suisse

I noticed you've written a lot more professional liability primary insurance and reinsurance this quarter and I believe you also mentioned that you increased your market share on your credit and bond business. Would that be just purely because competitors are dialing back, if you could add some more color to that as to how you see more opportunities whereas the market is dialing back.

John R. Charman
Chairman & CEO

The reinsurance side I addressed in my previous comment about the fact there's a flight to quality and we're able to access better reinsurance business as sedans look more closely at the underlying security of their reinsurers. Naturally as we've said over the last couple of quarters the financial institution business has moved ahead strongly in terms of being re-priced. We've benefited from that.

We are, as a general comment, throughout our professional lines business we're benefiting from the diversity that we've been putting into that portfolio now for the last three or four years. It's coming from all sorts of difference areas. Its not just financial institutions, which we remain reasonably conservative about.

Vinay Misquith
Credit Suisse

On the stock repurchases I noticed you did buy back some stock this quarter. What are your plans for the future especially if you believe that the market is going to get harder in the second half of this year or early into 2010.

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

On that point a couple things, you might recall from the last quarter I made the commentary that we were suspending our repurchase program, this was back in October for 2009 and as of today I would say that's still the position we're in. Those repurchases that occurred last quarter actually occurred very early in the fourth quarter and they were carried out under an automatic program a 10-B-5 program or whatever it was. Once that was completed we essentially suspended repurchases indefinitely at this point.

Operator

Your last question comes from Josh Smith - TIAA-CREF

Josh Smith
TIAA-CREF

If we could get a little more disclosure in the future, you've done a great job giving us color on the political credit risk but maybe at a future investor day if we could get those types of risks by geography in a little more detail there that's a request for future disclosure.

On your PMLs you give your detailed PMLs and Ike turned out to be 55% of the one in 50 events versus the industry loss looking at you being less than 30%. Was Ike an outlier, was that related to the Texas windstorm or did Ike fall within your expectations?

John R. Charman
Chairman & CEO

Ike was within our expectations, immediately after the hurricane had hit. I'm pleased about the fact that it modeled as we expected. The loss was as we expected and it didn't move.

Josh Smith
TIAA-CREF

As far as your reinsurance recoverables three out of the top four recently downgraded. Did that have any impact on your comfort on recovering those or are you still as comfortable as you were before those downgrades?

John R. Charman
Chairman & CEO

We're sensitive about any reinsurance recoverable. We will continuously monitor the performance of those underlying reinsurers. Obviously we're looking very closely at it.

Josh Smith
TIAA-CREF

Back to investments, you mentioned that over 96% of your AAA are super senior but then, I think this was on CNBS but the subordination was 26% or so. Typically I think of subordination on super seniors being closer to 30%. Can you give me a range of what a junior AAA versus a senior AAA?

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

Are you talking about within our portfolio? I wouldn't have that with me here. We can get back to you on that question.

Operator

At this time I would like to turn the conference back over to John Charman for any closing remarks.

John R. Charman
Chairman & CEO

I want to make one final comment about Josh Shanker's question at the beginning which I'd like to elaborate on as I thought more carefully about over the last five or 10 minutes. On our insurance portfolio the way I would categorize it is the fact that you've heard me say over the last two to three years that we've been extremely defensive because of the aggressive market competition throughout pretty well all of our product lines, throughout the specialty area.

I would regard us as being materially underweight through a lot of those product lines, deliberately so, because we have withdrawn from large numbers of accounts because of pricing or conditions. Even though the world is slipping into global recession the fact is that because of the scale of our underweighting throughout an awful lot of those portfolios we have a very major opportunity as pricing moves back into our favor and risk reward moves strongly back in our favor to benefit substantially from that.

Thank you again for taking the time to listen to us. We look forward to reporting to you our first quarter results.

Operator
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.