

AXIS CAPITAL HOLDINGS LTD
Form 10-Q
November 01, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006
Commission file number 001-31721

AXIS CAPITAL HOLDINGS LIMITED

(Exact name of registrant as specified in its charter)

Bermuda

(State or other jurisdiction of
incorporation or organization)

98-0395986

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

92 Pitts Bay Road, Pembroke HM 08, Bermuda

(Address of principal executive offices and zip code)

(441) 496-2600

(Registrant's telephone number, including area code)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of October 30, 2006 there were 152,194,232 Common Shares, \$0.0125 par value per share, of the registrant outstanding.

AXIS CAPITAL HOLDINGS LIMITED

INDEX TO FORM 10-Q

	Page No
PART I. FINANCIAL INFORMATION	
<u>Item 1.</u> <u>Financial Statements</u>	3
<u>Consolidated Balance Sheets as at September 30, 2006 and December 31, 2005 (Unaudited)</u>	3
<u>Consolidated Statements of Operations for the Quarters and Nine Months Ended September 30, 2006 and 2005 (Unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income (Loss) for the Quarters and Nine Months Ended September 30, 2006 and 2005 (Unaudited)</u>	5
<u>Consolidated Statements of Changes in Shareholders' Equity for the Nine Months Ended September 30, 2006 and 2005 (Unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2006 and 2005 (Unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	8
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	47
<u>Item 4.</u> <u>Controls and Procedures</u>	48
PART II. OTHER INFORMATION	
<u>Item 1.</u> <u>Legal Proceedings</u>	49
<u>Item 1A.</u> <u>Risk Factors</u>	50
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	50
<u>Item 6.</u> <u>Exhibits</u>	50

PART I - FINANCIAL INFORMATION**Item 1. Financial Statements****AXIS CAPITAL HOLDINGS LIMITED****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

As at September 30, 2006 and December 31, 2005

(Expressed in thousands of U.S. dollars, except share amounts)

	September 30, 2006	December 31, 2005
Assets		
Cash and cash equivalents	\$ 1,640,914	\$ 1,280,990
Fixed maturity investments at fair market value <i>(Amortized cost 2006: \$6,578,644; 2005: \$6,090,998)</i>	6,523,009	6,012,425
Other investments	714,381	409,504
Accrued interest receivable	65,235	59,784
Securities lending collateral	1,010,846	998,349
Insurance and reinsurance premium balances receivable	1,233,125	1,026,975
Deferred acquisition costs	272,110	196,388
Prepaid reinsurance premiums	274,972	281,579
Reinsurance recoverable balances	1,315,395	1,455,248
Reinsurance recoverable balances on paid losses	49,287	62,862
Intangible assets	34,543	37,013
Other assets	120,385	104,859
Total Assets	\$ 13,254,202	\$ 11,925,976
Liabilities		
Reserve for losses and loss expenses	\$ 4,995,074	\$ 4,743,338
Unearned premiums	2,167,364	1,760,467
Insurance and reinsurance balances payable	287,445	314,232
Accounts payable and accrued expenses	109,656	101,179
Securities lending payable	1,006,806	995,287
Net payable for investments purchased	47,781	76
Debt	499,127	499,046
Total Liabilities	9,113,253	8,413,625
Shareholders' Equity		
Share Capital		
Series A Preferred shares <i>(issued and outstanding 2006: 10,000,000; 2005: 10,000,000)</i>	125	125
Series B Preferred shares <i>(issued and outstanding 2006: 2,500,000; 2005: 2,500,000)</i>	31	31
Common shares <i>(issued and outstanding 2006: 149,994,363; 2005: 148,868,759)</i>	1,875	1,861
Additional paid-in capital	2,423,013	2,386,200
Accumulated other comprehensive loss	(54,673)	(77,798)
Retained earnings	1,770,578	1,201,932
Total Shareholders' Equity	4,140,949	3,512,351
Total Liabilities & Shareholders' Equity	\$ 13,254,202	\$ 11,925,976

See accompanying notes to Consolidated Financial Statements (Unaudited)

AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
For the Quarters and Nine Months Ended September 30, 2006 and 2005
(Expressed in thousands of U.S. dollars, except share and per share amounts)

	Quarters Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Revenues				
Gross premiums written	\$ 734,910	\$ 794,571	\$ 2,895,030	\$ 2,760,563
Premiums ceded	(128,997)	(276,854)	(476,057)	(564,979)
Change in unearned premiums	86,867	99,097	(413,500)	(328,767)
Net premiums earned	692,780	616,814	2,005,473	1,866,817
Net investment income	98,787	67,015	284,018	177,774
Net realized losses	(1,722)	(6,435)	(22,428)	(5,997)
Other insurance related income (loss)	804	236	1,866	(5,283)
Total revenues	790,649	677,630	2,268,929	2,033,311
Expenses				
Net losses and loss expenses	365,958	1,035,270	1,096,598	1,702,413
Acquisition costs	103,615	64,436	295,151	241,208
General and administrative expenses	68,470	44,237	181,538	155,335
Foreign exchange losses (gains)	2,738	1,727	(25,427)	52,371
Interest expense	8,239	8,360	24,639	24,257
Total expenses	549,020	1,154,030	1,572,499	2,175,584
Income (loss) before income taxes	241,629	(476,400)	696,430	(142,273)
Income tax (expense) benefit	(6,181)	8,325	(23,540)	(1,158)
Net income (loss)	235,448	(468,075)	672,890	(143,431)
Preferred share dividends	(9,226)		(28,083)	
Net income (loss) available to common shareholders	\$ 226,222	\$ (468,075)	\$ 644,807	\$ (143,431)
Weighted average common shares and common shares equivalent basic				
	149,884,027	140,995,298	149,656,707	142,711,852
Weighted average common shares and common shares equivalents outstanding diluted				
	164,700,926	140,995,298	163,862,658	142,711,852
Net income (loss) per common share:				
Basic	\$ 1.51	\$ (3.32)	\$ 4.31	\$ (1.01)
Diluted	\$ 1.37	\$ (3.32)	\$ 3.94	\$ (1.01)
Dividends declared per common share	\$ 0.15	\$ 0.15	\$ 0.45	\$ 0.45

See accompanying notes to Consolidated Financial Statements (Unaudited)

AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
For the Quarters and Nine Months Ended September 30, 2006 and 2005
(Expressed in thousands of U.S. dollars)

	Quarters Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Net income (loss)	\$ 235,448	\$ (468,075)	\$ 672,890	\$ (143,431)
Other comprehensive income (loss), net of tax				
Net actuarial loss on defined benefit retirement plan			(384)	
Unrealized gains (losses) on investments arising during the period	110,691	(44,847)	33,875	(52,214)
Adjustment for re-classification of gains (losses) realized in income	1,215	(9,704)	(10,366)	(15,507)
Comprehensive income (loss)	\$ 347,354	\$ (522,626)	\$ 696,015	\$ (211,152)

See accompanying notes to Consolidated Financial Statements (**Unaudited**)

AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)
For the Nine Months Ended September 30, 2006 and 2005
(Expressed in thousands of U.S. dollars)

	2006	2005
Preferred Shares		
Balance at beginning and end of period	\$ 156	\$ 125
Common Shares		
Balance at beginning of period	1,861	1,910
Issued during period	14	19
Repurchased during period		(160)
Balance at end of period	1,875	1,769
Additional paid-in capital		
Balance at beginning of period	2,386,200	2,017,144
Shares issued during period, net of costs	(28)	240,097
Repurchased during period		(349,840)
Stock option exercise	17,237	3,301
Stock option expense	3,093	6,423
Stock compensation expense	16,511	14,682
Balance at end of period	2,423,013	1,931,807
Accumulated other comprehensive loss		
Balance at beginning of period	(77,798)	12,915
Change in net actuarial loss on defined benefit retirement plan	(384)	
Change in unrealized gains (losses) on investments	23,825	(72,944)
Change in deferred taxes	(316)	5,223
Balance at end of period	(54,673)	(54,806)
Retained earnings		
Balance at beginning of period	1,201,932	1,206,095
Preferred shares dividends	(28,083)	
Common share dividends	(76,161)	(69,947)
Net income (loss) for period	672,890	(143,431)
Balance at end of period	1,770,578	992,717
Total Shareholders Equity	\$ 4,140,949	\$ 2,871,612

See accompanying notes to Consolidated Financial Statements (Unaudited)

AXIS CAPITAL HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
For the Nine Months Ended September 30, 2006 and 2005
(Expressed in thousands of U.S. dollars)

	2006	2005
Cash flows provided by operating activities:		
Net income (loss)	\$ 672,890	\$ (143,431)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized losses (gains) on sales of investments	23,774	7,808
Change in carrying value of other investments	(12,545)	(3,937)
Net amortization on fixed maturities and other investments	23,569	23,763
Amortization of deferred compensation and option expense	19,604	17,984
Amortization of intangible assets	2,470	2,743
Amortization of deferred debt expenses	338	340
Accrued interest receivable	(5,451)	(92)
Insurance and reinsurance premium balances receivable	(206,150)	(230,909)
Deferred acquisition costs	(75,722)	(31,396)
Prepaid reinsurance premiums	6,607	(29,648)
Reinsurance recoverable balances	139,853	(696,687)
Reinsurance recoverable balances on paid losses	13,575	(21,117)
Reserve for losses and loss expenses	251,736	2,086,800
Unearned premiums	406,897	358,415
Insurance and reinsurance balances payable	(26,787)	77,984
Accounts payable and accrued expenses	(632)	(8,484)
Other items	(4,292)	(288,255)
Total adjustments	556,844	1,265,312
Net cash provided by operating activities	1,229,734	1,121,881
Cash flows provided by (used in) investing activities:		
Acquisition of subsidiaries, net of cash accrued		(27,772)
Purchases of available-for-sale securities	(3,861,569)	(4,859,210)
Sales and maturities of available-for-sale securities	3,384,106	4,377,594
Purchases of other investments	(301,267)	(234,100)
Net cash used in investing activities	(778,730)	(743,488)
Cash flows provided by (used in) financing activities:		
Common share dividends	(68,030)	(62,232)
Preferred shares dividends	(28,083)	
Repurchase of shares		(350,000)
Issuance of shares, net	17,223	246,663
Net cash used in financing activities	(78,890)	(165,569)
Effect of exchange rate changes on foreign currency cash	(12,190)	17,031
Increase in cash and cash equivalents	359,924	229,855
Cash and cash equivalents beginning of period	1,280,990	632,329
Cash and cash equivalents end of period	\$ 1,640,914	\$ 862,184
Supplemental disclosures of cash flow information:		
Income taxes paid	\$ 36,485	\$ 23,864
Interest paid	\$ 14,375	\$ 15,677

See accompanying notes to Consolidated Financial Statements (Unaudited)

AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Amounts in tables expressed in thousands of U.S. dollars, except for ratios, share and per share amounts)

1. Basis of Preparation and Consolidation

These unaudited consolidated financial statements include the accounts of AXIS Capital Holdings Limited (AXIS Capital) and its subsidiaries (together, the Company) and have been prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these unaudited consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company s financial position and results of operations as at the end of and for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year. All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The major estimates reflected in the Company s consolidated financial statements include the reserve for losses and loss expenses, premium estimates for business written on a line slip or proportional basis, and reinsurance recoverable balances. The terms FAS and FASB used in these notes refer to Statements of Financial Accounting Standards issued by the United States Financial Accounting Standards Board.

This Quarterly Report on Form 10-Q should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission (the SEC) on March 9, 2006.

2. Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. FIN 48 will be effective for fiscal years beginning after December 15, 2006 and the provisions of FIN 48 will be applied to all tax positions upon initial adoption of the Interpretation. The cumulative effect of applying the provisions of this Interpretation will be reported as an adjustment to the opening balance of retained earnings for that fiscal year. The Company is currently evaluating the potential impact of FIN 48 on its financial statements when adopted.

In September 2006, the FASB issued FAS 157, *Fair Value Measurement*. This Statement provides guidance for using fair value to measure assets and liabilities. Under this standard, the definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). FAS 157 clarifies that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets and the lowest priority to unobservable data. Further, FAS 157 requires tabular disclosures of the fair value measurements by level within the fair value hierarchy. FAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the potential impact of FAS 157 on its financial statements when adopted.

In September 2006, the FASB issued FAS 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. This Statement requires an entity to recognize in its statement of financial position an asset for a defined benefit postretirement plan's overfunded status or a liability for a plan's underfunded status; measure a defined benefit postretirement plan's assets and obligations that determine its funded status as of the end of the employer's fiscal year, and recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the changes occur. FAS 158 does not affect how an entity computes the net periodic benefit cost recognized in net income. The requirement to recognize the funded status of a defined benefit postretirement plan and the disclosure requirements are effective for fiscal years ending after December 15, 2006. However, the requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year is deferred to fiscal years ending after December 15, 2008. The Company is currently evaluating the potential impact of FAS 158 on its financial statements when adopted.

3. Segment Information

The Company evaluates the performance of its insurance and reinsurance segments based on underwriting results. The Company writes business that has loss experience generally characterized as low frequency and high severity. This may result in volatility in both the Company's and an individual segment's operating results and cash flows. The Company does not allocate its assets by segment as it evaluates the underwriting results of each segment separately from the results of its investment portfolio.

Insurance

The Company's insurance segment provides insurance coverage on a worldwide basis and is divided into two sub-segments: global insurance and U.S. insurance.

Global insurance provides specialty lines coverage, predominantly through the London broker network. The product lines in this segment are property, marine, terrorism and war risk, aviation and aerospace, political risk, professional lines and other specialty.

U.S. insurance provides specialty lines coverage through a variety of channels in the U.S. and covers exposures predominantly in the U.S. The product lines in this segment are property, professional lines, liability and other specialty and are offered through wholesale brokers, retail brokers and managing general agents and underwriters.

Reinsurance

The Company's reinsurance segment provides treaty property and casualty reinsurance to insurance companies on a worldwide basis. Treaty reinsurance contracts are contractual arrangements that provide for automatic reinsurance of any agreed upon portion of business written as specified in a reinsurance contract. Contracts can be written on an excess of loss basis or a pro rata basis, also known as proportional. The product lines in this segment are catastrophe, property, professional liability, credit and bond, motor, liability and other.

The following tables summarize the underwriting results, income before income taxes, ratios and the reserves for losses and loss expenses for the Company's reportable operating segments and sub-segments for the quarters and nine months ended September 30, 2006 and 2005.

Quarter ended September 30, 2006

	Global Insurance	U.S. Insurance	Total Insurance	Reinsurance	Corporate	Total	
Revenues:							
Gross premiums written	\$ 177,350	\$ 275,766	\$ 453,116	\$ 281,794	\$	\$ 734,910	
Net premiums written	169,128	154,490	323,618	282,295		605,913	
Net premiums earned	189,229	138,472	327,701	365,079		692,780	
Other insurance related income		412	412	392		804	
Net losses and loss expenses	(98,024)	(84,256)	(182,280)	(183,678)		(365,958)	
Acquisition costs	(27,364)	(13,432)	(40,796)	(62,819)		(103,615)	
General and administrative expenses	(11,502)	(24,639)	(36,141)	(12,162)		(48,303)	
Underwriting income	\$ 52,339	\$ 16,557	\$ 68,896	\$ 106,812	\$	\$ 175,708	
Corporate expenses					(20,167)	(20,167)	
Net investment income					98,787	98,787	
Net realized losses on investments					(1,722)	(1,722)	
Foreign exchange losses					(2,738)	(2,738)	
Interest expense					(8,239)	(8,239)	
Income before income taxes						\$ 241,629	
Net loss and loss expense ratio	51.8	% 60.8	% 55.6	% 50.3	%	52.8	%
Acquisition cost ratio	14.5	% 9.7	% 12.4	% 17.2	%	15.0	%
General and administrative expense ratio	6.1	% 17.8	% 11.0	% 3.3	% 2.9	% 9.9	%
Combined ratio	72.4	% 88.3	% 79.0	% 70.8	%	77.7	%
Reserve for losses and loss expenses	\$ 1,520,551	\$ 1,631,531	\$ 3,152,082	\$ 1,842,992	\$ n/a	\$ 4,995,074	

Edgar Filing: AXIS CAPITAL HOLDINGS LTD - Form 10-Q

Quarter ended September 30, 2005

	Global Insurance	U.S. Insurance	Total Insurance	Reinsurance	Corporate	Total	
Revenues:							
Gross premiums written	\$ 191,616	\$ 268,967	\$ 460,583	\$ 333,988	\$	\$ 794,571	
Net premiums written	63,813	124,061	187,874	329,843		517,717	
Net premiums earned	141,359	107,174	248,533	368,281		616,814	
Other insurance related income		236	236			236	
Net losses and loss expenses	(308,024)	(130,500)	(438,524)	(596,746)		(1,035,270)	
Acquisition costs	(13,293)	1,722	(11,571)	(52,865)		(64,436)	
General and administrative expenses	(9,039)	(19,716)	(28,755)	(12,187)		(40,942)	
Underwriting loss	\$ (188,997)	\$ (41,084)	\$ (230,081)	\$ (293,517)	\$	\$ (523,598)	
Corporate expenses					(3,295)	(3,295)	
Net investment income					67,015	67,015	
Net realized losses on investments					(6,435)	(6,435)	
Foreign exchange losses					(1,727)	(1,727)	
Interest expense					(8,360)	(8,360)	
Loss before income taxes						\$ (476,400)	
Net loss and loss expense ratio	217.9	% 121.8	% 176.4	% 162.0	%	167.8	%
Acquisition cost ratio	9.4	% (1.6)	% 4.7	% 14.4	%	10.4	%
General and administrative expense ratio	6.4	% 18.4	% 11.6	% 3.3	% 0.6	% 7.2	%
Combined ratio	233.7	% 138.6	% 192.7	% 179.7	%	185.4	%
Reserve for losses and loss expenses	\$ 1,513,221	\$ 1,379,010	\$ 2,892,231	\$ 1,622,046		\$ 4,514,277	

Edgar Filing: AXIS CAPITAL HOLDINGS LTD - Form 10-Q

Nine Months Ended September 30, 2006

	Global Insurance	U.S. Insurance	Total Insurance	Reinsurance	Corporate	Total	
Revenues:							
Gross premiums written	\$ 700,383	\$ 819,388	\$ 1,519,771	\$ 1,375,259	\$	\$ 2,895,030	
Net premiums written	604,684	449,110	1,053,794	1,365,179		2,418,973	
Net premiums earned	554,996	418,989	973,985	1,031,488		2,005,473	
Other insurance related income		1,474	1,474	392		1,866	
Net losses and loss expenses	(247,346)	(238,889)	(486,235)	(610,363)		(1,096,598)	
Acquisition costs	(78,506)	(38,500)	(117,006)	(178,145)		(295,151)	
Corporate general and administrative expenses	(32,674)	(71,395)	(104,069)	(34,377)		(138,446)	
Underwriting income	\$ 196,470	\$ 71,679	\$ 268,149	\$ 208,995	\$	\$ 477,144	
Corporate expenses					(43,092)	(43,092)	
Net investment income					284,018	284,018	
Net realized losses on investments					(22,428)	(22,428)	
Foreign exchange gains					25,427	25,427	
Interest expense					(24,639)	(24,639)	
Income before income taxes						\$ 696,430	
Net loss and loss expense ratio	44.6	% 57.0	% 49.9	% 59.2	%	54.7	%
Acquisition cost ratio	14.1	% 9.2	% 12.0	% 17.3	%	14.7	%
General and administrative expense ratio	5.9	% 17.0	% 10.7	% 3.3	% 2.1	% 9.1	%
Combined ratio	64.6	% 83.2	% 72.6	% 79.8	%	78.5	%
Reserve for losses and loss expenses	\$ 1,520,551	\$ 1,631,531	\$ 3,152,082	\$ 1,842,992		\$ 4,995,074	

Nine Months Ended September 30, 2005

	Global Insurance	U.S. Insurance	Total Insurance	Reinsurance	Corporate	Total	
Revenues:							
Gross premiums written	\$ 671,451	\$ 731,363	\$ 1,402,814	\$ 1,357,749		\$ 2,760,563	
Net premiums written	481,248	366,391	847,639	1,347,945		2,195,584	
Net premiums earned	562,934	321,996	884,930	981,887		1,866,817	
Other insurance related (loss) income	(5,865)	582)	(5,283)			(5,283)	
Net losses and loss expenses	(451,958)	(272,876)	(724,834)	(977,579)		(1,702,413)	
Acquisition costs	(72,830)	(5,017)	(77,847)	(163,361)		(241,208)	
General and administrative expenses	(28,523)	(60,804)	(89,327)	(36,818)		(126,145)	
Underwriting income (loss)	\$ 3,758	\$ (16,119)	\$ (12,361)	\$ (195,871)	\$	\$ (208,232)	
Corporate expenses					(29,190)	(29,190)	
Net investment income					177,774	177,774	
Net realized losses on investments					(5,997)	(5,997)	
Foreign exchange losses					(52,371)	(52,371)	
Interest expense					(24,257)	(24,257)	
Loss before income taxes						\$ (142,273)	
Net loss and loss expense ratio	80.3	% 84.7	% 81.9	% 99.6	%	91.2	%
Acquisition cost ratio	12.9	% 1.6	% 8.8	% 16.6	%	12.9	%
General and administrative expense ratio	5.1	% 18.9	% 10.1	% 3.7	% 1.5	% 8.3	%
Combined ratio	98.3	% 105.2	% 100.8	% 119.9	%	112.4	%
Reserve for losses and loss expenses	\$ 1,513,221	\$ 1,379,010	\$ 2,892,231	\$ 1,622,046		\$ 4,514,277	

4. Benefit plans**(a) Employee Benefit Plans****1) Retirement Plans**

The Company provides retirement benefits to eligible employees through various plans sponsored by the Company.

(i) Defined contribution plans

The Company has several defined contribution plans that are managed externally pursuant to which employees and the Company contribute on a monthly basis. During the quarter ended September 30, 2006, expenses totaled \$2.0 million (2005: \$1.7 million). During the nine months ended September 30, 2006, expenses totaled \$5.6 million (2005: \$4.7 million).

(ii) Defined benefit plans

Effective January 1, 2004, the Company implemented supplemental retirement plans (SERPs) for two executives. The SERP for Mr. Charman, President and Chief Executive Officer, requires the Company to make annual payments to Mr. Charman upon his retirement for a period of 20 years. The benefits vest over a period of two years commencing in 2006. Commencing at age 56, Mr. Charman is entitled to an annual payment of \$0.8 million compounded by 3% annually for each year commencing from inception. The SERP for Mr. Butt, Chairman, requires the Company to make annual payments to Mr. Butt upon his retirement for a period of 10 years. The benefits vest over a period of two years commencing in 2006. Commencing at age 66, Mr. Butt is entitled to an annual payment of \$0.3 million compounded by 3% annually for each year commencing from inception. If either Mr. Charman or Mr. Butt dies, is permanently disabled or a change of control of the Company occurs, the remaining benefits under his plan are payable by the Company in a lump sum. The benefits received under the SERPs will be reduced by the benefits received by the executives under the Company's Bermuda retirement plan. The measurement date of the plan was January 1, 2005. The plan was fully funded in January 2006.

Effective May 12, 2006, the SERP for Mr. Butt was amended to delay by one year the timing of retirement benefits to be paid to Mr. Butt and to increase the amount of retirement benefits by \$0.1 million for the first five years of retirement.

The following table shows the components of pension expense for the quarters and nine months ended September 30, 2006 and 2005 and the amounts included in the Company's Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005 for the Company's SERPs:

	Quarters Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Components of pension expense				
Amortization of prior service cost	\$ 568	\$ 537	\$ 1,704	\$ 1,610
Interest cost	185	171	553	513
Expected return on plan assets	(179)		(536)	
Pension expense	\$ 574	\$ 708	\$ 1,721	\$ 2,123

The weighted-average assumptions used to determine net periodic pension cost and benefit obligations were:

	Quarters Ended				Nine Months Ended			
	September 30, 2006		September 30, 2005		September 30, 2006		September 30, 2005	
Discount rate	5.75	%	6.0	%	5.75	%	6.0	%
Expected return on plan assets	5.75	%	6.0	%	5.75	%	6.0	%

	September 30, 2006	
--	--------------------	--